Interim Financial Information and Report

for the six months ended 30 September 2021
(Unaudited)

from
Southern Water

Contents

Chairman's introduction

I am pleased to introduce our Interim Financial Statements for 2021.

Over the past six months, Southern Water has been in the spotlight for investigations into our past behaviours and environmental performance record. It is difficult for me as Chair of this wonderful company, full of hard working and committed people, to have to acknowledge that we failed to meet the expectations of our customers and to protect our precious natural environment. However, the illegal sewage spills that took place along our coastline during 2010 to 2015 were completely unacceptable and that is why we pleaded guilty to the charges in recognition of that fact. We have recognised our past failings and made changes to our people, processes and systems and have a large investment programme underway to put this firmly in the past. We have brought in new structures, governance, training and monitoring, all of which contribute to the new company culture based around our core values.

We will be completely open and transparent in the upcoming industry-wide investigation into the operation of wastewater treatment works, launched jointly by the Environment Agency (EA) and Ofwat in November. The investigation covers all water and sewerage companies and I can confirm that the Board is fully committed to working with Ofwat and the Environment Agency throughout the course of this investigation. We continue to make major investments at our key sites, such as the £100 million rebuild of Woolston Wastewater Treatment Works.

Protecting our rivers and seas

Quite rightly, as a result of the Environment Agency's investigation and subsequent fine of £90 million, we have been under considerable regulatory and public scrutiny, not least for our poor performance record when it comes to pollution incidents. Rest assured, we are committed to protecting our coastal waters and rivers, and working with local authorities, government agencies and farmers, to ensure they are of the highest quality.

We welcome the amendment to the Environment Bill proposed by the Government, for water companies to deliver a reduction in discharges from storm overflows, an amendment that is in line with our own commitment to dramatically reduce pollution incidents and storm releases.
In fact, we are on track to reduce pollution incidents by 80% by 2025. Between 2020–25 Southern Water is planning to invest over £2 billion across the region driving innovation and partnerships through working with partners in the community. This breaks down to £1.5 billion for investment and associated costs for improving wastewater services. This money is being used to upgrade Southern Water's ability to process greater volumes of sewage and also the capacity to store more storm water. Greater storm water storage along with natural solutions such as ponds, wetlands and rain gardens helps separate stormwater from the sewer system and helps reduce the need for storm overflows. A further £700 million is being invested in continuing to deliver reliable supplies of clean drinking water. This includes routine maintenance and improvement work as well as fixing leaks.

We are continuing our Bathing Water Enhancement Programme along the South Coast, improving a further seven of our 83 bathing waters, bringing the total number at excellent standard to 66, and we are starting the journey towards bathing water quality standards on 537 kilometres of our rivers. We will do this through investing in monitoring, investigations, river restoration schemes and projects to reduce the amount of pollutants entering the water environment.

At the same time, our industry-leading Beachbuoy near real-time storm release reporting system has put us at the forefront of the industry for our openness and transparency. It is the right thing to do and we will continue to improve this service for our customers and all bathing water users.

As I said in our Annual Report and Financial Statements for 2020–21, these initiatives will require an appropriate funding structure, to be agreed with Ofwat, our shareholders and our board.

A clear vision for a resilient water future for the South East

The challenges which face us in delivering our vision are to transform our operational performance while in parallel demonstrating to our customers, regulators and other stakeholders that they can have confidence in our ability to deliver our plans.

Our operational performance needs to improve in key areas to reduce pollution incidents and leakage, to benefit our communities as well as protect and improve the environment. Actions under our Pollution Incident Reduction Plan will make progress in these areas, and we have set up a dedicated Combined Sewer Overflow (CSO) task force to reduce storm discharges. On a more positive note, I am pleased that the Ofwat target has been met or exceeded in several important areas of focus including priority services for customers in vulnerable circumstances, bathing water quality and water supply resilience. Moving forwards, the plans to achieve our operational goals will be strengthened further by new funding.

In September of this year an agreement was reached between our shareholders and a fund managed by Macquarie Asset Management (MAM), to invest £1 billion into our business. The importance of this investment to our continuing transformation cannot be underestimated. It gives us the funding we need to accelerate improvements in both our operational and financial performance. It reinforces our ability to tackle the challenges of climate change and population growth.

The investment will help us accelerate our existing capital investment programme as well as assisting the economic recovery of our region. It represents the equivalent of around £1,000 of new investment for each property in our region, and will be focused in these key areas:

- A zero-tolerance mind-set to environmental pollution – reducing pollution incidents by more than 50% (compared with 2019 pollution incidents) over the next four years.
- Continued reduction in leakage – our leakage levels remain over our target, and we are actively working to establish mains replacement and water balance improvements through our leakage improvement plan.
- Upgrading Southern Water's infrastructure – we are investing approximately £230 million of funding to upgrade Southern Water's infrastructure, which is critical to improving the quality and resilience of services.
- Affordable customer bills – between now and 2025, a commitment to ensure average water and wastewater customer bills, in aggregate, do not rise by more than inflation. This commitment is in addition to honouring an existing £123 million customer rebate resulting from historical incidents.
- Improved customer service – addressing the root causes of complaints and enhancing Southern Water's capacity to handle them more effectively.

These ambitions are already embedded in our business and investment plans, but we are now in a position to drive forward with confidence and invest more – around £2 billion over the next four years – to make a material difference to our customers and the environment through our improving performance.

Providing essential services

Our customers still want and should expect a high quality of service as we come out of the pandemic. We have incorporated our COVID-19 guidance and procedures into our business as usual operation where they are still needed, and we are keeping in place those improvements that have enhanced the work/life balance for our employees, such as a flexible working option.

Everyone in our business has a role to play in improving our customer experience. We continue to listen more to our customers, adapt to what they need and respond to them with clear communications. Although our current Customer Measure of Experience (C-MeX) score shows that we still need to improve, we are confident that our continued focus will deliver the improvements needed.

During the pandemic, we made sure that our most vulnerable customers had access to substantial support and we continue to increase the number of customers on our Priority Services Register. We have also introduced a Customer Hardship Fund.

Engaging regularly with our customers is key to this process. We hold regular focus groups, led by our Insight team, where we can talk to customers about what is important to them, such as blockages, the environment, affordability and vulnerability. The groups are key to understanding our customers' perceptions of us as a company, how we perform and the ways that customers want to be able to contact us.

Keeping customers at the heart of everything we do will be key to ensuring that we achieve our longer-term vision of a water resilient South East, while protecting and improving the environment.

Keeping the environment at the centre

Protecting and improving the environment is central to our purpose as we move towards a more water resilient future in the South East; one of the most water-stressed regions in Europe. The demands on our water supply are going to become even greater as our population increases and the challenge to protect our precious natural resources in the face of climate change has never been so great. We are making changes so that our decision making embeds these natural and valuable assets – our natural capital – at every level across the business, to ensure they will always be taken into consideration.

Our approach to sustainability and protecting the environment focuses on:

- **Simplicity** – implementing practical plans and measuring activity to ensure its effectiveness.
- **Transformation** – delivering bold and ambitious programmes.
- **Capability** – building a cadre of committed leaders and expert practitioners.
- **Working in partnership** – with local authorities, agencies developers, farmers and NGOs.

Following the recent COP26 summit, it would be remiss of me not to comment on the release of our Net Zero Plan in July 2021, and the upcoming publication of our most recent Climate Change Adaptation Report. Climate change is now top of the public agenda and we know that as custodians of the environment we have a central role in protecting it for future generations.

In 2019 we signed up to the Water UK Public Interest Commitment to achieve net zero carbon emissions by 2030 and our Net Zero Plan details how we will do this through: driving energy efficiency, water recycling, water demand management, installing more renewable power sources, purchasing 100% 'green' power, updating our fleet to include electric vehicles, as well as better measurement and management of the emissions arising from our operations.

Long term, we are looking at new technologies that will help us optimise the power of human waste through generation of green gas (biogas). We will also work with our stakeholders and partner NGOs to develop local nature-based solutions to absorb carbon where we are able to.

Our Climate Change Adaptation Report, which will be submitted to Defra in December of this year, will outline our analysis of the potential impacts of climate change on the South East and details what we are planning to manage and mitigate these risks. A rise in global temperatures will mean warmer, wetter winters and hotter, drier summers in the South East. This, of course, has major implications for us in terms of providing essential services to our customers, which is why we also have plans in place looking much further ahead, including our Resilience Action Plan, Water Resource Management Plan, Drought Plan and soon, our Drainage and Wastewater Management Plans.

Continuing our cultural transformation

Our company's cultural and operational transformation continues, making sure that we are consistent with our core values of doing the right thing, always improving and succeeding together. In addition to reviewing our Code of Ethics, we have introduced a Supplier Code of Conduct as a shared commitment, at the heart of open, honest and transparent relationships with all our suppliers.

Our culture dashboard measures our performance in areas including self-reporting, values and ethics. It is already helping our Board to measure and track progress in our cultural transformation and the first signs are encouraging. We have also made improvements to our recruitment process to make it more inclusive and members of our executive team and senior management sit on our Equality, Diversity and Inclusion (ED&I) Steering group, which reports to the Executive Leadership team and Board on a quarterly basis. Our Senior Leadership team has championed ED&I by putting in place our 'Exploring Equality, Diversity and Inclusion' online training that was released in March, with 94% of our colleagues having already completed this.

The company STARS platform is enabling colleagues to reward fellow employees who have demonstrated the company values with over 8,000 stars awarded so far.

On the operational side, we are working to embed risk management at every level of our operation, supported by a robust governance structure.

There is an enormous collective effort to improve our performance, against the challenging backdrop of COVID-19, supply chain disruption and extreme climate events that are more frequent, and I am confident that the recent injection of funding from our new investor will enable us to make the necessary transformation more quickly. This will ensure that we are able to deliver better services for the benefit of our customers, the environment and our local economy and to work with regional partners to make a more resilient future for the South East.

K G Lough

Keith Lough
Chairman
29 November 2021

How we measure our progress

Our Water for Life Business Plan 2020–25 is broad and ambitious and includes 47 clear customer commitments.

Ofwat checks our compliance with our performance commitments for delivery of our services and our Section 19 undertakings. The regulator has confirmed the penalty level associated with year one performance of the current five year investment period (2020–25) as £46 million, including C-MeX and D-MeX penalties.

Deliver great service

DWI Compliance Risk Index (CRI) – Aim for a score of zero on this new measure of drinking water compliance risk.

Drinking water appearance, taste and odour – Continue to reduce the number of customers needing to contact us about their water quality, be that appearance or taste and odour.

Replace lead customer pipes – Provide customers in affected areas with grants towards the cost of replacing lead plumbing, reducing the risk from lead in drinking water.

Water supply interruption – Continue to reduce the average time customers are without water with a reduction of 23% between 2020–21 and 2024–25.

C-MeX – Improve both the overall customer experience and our handling of customer contacts.

Void properties and gap sites – Reduce by more than 10% the number of unbilled, occupied households, reducing the burden of debt on our bill paying customers, as well as identifying any properties missing from our billing system.

Internal sewer flooding – A 20% reduction in the number of internal sewer flooding incidents affecting customers' homes between 2020 and 2025.

External sewer flooding – A 20% reduction in sewer flooding affecting outside areas between 2020 and 2025.

Customer satisfaction with vulnerability support – Satisfaction with the tailored support offered to customers in vulnerable circumstances, with the aim of a 90% satisfaction rate by 2025.

Effectiveness of financial assistance – Aiming for 90% effectiveness of our financial assistance for customers, making their bills more affordable and helping them pay their bills.

Priority services for customers in vulnerable circumstances – Increase the number of customers in vulnerable circumstances on our Priority Services Register.

Value for money – Increasing, to 75% by 2025, the proportion of customers who believe we deliver services that represent value for money.

Properties at risk of receiving low pressure – A 25% reduction in the number of households suffering from persistent water pressure problems, reducing the number to just 182 by 2025.

Use water wisely

Leakage – Reduce leakage by 15% over the five years from 2020 to 2025.

Per capita consumption – Reduce personal water consumption by 7%, to 122.7 litres per person, per day by 2025.

Target 100 – Reduce personal water consumption to 100 litres per person, per day by 2040, with 55% of households meeting this target by 2025.

Water saved from water efficiency visits – Reduce household water use by increasing the number of free water efficiency visits conducted in customers' homes, saving 2,500 cubic metres a day by 2025.

Access to daily water consumption data – Provide customers with easy access to data about how much water they use, helping them to make informed choices and reduce their bills.

Protect and improve the environment

Pollution incidents – Reduce pollution incidents to less than 80 by 2025, aiming for zero pollution by 2040.

Thanet sewers – Deliver the third phase of our groundwater protection sewer scheme for Thanet.

Delivery of water industry national environment programme of requirements – Deliver more than £500 million of investment to meet the requirements of the Water Industry National Environment Programme (WINEP), improving the natural environment and ensuring that water can be taken from rivers and lakes without any negative impact.

River water quality – Deliver our part of the Water Industry National Environment Programme (WINEP), improving the health of 182 kilometres of rivers in our region.

Maintain bathing waters at 'Excellent' – Maintain the current 'Excellent' water quality status at 57 beaches designated for swimming in our region, supporting the continued development of the leisure and tourism industries.

Improve the number of bathing waters to at least ‘Good’ and improve the bathing waters at ‘Excellent’ quality – Improve bathing water quality at five sites to ‘Good’ and at two sites to ‘Excellent’ water quality status.

Treatment works compliance – Maintain and improve our wastewater treatment works, aiming for 100% compliance with Environment Agency standards.

Combined Sewer Overflows (CSO) monitoring – Ensure we have effective and functioning monitoring equipment in place at all of our CSOs, helping to reduce sewer flooding and pollution incidents.

Distribution input – Effective management of our water resources, in turn reducing the need to take water from the environment.

Abstraction incentive mechanism – Reduce, by 15 Ml/d, the amount of water we take from the River Itchen at Otterbourne and Twyford in September when river flows or levels are low.

Effluent re-use – Develop effluent re-use solutions, reducing the demand for potable water and, in the long term, improving the resilience of drinking water supplies.

Renewable generation – Generate 24% of our electricity from renewable sources by 2025.

Natural capital – Better understand the current condition of the environment that we own, or can influence, and the impact of our work, producing natural capital accounts for three catchments in our region by 2025.

Satisfactory bioresources recycling – Ensure correct use and disposal of sludge created from the wastewater treatment process, ensuring that 100% of biosolids we recycle to agricultural land are compliant with guidelines.

Fit for the future

Mains repairs and unplanned outage – Maintain and improve the health of our water treatment sites and network, reducing the number of mains bursts by 30% over five years and the proportion of treatment capacity out of service from 9% to 3%.

Risk of sewer flooding in a storm – Improve our understanding of flood risk and ensure the proportion of customers at risk of flooding in a severe storm does not increase.

Sewer collapses – Maintain and improve the health of our wastewater network, reducing the number of asset failures.

Water supply resilience – Through our Network 2030 initiative, reduce the risk of customers experiencing loss of supply for more than 48 hours in the Thanet, Brighton and Isle of Wight water supply zones.

Long-term supply and demand schemes – Ensure future customers have access to sufficient water supplies, by making progress toward delivering an additional 182.5 Ml/d of new water resource capacity.

Risk of severe restrictions in a drought – Maintain our performance of no customers being at risk of severe water restrictions in a drought.

Impounding reservoirs – Deliver our agreed reservoir safety schemes, reducing the risk of failures.

D-MeX – Improve the experience we provide to developer services (new connections) customers, including property developers, self-lay providers and those with new appointments and variations (NAVs).

Surface water management – Use Sustainable Urban Drainage (SuDS) approaches to reduce the amount of surface water in our network, reducing the risk of pollution incidents and sewer flooding.

Community engagement – Improve our community engagement, as measured by external benchmarks and reflecting an ongoing commitment to working with charities, community groups and partners in our region.

Schools visited and engagement with children – Increase the amount of good or excellent feedback from schools we visit to raise awareness and improve understanding of the value of water, water efficiency and ‘unflushables’. Targeting 90% positive feedback.

Deliver great service

Customers expect high water quality, minimal disruption and additional support when needed.

Keeping the taps flowing as part of our normal daily life means that customers don't have to think about their water or wastewater – and if they do need help, they should receive great customer service that works for them and their specific needs.

Water quality

We know that our customers value good quality water with little or no colour. The taste and smell of our drinking water is also very important to our customers, and we provide information on our website about why sometimes the taste, smell or appearance of our tap water may change. We measure performance in the number of times customers contact us about this. For drinking water taste and odour, we are forecasting to be broadly on track to achieve our target of 0.23 contacts per 1,000 population, with a year-end forecast of 0.24.

For drinking water appearance, we are not on track to meet our year-end target of no more than 0.74 contacts per 1,000 population. Our current year-to-date figure is 0.68 contacts. In order to improve this measure, we began a proactive water main flushing programme in early September, which will help to target key District Meter Areas requiring attention. This is part of a DWI notice action plan and the programme began with a focus across the Isle of Wight and West operational areas.

The Compliance Risk Index (CRI) measures the risk arising from treated water compliance failures and our target is zero. Water quality is monitored at treatment works, treated water storage facilities and customers' taps. Any failures are assessed by the Drinking Water Inspectorate (DWI). The CRI and the Event Risk Index (ERI) are weighted by population affected and normalised to remove the impact of company size.

This year, compliance failures will affect our CRI score and we are estimating that we will finish the calendar year with further improvement required on 4.57. While this is better than our 2020 score of 7.7, there is still a significant gap between where we are now and where we need to be, which is on zero compliance failures. We continue to deliver against our established compliance improvement plan, agreed with the DWI, and we are investing in site improvement as well as continuing to improve our people and process capability.

Our Hazrev Programme is making improvements to our water supply works by carrying out a comprehensive set of Hazard Reviews. The reviews assess key aspects of water quality in a water supply, such as raw water quality, algal blooms and biofilm growth.

Supply interruptions

Reducing the amount of time customers are without water is key to keeping inconvenience and distress to customers at a minimum. We measure our performance for water supply interruptions by taking the average minutes lost per property served per year, due to water supply interruptions, of greater than three hours. Our target is to have interruption to supply for no more than six minutes and eight seconds, over and above the three hours.

Although further improvement is needed in this area to fall within our performance commitment, our year-end forecast is estimated to show an improvement at 10:30 minutes compared to our last reported 2020–21 figure of 12:43 minutes.

Our incident response teams have been using better forecasting, new supplier agreements and a more collaborative approach with local resilience forums, which has meant we are performing better when responding to interruptions in supply.

Customer experience

Our customers are always at the heart of what we do, and while the pandemic meant we had some challenges in terms of customer service, we have worked hard to serve our customers in a way that works best for them. We have recently appointed a new Chief Customer Officer (CCO) to help focus our work in this area.

We expected that our latest score for Ofwat's Customer Measure of Experience (C-MeX) would see us maintaining our position near the bottom of the ranking at 16 out of 17 water companies. The C-MeX score reflects the level of customer experience and handling of customer contacts. We acknowledge that we still have work to do in this area, which is why we launched our three year Customer Service Transformation programme in March 2020.

In October, the Consumer Council for Water (CCW) published its latest report into household complaints performance, covering April 2020 to March 2021. During that period, we received the third most complaints per 10,000 connections in the industry, with most complaints being about billing and a significant increase in wastewater complaints. To drive improvements in this area, a new wastewater customer service taskforce was set up earlier this year. We are also working to improve first contact resolution and reduce complaint escalations as well as continuing to

Deliver great service

Key outcomes	Why it is important	Associated ODI/PC	RAG status	Link to remuneration
Water quality	It is essential to always provide clean safe drinking water. This is seen as a basic service from a water company and the most important of the services we provide. Our customers' preference is for water to be as natural as possible.	DWI Compliance Risk Index (CRI)	○	Indirect
		Drinking water appearance	−	
		Drinking water taste and odour	−	
		Replace lead customer pipes	−	
Supply interruption	Customers want us to be able to deal with problems, such as interruptions, quickly and efficiently. Any interruptions require clear communication, as they can cause inconvenience and distress to customers.	Water supply interruption	−	Indirect
Customer experience	Customers want to see us improve our customer service performance. They want us to minimise the impact of issues and disruptions to their daily life. When shown comparative information, they expect us to do better.	C-MeX	−	Direct
		Void properties	−	
		Gap sites	−	
Sewer flooding prevention	It is essential that our network stops homes being flooded with waste from sewers. There is strong support to ensure we continue to improve sewer flooding prevention.	Internal sewer flooding	○	Indirect
		External sewer flooding	○	
Water pressure	Customers expect a standard of water pressure to be part of the basic service we provide.	Properties at risk of receiving low pressure	○	Indirect
Supporting the vulnerable	Customers find the concept of the social tariff acceptable. They want us to protect the most vulnerable in society, and find it acceptable to pay a little extra on their bill to help those in genuine need. They want us to partner and provide support by understanding and acting on customers' individual circumstances.	Customer satisfaction with vulnerability support	−	Indirect
		Effectiveness of financial assistance	−	
		Priority services for customers in vulnerable circumstances	✓	
		Value for money	−	

We are focused on delivering great service to our 4.7 million customers, the 5.2 million who visit our region and the 400,000 businesses and their employees that are based in the South East. Customer satisfaction with that service is measured through the Customer Measure of Experience (C-MeX) and the Developer Measure of Experience (D-MeX), collated by our regulator, Ofwat.

Providing our services to customers has presented some challenges during the COVID-19 pandemic, but we have made it a priority to offer every customer, whatever their situation, access to our services when they have needed them most. We increased the number of vulnerable customers on our Priority Services Register (PSR) and provided financial assistance and other support to these customers. We introduced payment breaks as an option for all and have proactively supported these customers to review their changing circumstances. We have also improved how customers were able to access our services digitally. Although the number of customer complaints has reduced within our Billing and Water teams, we have seen an increase in wastewater complaints largely due to blockages and sewer flooding.

We continue to work with our customers to reduce blockages in pipes which can affect the flow of wastewater through our sewers. We know that sewer flooding incidents can be very upsetting, so we try to minimise blockages caused by fat, oil and grease (FOG) or flushing the wrong items away, by running campaigns.

We want our customers to feel that they receive value for money when they access our water services. The water quality Compliance Risk Index monitors water quality, helping us to make sure that our drinking water stays clean and safe. Moving forwards, we want all our customers to find us easy to deal with. We want them to be able to contact us using a channel of their choice, while experiencing a consistent, supportive and inclusive service.

Key: ✓ Ofwat target met or exceeded − Ofwat target missed but performance improved in relation to prior year outcome ○ Ofwat target missed and performance worse than prior year outcome deliver improvements through our customer transformation plan, Velocity.

The CCW report recognises that we recorded the lowest number of complaints in the industry about water services, with a reduction of 37%, and since the end of the period covered by the report, we've reduced repeat complaints from 26.7% to 11%. The CCW has praised our decision to make it easier for customers to complain through our website and we continue to put in place useful digital methods, and track the effectiveness of digital self-serve journeys.

Our CCO hosted a customer-focused leadership conference in October. The conference highlighted our commitment to reduce complaint escalations by 20% by next year. A combination of improved training, more customer-focused resources across the business and further systems integration will be used to achieve this reduction.

The percentage of properties classified as void compared to the number of properties served by our company is expected to fall short of the Ofwat target of 2.28%. Void property visits have begun in our supply area via our Meter Reading Service Provider, where planned meter reading activities are being fulfilled. We are looking to broaden the scope of these visits to cover all areas of our water and wastewater region. The visits will help us to gain more accurate and updated information about the occupation of properties in the area.

Our target for the number of household gap sites identified each year and then brought into charge is 65. We are at risk of not reaching our target this time, however new gap site processes are being introduced during this financial year. Work has already begun to implement these new processes in Southern Water supply areas.

Sewer flooding prevention

We are planning significant investment in our wastewater network.

There was a very high number of internal sewer flooding incidents recorded in July and August due to intense rainfall on several occasions. One example of this was the one in one hundred and fifty years rain storm which caused flooding in Herne Bay, overwhelming the wastewater network. We know that internal flooding is very distressing, and we always work hard to put right the damage and assist residents during what can be a very difficult time.

These events have highlighted issues in some areas, which are being addressed with a detailed plan based on our initial learnings. In order to improve our performance on Internal Flooding for the remainder of the year and beyond, we have formed a 21-point tactical action plan. This plan covers such items as a deeper understanding of past incidents and how that informs a more proactive approach to improving our resilience to weather events. The frontline teams are also focusing much more on 'first time fix' to deliver solutions for our customers. In addition, working collaboratively with Operations and Asset Planning, we are focusing on the worst performing catchments to identify where improvement schemes can be delivered to tackle areas where repeat flooding is prevalent.

Our performance commitment of a maximum of 334 internal sewer flooding incidents at the end of the financial year has already been exceeded by mid-year. We currently have a projected end-of-year performance of 700.

Our target for performance in external sewer flooding is to not exceed 4,141 incidents per year. Certain locations are seeing repeat incidents and we are forecasting to be over the target at 4,493. Last year, we reported 4,409 external sewer flooding incidents against a target of 4,412. To improve the situation, we are using local area catchment surveys, and block clearance is already underway in the worst performing catchments.

Supporting customers in vulnerable circumstances

Our efforts to support vulnerable customers has been particularly important during the pandemic. We continue to increase the number of customers included on our Priority Services Register (PSR) by around 1,300 per month and we currently have nearly 45,500 customers on the register. Our field visits are starting to increase which will help with subscribers, and we are also exploring other initiatives to increase take up (such as data-sharing agreements with Housing Associations).

We measure satisfaction levels for vulnerability support once a year in a survey that was first completed at the end of 2020. The survey checks that our non-financial support is of a high standard and our target is to reach a satisfaction level of 81% when we carry out the next survey at the end of 2021. The last survey showed that 70% were satisfied with the particular services we offer to help them, 79% were satisfied that information provided was clear and easy to understand, and 64% were satisfied with the accessibility of services.

We have several ways to support customers experiencing financial difficulties including discounting bills for those on a low income or capping bills for those on means tested benefits and with a medical condition requiring increased water usage or three children under the age of 19. We have also introduced a customer Hardship Fund this year and have spent nearly £200,000 supporting over 250 customers through debt write-offs, bill reductions and grants.

As we recognise that we cannot reach all of our customers ourselves, we do a lot of work with partners. For example, the Home and Well programme is a partnership led by Citizens Advice Hampshire and with the involvement of SSEN, the NHS, Portsmouth Water and SGN, as well as ourselves. This project has been supporting hospital patients on their return home since the programme started in March 2020 and has now helped almost 1,000 patients.

Water pressure

The number of properties at risk of receiving low pressure significantly reduced in August due to operational changes made to network assets in the Brighton zone. While we are still expected to fall outside our target of 227 properties with a year-end forecast of 236, there are further reviews underway which continue to develop solutions which are expected to further reduce the number of properties on the register. Our estimate is a significant improvement on last year's performance of 310.

Use water wisely

Saving water is of vital importance in the water-stressed South East where we have less water and more people to use it.

Our focus is on improving leakage and working with our customers to help them save water.

Leakage

We have committed to halving leakage by 2050. At the beginning of the year, we had anticipated finishing the year with the three year rolling average at 95.4 Ml/d, however we have now updated our year-end forecast to a three-year rolling average of 94.6 Ml/d. This is still above the target of 93.9 Ml/d, but is an improvement on our 2020–21 outcome of 96.9 and our initial forecast for 2021–22. Our data is assured at year end by an external audit.

In order to reach our leakage target, we have begun a new leak detection framework and we are working on several areas:

- Our leakage improvement plan focuses on mains replacement and water balance improvement areas have been established. Some water main replacements have been identified and are being evaluated for any potential leakage benefit. Other strategic performance commitment measures are also being considered for any mains replacement. schemes.
- The benefits of our Calm Networks project are being delivered against forecast targets, this includes implementation of an Advanced Pressure Management System for proactive leakage detection, monitoring and reporting. Phase one has been completed and has realised the designed benefits, which will impact other performance commitments as well as leakage. Phase two is underway and has been incorporated into our Digitalisation project.

We are committed to reducing our leakage to 84.9 Ml/d by 2025. Measuring leakage and understanding where and when a leak has occurred is key and there are various methodologies used to do this. We are currently talking with Ofwat about which methodology to use going forwards, putting our reward or penalty for this performance commitment on hold until the second year of the asset management period, when this will have been decided. Our work on this has been completed and we are using a consistent approach to calculate leakage, this will be reviewed again in the 2023–24 reporting period.

Keeping more water in the water supply by reducing leaks means we can take less water from the rivers and underground aquifers.

Water consumption

Individual water usage (per capita consumption or PCC) continues to be above target, largely due to the impact of the COVID-19 pandemic. Customers have been commuting to and from work less, and spending more time at home due to the pandemic and their domestic water usage has therefore increased. The impact of the pandemic resulted in an 8% increase in PCC, compared to an industry average increase of 12%. The key factor in our below average increase has been the success of our Target 100 water efficiency campaigns.

In order to understand the long-term effects of the pandemic on customer usage, we have been working with Ofwat and the wider water industry. The impact of the recovery from this period is difficult to predict. We are forecasting that the target of 125.4 litres per person per day that we have for year two of the current asset management period (2020–25) will not be met. Consumption is currently 141.2 litres per person per day and we are forecasting ending the year at 139 litres. Had the pandemic not occurred, we estimate that our performance would be at 127 litres.

Our Target 100 water efficiency campaign continues. For the first time, we used TV adverts to get across the messages: ‘Saving water saves you money, cuts carbon and protects the environment’ and ‘It all makes a difference’. We provide water efficiency home visits to help customers with their water usage, however the restrictions during the pandemic have inevitably affected this activity. We have consequently missed our target on water efficiency home visits. However, we are committed to achieving 1,000 home visits during this financial year and we are currently at 242 visits. We also have projects with local councils, including Kent County Council and Southampton City Council, promoting home visits and water saving.

Our target for the number of households provided with devices giving access to daily water consumption is 3,529. We are expecting to reach this target in the third year of our current asset management period. The project to provide improved smart metering is due to be rolled out in March 2023.

In May, we introduced our GetWaterFit online water saving calculator. It aims to help users save water, energy and money and it has received over 538 registrations to join the programme in July, following a promotion. The online calculator invites you to ‘take control’ by taking a few minutes to give some basic information about how you use water in your property. It then calculates your usage and suggests small steps to save water, while showing you how much water and energy you could save.

Use water wisely

Key outcomes	Why it is important	Associated ODI/PC	RAG status	Link to remuneration
Leakage	Customers say it is essential to reduce the amount of water lost through leaks from our network. They believe water is a precious, natural resource and expect us to look after and use it wisely.	Leakage		Indirect
Water consumption	Customers were interested in understanding more about their water usage. They see saving water as a partnership issue and are looking for us to help them save more.	Per capita consumption		Indirect
		Target 100		
		Water saved from water efficiency visits		
		Access to daily water consumption data		

Changes in the climate, our population size and other factors mean that we must plan ahead to avoid water shortages. How we use our water, and our ability to reduce how much we use, will be vital to making sure that we have enough water. This is true for us as a water company, as it is for our individual customers. Using water wisely is therefore a key focus for our forward planning as well as our day-to-day work.

Until last year, we had seen water use fall by 16% over the previous seven years. With people spending more time in their homes in 2020–21 due to the COVID-19 pandemic, household water usage has increased. The number of customers using less than 100 litres of water per day has decreased and the average amount of water each one uses has increased by 7%.

Changes in the way our customers have been using water during the COVID-19 pandemic have had an effect on the amount of water we need to put into supply. Increased customer usage, rather than leakage, has been found to be the main reason for the increase in the amount we need to put into supply, so our leakage levels have been recalculated to reflect this finding.

Key: Ofwat target met or exceeded | Ofwat target missed but performance improved in relation to prior year outcome | Ofwat target missed and performance worse than prior year outcome

Protect and improve the environment

Between now and 2025, we are investing £2 billion to keep our rivers and seas healthy, and protect water supplies and wastewater services, long into the future.

Pollution

We continue our work to drive down pollution incidents to protect our bathing waters, rivers and seas.

Our Pollution Incident Reduction Plan (PIRP) is a detailed programme of activities to achieve our target of reducing pollution incidents to zero by 2040 and fewer than 80 incidents per year by 2025. Our Drainage and Wastewater Management Plans, which went to stakeholder consultation in September, will also help us improve water quality and drainage systems, as well as reduce flooding and pollution. These plans will benefit our customers, wildlife and the environment.

Self-reporting of pollution incidents is at its highest rate, at 99.7% for telemetered sites, however our performance in this area continues to fall short of our Ofwat target. We have exceeded our end of calendar year target of 94 incidents, and are forecasting to finish the year between 332 to 354 incidents. Although this an improvement compared to last year when we recorded 400 incidents it is not acceptable and we have accelerated an enhanced year two PIRP to invest a further £4.5 million on wastewater pumping station resilience improvements in addition to the ongoing focus on sustainable fixes, planned preventative maintenance programme build and wet well/sewer cleaning programme optimisation.

The Beachbuoy bathing water portal is part of our industry-leading work on reducing pollutions. The portal has recently been upgraded and continues to effectively provide near real-time updates about our bathing waters. We want to be transparent about incidents and keep our communities updated and informed. Our annual pollution figures are published on our website and Beachbuoy and the Beauty of the Beach campaign aim to give better information to customers.

We continue to monitor our storm overflows and have monitors installed at 972 of our 985 storm overflows. While the number of monitors is on target, any malfunction of the installed monitors will reduce their effectiveness. This means there is a risk that we may not hit our target of 97% of Combined Sewer Overflows (CSO) with effective spill monitoring by the end of this calendar year.

We are currently forecasting that we will fall short of our 100% commitment for treatment works compliance this year, with a score of 98.5% at the end of the calendar year. We are focusing on the areas we know need improvement.

We are currently on time to deliver an enhancement scheme related to the reduction of exfiltration from sewers located within tunnels in Thanet by 31 March 2025. Survey works are progressing and we are currently considering delivery options.

Protect and improve the environment

Key outcomes	Why it is important	Associated ODI/PC	RAG status	Link to remuneration
Pollution	Customers want us to treat and dispose of wastewater in a way that does not harm the environment. They believe we have a duty to protect and improve the environment in which we operate, and ensuring we do no harm through pollution incidents is the minimum they expect.	Pollution incidents	Ofwat target missed but performance improved in relation to prior year outcome	Indirect
		Thanet sewers	Ofwat target met or exceeded	
High quality bathing and river waters	Our customers want to see us do more to deliver excellent bathing and river water quality. They want us to recognise the importance of this to tourism.	Delivery of water industry national environment programme requirements*	Ofwat target missed but performance improved in relation to prior year outcome	Direct and indirect
		River water quality	Ofwat target missed but performance improved in relation to prior year outcome	
		Maintain bathing waters at 'Excellent'**	Ofwat target met or exceeded	
		Improve the number of bathing waters to at least 'Good'	Ofwat target met or exceeded	
		Improve the bathing waters at 'Excellent' quality	Ofwat target met or exceeded	
		Treatment works compliance***	Ofwat target missed but performance improved in relation to prior year outcome	
		Combined Sewer Overflows (CSO) monitoring****	Ofwat target missed but performance improved in relation to prior year outcome	
Water resource abstraction	Customers want us to use a range of sources to provide reliable services in the future and expect removal of water from the environment to be done in a sustainable way.	Distribution input	Ofwat target missed but performance improved in relation to prior year outcome	Indirect
		Abstraction incentive mechanism	Ofwat target met or exceeded	
		Effluent re-use	Ofwat target met or exceeded	
Renewables	We should be increasing the amount of renewable energy we use in our operations. There is a growing expectation that we should be using our own wastewater services to generate more energy as well.	Renewable generation	Ofwat target missed and performance worse than prior year outcome	Indirect
		Natural capital	Ofwat target met or exceeded	
		Satisfactory bioresources recycling	Ofwat target met or exceeded	

* Some year five 2015–20 deliveries were moved into this year. Based on information from the Environment Agency, we have 42 schemes to deliver, but unfortunately have missed one.

** The Environment Agency has confirmed that classifications at the end of 2021 will be based on samples collected over 2017, 2018, 2019 and 2021. Initial calculations show 59 bathing waters at 'Excellent'.

***This is a calendar year based measure. While the number of monthly sample breaches and exceptions has reduced, and we continue to make compliance a priority, the underlying risk remains high and we are forecasting a penalty in this area.

**** While in the PR19 final determinations outcomes performance commitment appendix this measure is listed as financial year, this metric is reported against the calendar year in line with information provided to the Environment Agency as part of spills reporting. The outcome of this performance commitment is unchanged by the amendment. This change is to ensure we are providing consistent information to both regulators and an annex 2 change request has been raised with Ofwat accordingly.

Key: Ofwat target met or exceeded | Ofwat target missed but performance improved in relation to prior year outcome | Ofwat target missed and performance worse than prior year outcome

Protect and improve the environment continued

High quality bathing and river waters

In the area we operate in, there are 83 bathing waters. No classifications for bathing water were published for 2020 due to the impacts of COVID-19. At the end of 2021, the Environment Agency has confirmed that bathing water classifications will be based on samples collected over 2017, 2018, 2019 and 2021. For 2019–20 we confirmed 58 bathing waters as 'Excellent', 21 as 'Good' and four called 'Sufficient' and none in the 'Poor' category. When we receive the updated results, which are now expected to be confirmed by Defra in January 2022, we think we are on track to maintain the number of 59 bathing waters at excellent quality. All 83 of our bathing waters meet strict European standards.

River water quality was the subject of Parliament's October 13 Environment Committee Hearing, where our CEO joined other water companies to show the high priority given to improving the quality of our rivers, so that this key natural resource can be protected and enjoyed by everyone. Our Water for Life Hampshire programme is a good example of where we are working on delivering improvements to rivers, with benefits to the environment and biodiversity around them.

Water resource abstraction

Since the pandemic, with customers spending more time at home, domestic water use has increased. We make sure that the volume of water available in the system meets the demand. The volume of water entering our supply network is not forecast to meet our target. We are currently forecasting 541.8 Ml/d at year end and our target is 520 Ml/d.

The abstraction incentive mechanism measures the average daily Ml/d abstraction below the limit in September at Otterbourne and Twyford rivers. We are on track to meet our target to outperform our abstraction limit of 2,280 Ml/d by 15 Ml/d.

We measure the amount of treated effluent available for direct re-use by local authorities, businesses, farmers and communities in m^3. We are expecting to record $55m^3$ at the end of the year.

Renewables

We have committed to becoming carbon neutral by 2030 and presented our pledges to becoming net zero in our 2021 Net Zero Plan. The plan was published in July and it followed our involvement with Water UK's sector routemap published in November 2020. Since April 2021, all our electricity has been green, giving a considerable reduction in our carbon emissions. We are also involved in industry and research groups to accelerate innovation and bring best practice in advancements.

One of our pledges from our Net Zero Plan is to be producing almost a quarter (24%) of the energy we use from renewable sources by 2025. Our performance target for the end of the current financial year is to generate just over a fifth (21.3%) of the electricity we use from renewable sources. We are not on track to meet this target, with our current performance falling short at an estimated year end figure of 16.25%.

The PR19 plan contained funding to replace nine of our oldest Combined Heat and Power (CHP) engines with benefits realised from calendar year 2022. This plan was refreshed, along with analysis of alternative options, as part of the EP21 planning process. The budget allocation for the replacement engine option within EP21 contained £15 million, but this was removed due to capex constraints and the CHP replacement programme was put on hold. As part of the EP22 planning process, funding has been requested for these nine engines with benefits realised in 2024.

We have also pledged to aim for nature-based solutions and work in partnership with other organisations. We have recently awarded a contract to deliver natural and social capital accounting methodology and baseline accounts as well as natural capital assessment methodology. This will help us to develop a consistent corporate approach and roadmap for embedding natural capital throughout our decision-making process. Natural capital decision making is key to enabling us to create a sustainable and resilient water future for the South East and our partnership with the Wildlife Trust enables us to assess the natural capital value and opportunities, including biodiversity net gain and carbon offsetting.

We are committed to using or disposing of 100% of our sludge in line with the EA's methodology defined in its Environmental Performance Assessment (EPA). We continue to meet our target in this area and are expected to achieve the 100% commitment at year end.

Fit for the future

Our purpose is to provide a water resilient future for the South East and asset health is vital for this.

Working with our communities is an important aspect of our work and we engage regularly with our customers and try to give back to our communities through charitable activities.

Asset health

We are on track to hit our target for mains repairs, as the number of bursts continue to fall.

The number of mains repairs per thousand kilometres of the entire water main network is measured. Our target is 118.3 and we are currently estimating a year end figure of 123.9.

We are currently forecasting to meet our year two target for unplanned water outage. This is measured by the percentage of production capacity lost due to unplanned maintenance work. The target is 9.11% and we are currently on target to match this figure at the end of the year. There is an outage recovery plan in place and recent improvements have been due to a return to service of Falmer Water Supply Works.

The risk of sewer flooding is calculated by the percentage of the region's population at risk from

Fit for the Future

Key outcomes	Why it is important	Associated ODI/PC	RAG status	Link to remuneration
Asset health	It is essential to be investing in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Mains repairs	—	Indirect
		Unplanned outage	✓	
		Risk of sewer flooding	✓	
		Sewer collapses	—	
Water resilience	Customers want to ensure supply for future generations. They are willing to invest now to ensure that there is no deterioration of services in the future.	Water supply resilience	✓	No link
		Long-term supply demand schemes	✓	
		Risk of severe restrictions in drought	✓	
		Impounding reservoirs	✓	
Growth	Businesses think it is important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to ensure it is fit for the future.	D-MeX	O	Direct
		Surface water management*	—	
Community engagement	Keen for us to focus on our role in the community, our customers want us to collaborate with local groups on important issues, support community outreach programmes and educate the next generation in schools.	Community engagement	—	No link
		Schools visited and engagement with children	✓	

* This programme is under review and we are forecasting a penalty.

Our role in preparing for future generations means that we must ensure a resilient water and wastewater network, using the highest standards of operational excellence. This involves making sure that we are compliant with regulations, reducing risk for customers and helping the environment. We know that water and wastewater services do not operate in isolation; they are interconnected with, for example, energy generation, food production, housing development, environmental protection, our tourism sector and other vital industries and services.

One of our five transformational programmes, Networks 2030, looks at our water supply networks and aims to modernise and rationalise them. This includes the replacement of water mains and the use of smart water-quality sensors.

The new D-MeX compliance score measures our customer experience for newly connected customers through our developer services.

Working with our communities is an important focus of our work. The restrictions in place during the COVID-19 pandemic led us to adapt how we worked with our communities, such as local schools, to ensure that we maintained consistent and effective engagement.

We are creating a Learning Network working in partnership with our supply chain and local councils to create the skills we need for a resilient future. We will also continue our actions to help create vital and valuable water tourism through high-quality bathing waters and healthy chalk rivers.

Key: ✓ Ofwat target met or exceeded — Ofwat target missed but performance improved in relation to prior year outcome O Ofwat target missed and performance worse than prior year outcome internal hydraulic flooding from a one in 50-year storm, based on modelled predictions. Our target for the end of the financial year is 12.42% and we are currently predicting a risk of 11.77%, which is better than our performance commitment target.

Sewer collapses

The impact of sewer collapses on services to customers or the environment can be significant. Repairs may need to be made to reinstate services and minimise disruption to the customer as quickly as possible. We are forecasting an improvement in the number of sewer collapses compared to the 315 incidents we had last year, however we will still not meet our performance commitment regarding the maximum number of sewer collapses. Our target is 226 and at mid-year we are reporting 139 and forecasting an end of year figure of 286.

We have now set up a new dedicated CSO task force with the aim to reduce the storm discharges by 80% by 2030. Over the next two years we plan to demonstrate at scale how this will be achieved in a number of catchments across our region. We will publish more information on these plans over the coming months.

Water resilience

Our water supply resilience performance commitment measures the number of residential properties at risk of long-term loss of supply (>48 hours) in the areas of Thanet, Brighton and the Isle of Wight water supply zones. We are on track to reach our performance target of 142,987 until the final year of the asset management period.

Our long-term supply demand schemes address supply capacity. The schemes are currently in the planning phase and are expected to be delivered according to plan by 31 March 2027. Impounding reservoir schemes have been released and are forecasted to hit their target.

Growth

The latest D-MeX score, which is collated by Ofwat to measure developer satisfaction levels of customer service, shows a slight improvement but we want to do better. We have gone up one place in the ranking that now puts us at 15 out of 17 water companies. The improvement reflects our work which flows from the Developer Services improvement programme, led by our Business Channels team.

Improving the customer experience for all our new connections customers will help improve our D-MeX score in the future. Keeping regular and transparent contact with our developers to enhance collaboration across our supply chain is key to success in this area. Our recent Developer Day on 21 October brought together developers and stakeholders with the theme: Water for life: Building a resilient water future. Discussions covered the development and improvement of our online developer information service called GetConnected and news of a water re-use trial.

Our performance target for surface water management measures the reduction in volume (m^3) of surface water entering the surface or combined sewer network as a result of rough sustainable urban drainage approaches. We have reduced the volume of water entering the sewer network by 16,555m^3. This is important because it helps to reduce the amount of surface water going into the network and stops the system from being overwhelmed. We continue to work towards our challenging target of 39,730m^3.

Community engagement

Earlier this year, we launched our new Community Grants and Customer Hardship scheme to repurpose unclaimed funds from Guaranteed Standards of Service (GSS) to support our communities. We received 65 applications for our first category of registered and non-registered local charities, with the winners selected according to criteria including project legacy and sustainability. Applications for the next category of charities can be made until Friday 31 December 2021. We will donate over £500,000 through these new awards schemes to support people experiencing hardship.

Over the summer months, we ran our 'It all makes a difference' campaign across seven events in North Sussex, inviting the public to learn more about water saving. We had an interactive shower unit to show how water-saving devices work and people could request a water-saving home visit. We engaged with a total of 1,567 customers with 170 customers signing up to the new GetWaterFit app.

We took part in the new East Kent Virtual Science Jamboree in partnership with the STEM Hub at Canterbury University, which went live on 6 June and was available online until the end of July. It was used by schools in lessons and for homework as well as with parents and non-school groups. Just under 5,000 unique users visited the site and more than 60,000 children accessed the resources and activities we shared. We also delivered a live assembly with around 1,000 children tuning in on the day.

We also supported South and South East in Bloom, running virtual gardening seminars and celebrating gardeners who help our communities and green spaces to be beautiful.

After 18 months of virtual volunteering, in-person activities finally resumed in early October. Teams of volunteers went across our regions to support local communities with a wide range of activities including litter picking.

As educational school visits were not possible during the pandemic, we made a series of educational films to help children understand water better. The films show the water cycle and talk about water saving and are available on our website.

Interim report – financial performance

Key financial performance indicators

	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m	Increase/ (decrease) %
Total revenue	424.9	397.4	6.9
Operating costs before Court fine and costs	(348.8)	(335.6)	3.9
Court fine and costs	(91.5)	–	n/a
Operating (loss)/profit	(14.6)	63.3	(123.1)
Net finance costs	(70.7)	(66.8)	5.8
Loss before taxation and movement in fair value of derivatives	(84.4)	(3.2)	2,537.5
Loss after taxation from continuing operations	(429.5)	(134.7)	218.9
Gross capital expenditure*	278.6	165.3	68.5
Net cash inflow from operating activities	156.2	150.3	3.9

* Excludes asset adoptions and capitalised interest

Income statement

Revenue for the period increased to £424.9 million (period to 30 September 2020: £397.4 million). This increase principally arises from higher non-household income following the opening up of the economy this year, and higher levels of consumption billed relating to the last financial year than previously estimated.

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 in 2018–19 for these rebates is being released in line with the tariff adjustment over the same period. A detailed analysis of revenue is provided in note 5.

Operating costs, before the court fine and costs for unpermitted discharges in 2010–15, increased by 3.9% to £348.8 million (period to 30 September 2020: £335.6 million). This increase was largely driven by an increase in underlying operating costs described below, additional depreciation arising from our capital programme of £10.3 million offset by a reduction in our bad debt provision charge of £6.3 million.

Over the period to September 2021 we incurred additional asset maintenance costs, in particular on our wastewater assets, in order to improve our operational performance and reduce the risk of failures. These costs together with costs associated with some heavy storms across the period, a provision for the liability associated with our contributions to the Innovation Fund and inflation resulted in an increase in our operating costs of £8.5 million.

We have continued to invest heavily, to improve the resilience of our existing assets and invest in new technologies to reduce pollution and leakage. For example, we have invested £278.6 million in the six months to September 2021. The impact of our capital investment and the completion of schemes in the prior year, most notably our £100 million investment at Woolston Wastewater Treatment Works, has led to an increase in our depreciation charge of £10.3 million.

In the period to September 2021 we recognised a bad debt provision charge of £11.2 million (period to 30 September 2020 £17.5 million). In 2020 we increased the charge significantly to reflect the emerging impact of the pandemic on our expectation of recovering historic outstanding debt. The reduction reflects a return to a more normal level of charge and cash collection performance and is partially offset by an increase in debt collection costs of £0.7 million following the resumption of these activities.

As reported in our Annual Report for 2020–21 and as mentioned by the Chairman on page 3, we have been subject to an investigation by the Environment Agency regarding permit breaches at a number of wastewater treatment works during the period from 2010–15. In February 2021, the agency presented 51 charges before the court and the company entered guilty pleas to these charges. On 6 July 2021, the court imposed a fine of £90 million and awarded EA costs of £2.5 million. These, offset by the release of a provision of £1.0 million held on the Balance Sheet in relation to this matter are shown separately on the income statement.

As a consequence of the above we incurred an operating loss of £14.6 million for the period (period to 30 September 2020: £63.3 million profit).

Net finance costs, excluding fair value movements on financial derivatives, increased to £70.7 million (period to 30 September 2020: £66.8 million). This was largely due to an increase in indexation on our index linked debt following an increase in RPI of £7.2 million offset by a reduction in the interest payable on our loans of £3.5 million.

As a result of the above movements the loss before taxation and movement in fair value of derivatives amounted to £84.4 million (period to 30 September 2020: loss £3.2 million).

The fair value loss on our derivative financial instruments amounted to £346.9 million (period to September 2020: loss of £167.3 million). The primary driver for the increase in our derivative liabilities, which result in the loss 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. These changes do not represent cash flows.

In the Finance Bill 2021, the main rate of corporation tax was increased to 25% from 1 April 2023. As a result we experienced an increase in our deferred tax liabilities which partially offsets the underlying tax credit resulting from our loss from continuing operations. As a result the tax on the loss from continuing operations amounted to a credit of £1.8 million (period to 30 September 2020: £35.8 million).

The loss from continuing operations after tax was £429.5 million (period to 30 September 2020: loss of £134.7 million).

Statement of financial position

As mentioned in the Chairman's introduction, Macquarie Asset Management acquired a majority stake, through one of its long-term infrastructure funds, in our ultimate parent company, Greensands Holdings Limited, on 8 September 2021. This acquisition resulted in an equity injection into the Greensands Group of over £1 billion. These funds were in part used to settle some external debt obligations elsewhere in the Greensands Group, resulting in £529.9 million being invested in Southern Water Services through new equity of £391.3 million and the settlement of an inter-company debtor of £130.0 million and associated accrued interest of £8.6 million.

As at 30 September 2021, non-current assets were £6,843.8 million (£6,862.1 million at 31 March 2021), a decrease of £18.3 million. This largely results from the repayment of our inter-group loan with Southern Water Services Group Limited of £130.0 million, following the investment from Macquarie described above, and a decrease in the value of our non-current financial derivative assets of £33.9 million. This has been partially offset by an increase in the value of property plant and equipment and intangible assets by £145.6 million, resulting from our ongoing capital investment programme.

Current assets increased by £413.9 million from £560.0 million at 31 March 2021 to £973.9 million at 30 September 2021. This growth primarily arises from an increase in cash and investments of £376.2 million, largely driven by the equity injection and explained in the cash flow analysis below. In addition we experienced an increase in trade debtors and accruals of £35.7 million in total. Of this increase, £25.5 million resulted from our higher revenue and the timing of cash receipts from South East Water, who bill certain wastewater customers on our behalf, and £9.6 million related to prepayments and accruals for inter-company interest which purely relate to the timing of these cash flows.

Current liabilities of £493.6 million at 30 September 2021 were £139.2 million higher than at 31 March 2021 (current liabilities of £354.4 million). This movement largely results from the increase in trade and other payables which grew by £126.3 million following the accrual for the court fine of £90.0 million and the rise in capital creditors due to the greater level of expenditure in our capital investment programme

There was little change to the value of our long-term borrowings which decreased by £2.5 million, from £3,993.7 million at 31 March 2021 to £3,991.2 million at 30 September 2021. Gearing remains comfortably within the requirements of our debt covenants of being below 85%.

The liability associated with our derivative financial instruments was revalued at September 2021 and increased by £321.1 million from £1,500.6 million at 31 March 2021 to £1,821.7 million at 30 September 2021.

The pension scheme deficit of £120.2 million (31 March 2021: £116.5 million) is based on the latest actuarial valuation as at 31 March 2021 updated by a qualified independent actuary to reflect the reduction in corporate bond yields from March which are used to set the discount rate and the latest asset values as at 30 September 2021. The increase in the deficit of £3.7 million largely results from the revaluation loss of £20.2 million following a movement in market conditions partially offset by a lump sum payment of £17.7 million which forms part of the agreed long-term funding arrangement with the Trustees.

Overall net assets decreased from £900.8 million at 31 March 2021 to £837.5 million at 30 September 2021.

Following the equity injection described above the share premium account increased from £46.3 million at 31 March 2021 to £437.5 million at 30 September 21.

Cash flow

Cash and cash equivalents decreased from £339.5 million at 31 March 2021 to £225.7 million at 30 September 2021, a fall of £113.8 million. This resulted from cash outflows in investing activities of £599.9 million offset by net cash inflows in financing activities of £329.9 million and operating activities of £156.2 million. These movements are explained in more detail below.

Net cash inflow from operating activities in the period amounted to £156.2 million (period to 30 September 2020: £150.3 million). This increase mainly results from higher operating profits after removing the accrual for the Court fine, offset by an increase in debtors following a rise in sales in the period to September 2021.

Net cash used in investing activities amounted to £599.9 million (period to 30 September 2020: £384.9 million). The increase of £215.0 million is primarily caused by a rise of £235.0 million in amounts held on short-term investments following the equity injection by Macquarie, higher capital expenditure this year which increased by £47.3 million, partially offset by inter-company receivables of £63.7million. The inter-company receivables movement results from the repayment of the inter group loan of £130.0 million to Southern Water Services Group (SWSG) as part of the investment by Macquarie, offset by the movement in the loan to our subsidiary Southern Water Services (Finance) (SWSF) of £66.3 million.

Net cash generated in financing activities amounted to £329.9 million (period to 30 September 2020: £342.3 million) a decrease of £12.4 million. The cash inflow from new equity in the current year of £391.3 million was slightly higher than the net cash inflow from new loans issued in the prior year of £378.4 million however, interest payments in the current year also increased by £18.4 million largely as a result of these new loans.

Credit ratings

Our current credit ratings are shown in the table below.

Credit rating	As at signing date of Interim Report
Standard & Poor's	Class A debt: BBB+ (stable outlook)
Fitch	Class A debt: BBB+ (negative outlook)
Moody's	Class A debt: Baa3 (stable outlook)

As noted in our Annual Report, a credit rating downgrade by one or more Rating Agency could result in a Trigger Event under our Common Terms Agreement (defined below) which in turn is limited to a restriction on the payment of dividends. A further credit rating downgrade by Moody's would lead to a restriction on the payment of dividends under the terms of our Licence.

Note:

- A Trigger Event would occur if any two of the credit ratings fall to BBB (Standard & Poor's), BBB (Fitch) or Baa2 (Moody's) or below.
- A further credit rating downgrade, or the assignment of a negative outlook, by Moody's would lead to a restriction on the payment of dividends under the terms of our Licence.
- A Default would occur if any two of the credit ratings are less than the minimum rating required for the status of investment grade, BB+ (Standard & Poor's), BB+ (Fitch) or Ba1 (Moody's).

In April 2020 the Board announced that the company will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position.

The Board considers that the risk of a Default is low given the current level of rating headroom to this event.

How we finance the business

Southern Water established a financing structure, known as a Whole Business Securitisation (WBS), in 2003 following its sale by ScottishPower. 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 either Southern Water or SWSF 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. We have not breached a limit at any time 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 do not intend to access future inflation-linked debt through the use of derivatives, but will instead seek such debt from natural sources, such as public and private bond markets. As a consequence, we expect the proportion of the RCV and debt that is currently linked to inflation through the use of derivatives will decrease over time. 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 and Class B debt) 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 during the period

As already mentioned in the report, Macquarie Asset Management acquired a majority stake, through one of its long-term infrastructure funds, in our ultimate parent company, Greensands Holdings Limited, on 8 September 2021. This acquisition resulted in an equity injection into the Greensands Group of over £1 billion. These funds were in part used to settle some external debt obligations in companies in the Greensands Group, resulting in £529.9 million being invested in Southern Water Services through new equity of £391.3 million and the settlement of an inter-company debtor and associated accrued interest totalling £138.6 million.

The capital injection will enable significant investment to upgrade our assets, with £2 billion to be invested over the next four years of the current regulatory period.

We have also commenced the process of transferring the external debt obligations, currently held in our Cayman subsidiary SWSF, to two new companies incorporated in the UK. This process is expected to complete in the current calendar year.

Going concern

The directors believe, after due and careful enquiry, that the company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the interim financial statements to 30 September 2021.

In forming this assessment the directors have considered the following information:

- The company's business activities, together with the factors likely to affect its future development, performance and position.
- The potential ongoing impact of COVID-19 on the company's operations and financial performance.
- The financial position of the company, its forecast monthly cash flows for the period to March 2023, liquidity position, covenants and borrowing facilities.
- Reasonable downside sensitivities to the cash flows to check that the company can operate within its current facilities and covenants.
- The positive financial headroom across all key debt covenant ratios, recognising that there is limited financial headroom against the adjusted interest cover ratio to a Trigger Event although the headroom to Default is significant and the associated pressure of this limited headroom on credit ratings.
- The company has available a combination of cash and committed undrawn bank facilities totalling £1,068.2 million at 30 September 2021 (30 September 2020: £867.0 million). These funds are sufficient to fund the operating and capital investment activities of the company for the 12 months from the date of signing the financial statements.
- The company's requirement to repay scheduled loan maturities and to finance the capital investment programme. The next scheduled requirement is to repay a loan of £150 million, together with accrued indexation which amounted to £98.0 million at 30 September 2021, by 31 March 2023.
- The risk of a Default is low given the current level of financial and rating headroom to this event.
- The company operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim financial statements.

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 Board's Risk Committee. The Risk Committee receives a risk report at its meetings three 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 September 2021, 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 are currently reviewing key developments (including the Combined Sewer Overflows (CSO) environmental debate) to assess whether the current set of risks require any changes and will report proposals for any changes to the Risk Committee and Board.

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

Operational risks

- **Water** – ensuring that we can supply enough good quality drinking water for a growing population
- **Wastewater** – ensuring we provide a reliable wastewater service to maintain public health and protect the environment
- **Customer** – ensuring we provide an excellent customer service
- **Health, safety and wellbeing** – ensuring the health, safety and wellbeing of our employees and the public

Corporate risks

- **Financial** – ensuring we maintain our credit ratings and overall financial position in order to ensure that we can finance our capital investment programme and refinance any debt maturities
- **Compliance** – ensuring we meet the requirements of our regulators, Ofwat, the Drinking Water Inspectorate and the Environment Agency
- **Climate change** – ensuring that we are able to respond to the impact of climate change on our water resources and the effect of extreme weather events, such as droughts or flooding, on our business
- **Delivery of capital investment** – ensuring that we deliver the investment programme of £2.1 billion for 2020–25
- **Information technology** – ensuring we maintain the resilience of our operational and enterprise IT systems
- **Resources** – ensuring that we have critical resources available to maintain services
- **Corporate affairs** – ensuring that we are responding to the additional political and regulatory focus on the water industry in order to meet customer expectations
- **Transformation** – ensuring our ongoing transformation programme is delivered effectively
- **COVID-19** – ensuring that our essential services continue to be delivered safely and provide support for those in hardship during the pandemic

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 19.

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 2021, which can be found on our website **southernwater.co.uk/our-reports**.

Directors’ responsibilities statement

Directors and their interests

The directors who held office during the period ended 30 September 2021 were:

Keith Lough
(Chairman)

Ian McAulay
(Executive director – Chief Executive Officer)

Sebastiaan Boelen
(Executive director – Chief Financial Officer)

Paul Sheffield
(Senior independent non-executive director)

Rosemary Boot
(Independent non-executive director)

Malcolm Cooper
(Independent non-executive director)

Gillian Guy
(Independent non-executive director)

Kevin McCullough
(Independent non-executive director)

Michael Putnam
(Independent non-executive director)

Martin Bradley
(Non-executive director)
(Appointed 8 September 2021)

Mark Mathieson
(Non-executive director)
(Appointed 8 September 2021)

William Price
(Non-executive director)
(Appointed 8 September 2021)

Marykay Fuller
(Non-executive director)
(Resigned 8 September 2021)

Sara Sulaiman
(Non-executive director)
(Resigned 8 September 2021)

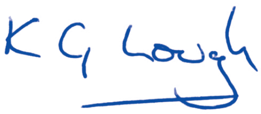
None of the directors who held office during the period had any disclosable interests in the shares of the company or the group.

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 2021:



Keith Lough
Chairman

Sebastiaan Boelen
Chief Financial Officer

Interim financial statements

Condensed income statement for the six months ended 30 September 2021

Continuing operations	Notes	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited* £m
Revenue	5	**412.8**	379.6
Amortisation of regulatory settlement		**12.1**	17.8
Total revenue	5	**424.9**	397.4
Other operating income	5	**0.8**	1.5
Operating costs			
• before court fine and costs, charge for bad and doubtful debts, depreciation and amortisation		**(187.2)**	(178.0)
• court fine and costs	14	**(91.5)**	–
• charge for bad and doubtful debts		**(11.2)**	(17.5)
Operating costs before depreciation and amortisation		**(289.9)**	(195.5)
Depreciation and amortisation		**(150.4)**	(140.1)
Total operating costs		**(440.3)**	(335.6)
Operating (loss)/profit		**(14.6)**	63.3
Operating (loss)/profit before regulatory settlement		(26.7)	45.5
Amortisation of regulatory settlement		12.1	17.8
Operating (loss)/profit		(14.6)	63.3
Other income	5	**0.1**	–
Profit on disposal of fixed assets	5	**0.8**	0.3
Finance income		**4.2**	6.0
Finance costs		**(74.9)**	(72.8)
Movements on derivative financial instruments		**(346.9)**	(167.3)
Net finance cost	6	**(417.6)**	(234.1)
Loss before taxation from continuing operations		**(431.3)**	(170.5)
Tax credit	7	**1.8**	35.8
Loss after taxation from continuing operations		**(429.5)**	(134.7)

* Please refer to Note 1 for explanation regarding prior year presentational changes.

Condensed statement of other comprehensive income for the six months ended 30 September 2021

	Notes	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Loss for the period		**(429.5)**	(134.7)
Items that cannot be reclassified to profit or loss			
Actuarial loss on retirement benefit obligation	15	(20.2)	(132.4)
Deferred tax asset movement relating to retirement benefit obligation	7	(4.8)	25.2
		(25.0)	(107.2)
Total comprehensive loss for the period		**(454.5)**	(241.9)

Condensed statement of financial position as at 30 September 2021

	Notes	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2021 Audited £m
Non-current assets			
Intangibles	9	204.0	189.7
Property, plant and equipment	10	6,576.3	6,445.0
Investments		29.2	29.2
Derivative financial instruments	11	34.3	68.2
Other non-current assets	12	–	130.0
		6,843.8	6,862.1
Current assets			
Inventories		8.3	6.3
Trade and other receivables		249.9	214.2
Investments		490.0	–
Cash and cash equivalents		225.7	339.5
		973.9	560.0
Total assets		7,817.7	7,422.1
Current liabilities			
Trade and other payables		(415.8)	(289.5)
Borrowings	19	(48.5)	(34.3)
Lease liabilities		(3.2)	(2.5)
Regulatory settlement liability	13	(24.4)	(24.2)
Provision for liabilities	14	(1.7)	(3.9)
		(493.6)	(354.4)
Non-current liabilities			
Borrowings	19	(3,991.2)	(3,993.7)
Lease liabilities	19	(29.1)	(27.2)
Derivative financial instruments	11	(1,821.7)	(1,500.6)
Deferred tax liabilities		(292.7)	(289.7)
Retirement benefit obligations	15	(120.2)	(116.5)
Regulatory settlement liability	13	(63.3)	(75.6)
Provisions for liabilities	14	(4.5)	(4.3)
Other non-current liabilities		(163.9)	(159.3)
		(6,486.6)	(6,166.9)
Total liabilities		(6,980.2)	(6,521.3)
Net assets		837.5	900.8
Equity			
Called up share capital	16	0.1	0.1
Share premium account	17	437.5	46.3
Non-distributable reserve		79.6	76.9
Retained earnings		320.3	777.5
Total equity		837.5	900.8

Condensed statement of changes in equity for the six months ended 30 September 2021

	Called up share capital (Note 16) £m	Share premium (Note 17) £m	Non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2021	**0.1**	**46.3**	**76.9**	**777.5**	**900.8**
Profit/(loss) for the financial period	–	–	3.6	(433.1)	(429.5)
Other comprehensive loss for the period:					
Actuarial loss on pension scheme	–	–	–	(20.2)	(20.2)
Movement on deferred tax relating to retirement benefit obligations	–	–	–	(4.8)	(4.8)
Total comprehensive income/(loss) for the period	**–**	**–**	**3.6**	**(458.1)**	**(454.5)**
Issue of shares	–	391.2	–	–	391.2
Reserves transfer*	–	–	(0.9)	0.9	–
Equity dividends (note 8)	–	–	–	–	–
At 30 September 2021	**0.1**	**437.5**	**79.6**	**320.3**	**837.5**

Condensed statement of changes in equity for the six months ended 30 September 2020

	Called up share capital (Note 16) £m	Share premium (Note 17) £m	Non-distributable reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2020	**0.1**	**46.3**	**60.2**	**1,146.9**	**1,253.5**
Loss for the financial period	–	–	–	(134.7)	(134.7)
Other comprehensive (loss)/income for the period:					
Actuarial loss on pension scheme	–	–	–	(132.4)	(132.4)
Movement on deferred tax relating to retirement benefit obligations	–	–	–	25.2	25.2
Total comprehensive loss for the period	**–**	**–**	**–**	**(241.9)**	**(241.9)**
Reserves transfer*	–	–	(0.8)	0.8	–
Equity dividends (note 8)	–	–	–	(4.0)	(4.0)
At 30 September 2020	**0.1**	**46.3**	**59.4**	**901.8**	**1,007.6**

* 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 2021

	Notes	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited* £m
Cash from operations		156.2	151.2
Tax paid		–	(0.9)
Net cash from operating activities	18	156.2	150.3
Investing activities			
Interest received		8.7	5.6
Purchase of property, plant and equipment		(217.3)	(184.4)
Purchase of intangible assets		(18.3)	(3.9)
Proceeds on disposal of property, plant and equipment		0.6	0.1
Acquisition of short term investments		(590.0)	(305.0)
Maturity of short term investments		100.0	50.0
Net movements on intercompany loan receivables		116.4	52.7
Net cash used in investing activities		(599.9)	(384.9)
Financing activities			
Equity dividends paid		–	(4.0)
Interest paid		(63.9)	(45.5)
Receipts on derivative financial instruments		11.9	13.9
Payments on derivative financial instruments		–	(96.5)
Repayment of borrowings	19	(8.2)	(338.0)
Repayments of principle on leases	19	(1.2)	(0.5)
Proceeds of new loans		–	812.9
Proceeds from share issue	16, 17	391.3	–
Net cash generated in financing activities		329.9	342.3
Net (decrease)/increase in cash and cash equivalents		(113.8)	107.7
Cash and cash equivalents at beginning of the period		339.5	104.3
Cash and cash equivalents at end of the period	19	225.7	212.0

* Please refer to Note 1 for explanation regarding prior year presentational changes.

Notes to the interim financial information

For the six months ended 30 September 2021

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 2021, 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 2021 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 2021 were approved by the Board on 30 June 2021 and the auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report 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 2021 should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2021 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 reassessed the principal risks associated with the company's business activities, together with the factors likely to affect its future development and position. As part of their review the directors have considered the risk of a Trigger Event as a result of limited financial headroom against the adjusted interest cover ratio and the associated credit rating headroom. A Trigger Event at Southern Water Services will not affect forecast liquidity headroom.

On the basis of their assessment of the company's financial position, and the plans in place to mitigate a potential Trigger event, 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. For this reason they continue to adopt the going concern basis of accounting in preparing the interim financial information.

The 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 2021, 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 2022.

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. The fine imposed by the environmental agency is material and has been separately disclosed.

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.

Prior year restatement

There has been a presentational change in terms of accounting for movements on derivatives. As a result all movements on derivatives have been presented in a single line in the income statement.

Accordingly on the income statement, income related to settlements on derivatives of £33.4 million has been reclassified from 'finance income' to 'movements on derivative financial instruments' within 'Net finance costs' for the six month period ended 30 September 2020 reducing 'finance income' from £39.4 million to £6.0 million and reducing 'movements on derivative financial instruments' from £200.7 million to £167.3 million. There is no impact on overall 'Net finance costs' of £234.1 million. In addition, on the cash flow statement, £13.9 million of cash inflows received as a result of settlements on derivatives has been reclassified from 'interest received' within investing activities to 'receipts on derivative financial instruments' within financing activities within the cash flow statement thereby reducing 'interest received' from £19.5 million to £5.6 million and increasing 'receipts on derivative financial instruments' from £nil to £13.9 million.

Cash on deposit with a maturity of more than three months from the date of acquisition of £25.0 million as at 1 April 2020 and £280.0 million at 30 September 2020 has been reclassified from 'cash and cash equivalents' in the cash flow statement to 'investing activities'. As a result, for the six month period ended 30 September 2020 the net increase in short term investments of £255.0 million has been reclassified from 'cash and cash equivalents' to 'investing activities'. £305.0 million was placed on deposit disclosed as 'Acquisition of short term investments' and £50.0 million matured in the period and is disclosed as 'Maturity of short term investments'.

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 2021. The uncertainty regarding the ongoing COVID-19 pandemic has increased the level of judgment required when considering the level of unbilled revenue and the impairment of trade receivables.

As at 31 March 2021, the accrual for non-South East Water unbilled measured income was £191.7 million. The value of household non-South East Water billings raised in the period to 30 September 2021 for consumption in prior years was £190.6 million, £1.1 million (0.6%) less than the accrual at 31 March 2021, with further billing for prior years still to be finalised.

3. Changes in significant 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 2021 (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 2021. 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 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Water and sewerage services		
Household – measured	275.6	257.7
Household – unmeasured	55.7	55.4
Non-household – measured	54.2	44.7
Non-household – unmeasured	2.2	1.9
Total water and sewerage services	387.7	359.7
Bulk supplies	2.4	2.0
Infrastructure charge receipts	2.6	2.2
Trade effluent	3.9	5.1
Cesspools	2.9	2.5
New connections	2.5	2.0
Adoptions	3.6	–
Other services	7.2	6.1
Total revenue before amortisation of regulatory settlement	412.8	379.6
Amortisation of provision for regulatory settlement payments	12.1	17.8
Total revenue	424.9	397.4
Other operating income*	0.8	1.5
Other income	0.1	–
Profit on disposal of fixed assets	0.8	0.3
Interest receivable (note 6)	0.2	1.1
Interest revenue from SWSG Limited (note 6)	4.0	4.9
Total income	430.8	405.2

* Other operating income includes 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.

6. Net finance costs

	Notes	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Finance income			
Interest revenue from SWSG Limited		4.0	4.9
Deposit income on short-term bank deposits		0.2	1.1
		4.2	6.0
Finance costs			
Interest payable on other loans		(0.7)	(2.5)
Interest paid to SWSF Ltd		(64.1)	(65.8)
Indexation of index-linked debt		(22.0)	(14.8)
Amortisation of issue costs		(0.8)	(5.7)
Amortisation of gilt lock proceeds		0.1	0.1
Amortisation of deferred credits		2.4	2.2
Amortisation of bond premium		0.3	0.3
Finance lease interest		(0.4)	(0.6)
Other finance expense		(1.2)	(0.6)
Dividends on preference shares*		(2.4)	(2.4)
		(88.8)	(89.8)
Amounts capitalised on qualifying assets		13.9	17.0
		(74.9)	(72.8)
Movements on derivative financial instruments	11	(346.9)	(167.3)
Net finance costs		(417.6)	(234.1)

* The preference share dividend of £2.4 million for the period to 30 September 2021 has been accrued.

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 on continuing operations

	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Current tax:		
In respect of the current period	–	0.7
Total current tax charge	–	0.7
Deferred tax:		
Origination and reversal of temporary differences	(63.4)	(36.5)
Effect of corporation tax rate change	61.6	–
Total deferred tax credit	(1.8)	(36.5)
Total tax credit on loss from continuing operations	(1.8)	(35.8)

In line with the requirements of FRS 104, the tax charge for the six months ended 30 September 2021 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 2022.

An increase in the main rate of corporation tax to 25% from the 1 April 2023 was enacted in the Finance Bill 2021, and deferred tax balances at 30 September 2021 were calculated based on this increased rate.

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 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Arising on income and expenses recognised on other comprehensive income:		
Tax credit on actuarial losses on defined benefit pension scheme	(3.8)	(25.2)
Deferred tax movement due to rate change	8.6	–
Total deferred tax charge/(credit) recognised in other comprehensive income	4.8	(25.2)

8. Dividends

	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Equity dividends paid:		
– SWSG Dividend Loop*	–	4.0
– Ordinary	–	–
	–	4.0

* These dividends are paid via intermediary holding companies to Southern Water Services Group Limited (SWSG), along with associated group tax relief payments. This enables SWSG to pay the interest due on the inter-company loan to SWS. This is a circular transaction, the effect of which is a net result/cash flow for the company of nil. On 8 September 2021 as part of the equity investment by Macquarie, the SWSG inter-company loan was repaid and as a result no further dividends will be made under this arrangement.

9. Intangible assets

	£m
Cost	
At 1 April 2021	299.0
Additions	22.2
At 30 September 2021 (unaudited)	321.2
Accumulated amortisation	
At 1 April 2021	109.3
Charge for the period	7.9
At 30 September 2021 (unaudited)	117.2
Net book amount	
At 30 September 2021 (unaudited)	**204.0**

10. Property, plant and equipment

	£m
Cost	
At 1 April 2021	9,666.2
Additions in the period	273.8
Disposals	(17.3)
At 30 September 2021 (unaudited)	9,922.7
Accumulated depreciation	
At 1 April 2021	3,221.2
Charge for the period	142.5
Disposals	(17.3)
At 30 September 2021 (unaudited)	3,346.4
Net book amount	
At 30 September 2021 (unaudited)	**6,576.3**

11. Derivative financial instruments

Categories of financial instruments at fair value

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£m	£m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Inflation swaps	34.3	68.2
Total derivative financial assets	34.3	68.2
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Inflation swaps	(1,821.7)	(1,500.6)
Total derivative financial liabilities	(1,821.7)	(1,500.6)

Changes in value of financial instruments at fair value

	Six months ended 30 September 2021	Six months ended 30 September 2020
	Unaudited	Unaudited
	£m	£m
Movements on derivative financial assets at FVTPL	(33.9)	(42.4)
Movements on derivative financial liabilities at FVTPL	(321.1)	(61.8)
Total movements on derivative financial instruments at FVTPL	(355.0)	(104.2)

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.

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The company has exposures to IBORs on its financial instruments that will be reformed as part of these market-wide initiatives. The company's main IBOR exposure at the report date is sterling LIBOR. The alternative reference rate for sterling LIBOR is the Sterling Overnight Index Average (SONIA). On 5 March 2021, the Financial Conduct Authority announced that panel bank submissions for all LIBOR settings will cease as at 31 December 2021, after which representative LIBOR rates will no longer be available. The company expects to finish the process of amending contractual terms or implementing appropriate fallback provisions in response to IBOR reform by the end of 2021.

The company anticipates that IBOR reform will impact its operational and risk management processes. The main risks to which the company is exposed as a result of IBOR reform are operational. For example, renegotiating borrowing contracts through bilateral negotiation with counterparties, implementing new fallback clauses with its derivatives counterparties, updating contractual terms and revising operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

12. Non-current assets

	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2021 Audited £m
Amounts owed by SWSG	–	130.0

Amounts owed by group undertakings represented a loan to SWSG Limited which is secured on the assets held under the Southern Water Services Group Security agreement and repayable on 31 July 2052 with interest payable at 7% per annum. The loan was fully repaid in September 2021.

13. Regulatory settlement liability

	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2021 Audited £m
At 1 April	99.8	135.5
Decrease in period/year	(12.1)	(35.7)
At 30 September 2021 and 31 March 2021	87.7	99.8
Included in:		
Current liabilities	24.4	24.2
Non-current liabilities	63.3	75.6
	87.7	99.8

In 2019 Ofwat concluded its investigation into the management, operation and performance of the company's wastewater treatment works which resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million and, to ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £135.5 million in outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflected the seriousness of the breaches identified in the investigation and these amounts were recognised and provided for in the financial statements for 2018–19. The provision of £135.5 million made in 2018–19 is being amortised over the period to 2025. The company also gave a number of formal undertakings to Ofwat in relation to measures to ensure that the issues identified in the investigation have ceased and cannot be repeated.

14. Provisions for liabilities

	Environmental obligations £m	Other £m	Total £m
At 1 April 2021	5.7	2.5	8.2
Utilised in period	–	(2.0)	(2.0)
Increase in period	–	–	–
At 30 September 2021	**5.7**	**0.5**	**6.2**
At 1 April 2020	5.8	4.0	9.8
Utilised in year	(0.8)	(1.5)	(2.3)
Increase in year	0.7	–	0.7
At 31 March 2021	**5.7**	**2.5**	**8.2**

	Six months ended 30 September 2021 Unaudited £m	Year ended 31 March 2021 Audited £m
Included in:		
Current liabilities	1.7	3.9
Non-current liabilities	4.5	4.3
	6.2	8.2

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.

Other provisions of £0.5 million relates to the payment of compensation for missed appointments under our Guaranteed Standards of Service Scheme (31 March 2021: £1.5 million) and represents a best estimate of the value of payments to be made over the course of the coming year.

Environment Agency

Like other wastewater operators, in the normal course of operations we occasionally face Environment Agency investigations following wastewater incidents. In addition to those, the company has been subject to a detailed investigation regarding permit breaches at some of our wastewater treatment works in two locations during the period 2010–15. In February 2020 the agency presented 51 charges before the court and we have entered guilty pleas to these charges.

On 9 July 2021, the company was sentenced and fined £90.0 million plus £2.5 million of costs for these historic offences against the previous provision of £1.0 million made in the year to 31 March 2020, giving rise to a charge to the income statement in the period of £91.5 million. The fine has been accrued for and is held within Trade and other payables in the statement of financial position. As a result, provisions for liabilities relating to this Environment Agency investigation are now £nil (31 March 2021: £1.0 million).

The company is seeking to work proactively with the Environment Agency to resolve its separate investigation into sampling compliance and reporting issues 2010 and 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 but will also keep this under review.

The Board has taken these investigations extremely seriously and has continued to monitor and support the work of the Risk and Compliance directorate, which continues to deliver a programme of improvements to the company's non-financial regulatory reporting including the collection, verification, reporting and assurance of data.

15. Retirement benefit obligations

The latest actuarial valuation of the SWPS was carried out as at 31 March 2019 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. These contributions will be dependent on future levels of RPI, but if market breakeven rates are borne out at 31 March 2019 the expected base deficit contributions will be paid annually and total £177.2 million over the period from 1 April 2021 to 1 April 2029.

The retirement benefit obligations shown at 30 September 2021 are based on the valuations at 31 March 2020, 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 major assumptions used by the actuary are set out in the table below:

	Six months ended 30 September 2021 Unaudited % p.a.	Year ended 31 March 2021 Audited % p.a.
Price inflation (RPI)	3.35	3.15
Price inflation (CPI)		
– RPI less 0.8%		
– RPI less 1% pa up to 2030	2.35	2.15
– Equal to RPI after 2030	3.35	3.15
Rate of increase of pensions in payment:		
– MIS* members only***	2.35†	2.15†
– Old section** members only***	3.35	3.15
– New section and ex FSLP (RPI max 5%)***	3.25	3.05
– Post 5 April 1988 GMP (CPI max 3%)***	2.05†	1.90†
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.25	2.15
Rate of increase for deferred pensions:		
– MIS* members only***	2.35†	2.15†
– Old section** members only***	3.35	3.15
– New section and ex FSLP (RPI max 5%)***	3.25	3.05
– - Post 5 April 1988 GMP (CPI max 3%)***	2.05†	1.90†
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.25	2.15
Price inflation (RPI)		
Discount rate	2.10	2.15

* 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).

† Rate shown applies up to 2030

15. Retirement benefit obligations (continued)

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

Amounts included in the statement of financial position

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£m	£m
Total fair value of assets	781.9	771.5
Present value of the defined benefit obligation	(902.1)	(888.0)
Deficit recognised in the statement of financial position	(120.2)	(116.5)

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

	Six months ended 30 September 2021	Six months ended 30 September 2020	Year ended 31 March 2021
	Unaudited	Unaudited	Audited
	£m	£m	£m
At 1 April	(116.5)	(62.5)	(62.5)
Employer's contributions	17.7	17.5	17.5
Employer's current service cost	–	–	–
Employer's past service cost	–	–	(0.2)
Curtailment	–	–	–
Financing charge	(1.2)	(0.6)	(1.3)
Actuarial loss	(20.2)	(132.4)	(70.0)
Deficit in the scheme at end of the period	(120.2)	(178.0)	(116.5)

16. Called up share capital

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£000	£000
Equity shares		
Authorised		
Ordinary shares of £1 each	46,050	46,050
Allotted and fully-paid		
Ordinary shares of £1 each		
At 1 April	56	56
Issued for cash	56	–
At 30 September/31 March	112	56
Non-equity shares		
Issued		
Class B Preference shares of £1 each	70	70

On 8 September 2021, 56,000 ordinary shares with aggregate nominal value of £56,000 were issued at £6,987.18 each to SWS Holdings Limited. The premium arising on issue is shown in note 17. See note 22 for further detail.

17. Share premium account

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£m	£m
Equity share premium		
At 1 April	46.3	46.3
Issued for cash	391.2	–
At 30 September/31 March	437.5	46.3

As per note 16, on 8 September 2021, 56,000 ordinary shares with aggregate nominal value of £56,000 were issued at £6,987.18 each to SWS Holdings Limited, with total share premium arising on issue of £391.2 million. See note 22 for further detail.

18. Cash generated by operations

	Six months ended 30 September 2021 Unaudited £m	Six months ended 30 September 2020 Unaudited £m
Continuing operations		
Operating (loss)/profit	(14.6)	63.3
Adjustments for:		
Fair value of sewer adoptions	(3.6)	–
Depreciation of property, plant and equipment	142.5	134.9
Amortisation of intangible assets	7.9	5.2
Receipt of grants and contributions	5.6	1.2
Difference between pension charge and cash contributions	(17.7)	(17.5)
Amortisation of grants and contributions	(0.8)	(1.4)
Operating cash flow before movement in working capital	119.3	185.7
Increase in inventories	(2.0)	(0.5)
Decrease/(increase) in receivables	(31.1)	6.3
Increase/(decrease) in payables	84.2	(21.2)
Decrease in regulatory settlement liability	(12.1)	(17.8)
Decrease in provisions	(2.1)	(1.3)
Cash generated by operations	156.2	151.2
Tax paid		
– Group relief	–	–
– Payments made within SWSG Dividend Loop	–	(0.9)
Net cash generated from operating activities	156.2	150.3

19. Analysis of net debt

	At 1 April 2021 Audited £m	Cash flow £m	Fair value adjustments £m	New finance leases £m	Other non-cash changes £m	At 30 September 2021 Unaudited £m
Cash and cash equivalents	339.5	(113.8)	–	–	–	225.7
Net liabilities from financing activities:						
Term facilities/index linked loans	(79.8)	8.2	(1.3)	–	–	(72.9)
Loans from subsidiary	(3,878.3)	–	(20.7)	–	2.0	(3,897.0)
Finance lease liabilities	(29.7)	1.2	–	(3.8)	–	(32.3)
Redeemable preference shares	(69.8)	–	–	–	–	(69.8)
Net interest rate swaps	(1,432.4)	(11.9)	(346.9)	–	3.8	(1,787.4)
Total liabilities from financing activities	(5,490.0)	(2.5)	(368.9)	(3.8)	5.8	(5,859.4)
Net debt	(5,150.5)	(116.3)	(368.9)	(3.8)	5.8	(5,633.7)

Unaudited balances at 30 September 2021 comprise:

	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	225.7	–	–	225.7
Derivative financial instruments	34.3	–	–	(1,821.7)	(1,787.4)
Lease liabilities	–	–	(3.2)	(29.1)	(32.3)
Borrowings due within one year	–	–	(48.5)	–	(48.5)
Borrowings due after one year	–	–	–	(3,991.2)	(3,991.2)
Net debt	34.3	225.7	(51.7)	(5,852.2)	(5,633.7)

The non-cash movement on loans from subsidiary of £2.0 million relates to the amortisation of loan issue costs, gilt lock proceeds and deferred proceeds.

The non-cash movement on net interest rate swaps relate to settlements received in the current year that were accrued for in the prior year.

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.

20. Contingent liabilities

Companies of the size and scale of Southern Water Services Limited are sometimes subject to a number of claims, disputes and potential litigation. The significant ones currently include ongoing investigations by regulatory bodies (the EA and DWI) as well as a potential claim in respect of property search income. 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.

Separate consideration of the EA investigations is set out in note 14.

Following the South Hampshire abstraction inquiry, Southern Water Services Limited has committed to undertake certain environmental work on the rivers Itchen, Test and Candover Stream between 2018 and 2030. A provision was made in the accounts of 2018–19 in relation to costs of the ecology work associated with this agreement and further details are disclosed in note 14 to the accounts. Certain compensatory costs may become due in the future, subject to conditions at that time and the impact of the ecology work undertaken. These have not been provided for and could increase the obligation by approximately £2 million.

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 (September 2020: £nil).

21. Financial commitments

(a) Capital commitments

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£m	£m
Contracted for but not provided for in respect of contracts placed in respect of:		
– property, plant and equipment	457.8	518.0
– intangible assets	2.1	15.5
	459.9	533.5

(b) The company as lessee

	Six months ended 30 September 2021	Year ended 31 March 2021
	Unaudited	Audited
	£m	£m
Lease payments under operating leases recognised as an expense in the year	1.1	1.8

22. Related party transactions

The consortium of investors owning Greensands Holdings Limited (GSH) are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

In September 2021, under an agreement reached with the GSH's existing shareholders, Macquarie Asset Management acquired a majority stake in GSH, investing £1 billion of equity to recapitalise and implement a more sustainable financing strategy for the group.

The capital injection will enable the company to invest significantly to upgrade its assets with £2 billion to be invested over the next four years of the current regulatory period.

23. Post balance sheet events

On 13 October 2021, the company acquired 100% of the shares in two newly incorporated entities, SW (Finance) I PLC and SW (Finance) II Limited. These subsidiaries have been set up to enable Southern Water Services Limited to remove its Cayman Islands registered subsidiary Southern Water Services (Finance) Limited from its corporate structure, replacing it with the two new subsidiaries.

On 26 October 2021 the company commenced the process of obtaining lender consents to substitute SW (Finance) I PLC and SW (Finance) II Limited as Issuer/Borrower of the Bonds and Artesian loans currently held by Southern Water Services (Finance) Limited and on 26 November 2021 the STID Proposal in connection with the consent process was approved.

On 18 November 2021 the Environment Agency and Ofwat announced that they have launched a joint investigation into the operation of wastewater treatment works across our industry. The investigation will look into all water and sewerage companies, and more than 2,000 treatment works around the country.

The company will be as open and transparent as possible and the Board is committed to working with Ofwat and the Environment Agency throughout the course of the investigation.

Independent review report to the members of Southern Water Services Limited

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 2021 which comprises the income statement, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and related notes 1 to 23. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 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. 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.

Conclusion

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 2021 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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

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London, United Kingdom
29 November 2021

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Ensuring water for life