



Interim Financial Information and Report

for the six months ended 30 September 2022
(Unaudited)

from
**Southern
Water** 

Contents

	Interim management report
3	Chairman's introduction
6	How we measure our progress
8	Deliver great service
12	Use water wisely
14	Protect and improve the environment
16	Fit for the future
18	Interim report – financial performance
25	Directors' responsibilities statement
	Interim financial statements
26	Condensed income statement
27	Condensed statement of other comprehensive income
28	Condensed statement of financial position
29	Condensed statement of changes in equity
30	Condensed statement of cash flows
31	Notes to the interim financial information
48	Independent review report to the members of Southern Water Services Limited

Chairman's introduction

I am pleased to introduce our Interim Financial Statements for 2022.

The water industry has been the subject of a significant amount of scrutiny over the past six months. We experienced an extremely hot and dry summer, resulting in our first period of drought in more than 10 years. This was accompanied by several significant storm events, which brought yet more attention to the issue of storm overflows. These obvious impacts of climate change demonstrate, more than ever, the need for water network resilience and water saving in our increasingly populated region.

I would like to thank our customers for their efforts to save water during the drought we experienced in the summer. In August, we put in place a Temporary Use Ban for domestic households in Hampshire and the Isle of Wight, which was lifted on 4 November. We know that the restrictions on our customers during this time were not easy, however they managed to help us save 11 million litres of water per day and reduce pressure on the rivers Test and Itchen. Future proofing our region's water supplies to keep customers in supply, will form an important part of our business plan for the next five yearly price review (PR24). However, I need to be clear that the development of new sustainable sources and enhanced regional network connectivity is inevitably some years away, so continued customer support for demand management will remain a key part of water supply management strategy.

These were not the only challenges we faced over the summer. In July, we experienced a large burst and subsequent water outage on the Isle of Sheppey that unfortunately left 24,000 of our customers without water for an extended period. As a result, we provided a range of support measures to the Sheppey community, including a £30,000 community grant. We are making improvements to the infrastructure supplying the island, to ensure a more reliable and resilient water supply for that area. Work is already well underway on a £3 million scheme to install two new pipelines as a major part of this project.

Our new CEO, Lawrence Gosden, who took on the role in July, is committed to continuing to deliver for our customers and the environment. Driving down pollution from the wastewater system is the core objective of our investment plans, together with pioneering work to reduce the use of storm overflows. Our newly formed Clean Rivers and Seas Task Force will implement innovative solutions to improve surface water management – run-off from roads, roofs, paved gardens, and built-up areas. We need to slow and separate enough water to avoid inundation of our sewer networks and we are building detailed insights into how that is done across the region. At the same time, we continue our commitment to work transparently with Ofwat and the Environment Agency (EA) in the industry-wide investigation into the operation of our wastewater treatment works, and with all our stakeholders through publication of comprehensive flow data.

Protecting and improving the environment

We will continue to focus on protecting our rivers and bathing waters. The most recent upgrade to our Beachbuoy service gives our customers access to near real-time data about water quality events in our coastal waters, and shows our commitment to providing clear and transparent information.

Our 2021–22 environmental performance rating was one-star. We are committed to being at least a three-star rated EPA company by 2025. To achieve this, we know that we must significantly reduce pollution from the wastewater system and do more to protect the environment and help biodiversity to thrive. We continue to implement projects and programmes outlined in the third iteration of our Pollution Incident Reduction Plan (PIRP), which was published in June 2022. In addition to this, we are focused on driving further improvements in permit compliance, water supply availability and our water supply and demand balance, as well as making continued progress in delivery of the Water Industry National Environment Programme (WINEP).

We have set an ambitious target to reduce pollution incidents to zero by 2040. We are forecasting 250 Category 1-3 pollution incidents by the end of the year, which is a significant improvement on last year's performance (2021: 372), but still falls far outside our Ofwat target of 91. Key workstreams within our PIRP are on track, including our strategic programmes, pumping station upgrades and the treatment works and wastewater pumping station power resilience programmes, as well as the non-compliant spill reduction plan.

Our work to reduce the need to use storm overflows is led by our Clean Rivers and Seas Task Force, which has published reports over the past few months on our five Pathfinder Projects. The projects are taking place over the next two years in Deal, Pan Parishes, Margate, Swalecliffe and Sandown, looking at innovative ways to provide solutions for managing surface water so that it does not overwhelm our wastewater system, such as the use of sustainable drainage systems, also known as SuDs. We believe that we can find ways to reduce the impact of rainfall on our network, using nature-based and traditional engineering solutions and working in partnership with local councils and other stakeholders. What our pathfinder work tells us very clearly is that the 'CSO problem' is about the management of all water flows across the region, and that the effective solutions and the fairest solutions for our customers are those which bring local authorities, transport agencies, landowners and developers together to solve problems using a cross sector approach. Our pathfinder work suggests an extra £2 billion is required, and we are ready to press on.

Protecting our coastline means keeping all 84 bathing waters and our local harbours as clean as possible. With 80 of our bathing waters rated 'excellent' or 'good' by the Environment Agency (EA) last year, we continue to push for improvement. Alongside the upgrades to Beachbuoy I have already mentioned, since August we have been trialling a high-tech monitoring buoy off Hayling Island with Havant Borough Council, which could shape water quality monitoring regionally and nationally in the future.

Ensuring a resilient water future

In the water stressed South East, our population continues to grow and put pressure on the demand for water in our area and the infrastructure providing it. The past six months has shown us that the more frequent hot and dry summers and heavy rain due to climate change are already having a significant impact on our communities. Over a period of just a few days in July, we experienced both droughts and floods. The importance of finding sustainable solutions to these challenges has never been greater and productive partnerships are key.

All our stakeholders have had the opportunity to help shape our plans through various consultations that we have been running over the course of the summer. Comments have been invited on Our Long-Term Priorities (June 2022), our Drainage and Wastewater Management Plans (DWMP) and the Water for Life – Hampshire programme. Following approval by the Secretary of State, our Water Resources Management Plan (WRMP) has been published for consultation this month (November 2022), focusing on plans to manage our water in the water-stretched future.

Our WRMP derives from the sophisticated analysis developed by the Water Resources South East group and plans have been submitted that meet our long-term requirements. That said, the board of directors of Southern Water regards the obligation to supply clean water to a growing population with reducing river abstraction rights for environmental reasons, which we do indeed support, as being our customers' primary risk. We note that much of our new supply until 2035 comes from leakage management and demand management and, compared with all other regions in England, the water supply network is more fragmented in ownership, less connected as a grid and, therefore, more risky for customer supply. We will, as a company, seek to reduce those risks in the coming years and faster than our current plans if we can.

Our Long-Term Priorities document sets out our vision for a water resilient future for customers in our region and explains what we are planning to achieve by 2050. The four priorities identified are: ensuring a reliable supply of high-quality water for the future; understanding and supporting our customers and communities; protecting and improving the environment; and enabling and empowering our people. We will be providing more detail under these priorities in our Strategic Direction Statement to be published in 2023.

Our long-term plans for providing more water resources are encompassed in our Water for Life – Hampshire programme, where we are making a series of multi-million-pound investments. As part of the programme, the first new reservoir to be constructed in the South East since the 1970s, is to be located at Havant Thicket.

Improving our performance

Improving our operational performance continues to be a primary focus. I know that our CEO Lawrence Gosden, with over 30 years' operational and capital programme delivery experience in the water industry, will lead our company to drive continuing improvements to our service delivery at this crucial time.

As we approach the next five yearly price review, when our regulator Ofwat will set the next price, service and incentive package for 2025–30, our business plan for this period will be set against a backdrop of increasing fuel prices, rising inflation and rising demands from our customers for better environmental outcomes. This means customer affordability and vulnerability will be at the forefront of our minds when planning what needs to be record levels of investment into key areas of focus, as well as using innovative methods and technology to make improvements. Driving down pollution and leakage will continue to be priorities.

Our PIRP has helped to drive a 7.5% reduction in pollutions during 2020–21 and this year we are on-track to reduce pollutions by 32.8%. To achieve this reduction, we are investing £230 million above our Ofwat regulatory allowances, the funding for which has come from new investment from funds managed by Macquarie Asset Management.

To reduce our leakage by 15% by 2025 and halve it by 2050, we are investing in teams and innovative technology. Although our leakage is better than the industry average, we continue to work hard to reduce leakage, so our 24/7 find-and-fix teams have been expanded so that we can identify more leaks and respond faster across our region. We are already seeing the positive difference this is making, repairing nearly 17,000 leaks so far this year with leakage reduced in 12 of our 14 water zone areas.

We are working hard to improve our levels of customer satisfaction. Although our C-MeX score which measures this is still low, we are making steps towards an improvement over this financial year. We have been using behavioural science to help us understand where customer journeys go wrong, leading to better handling of complaints and first-time contact resolution. We are also hoping to improve our D-MeX score, measuring our service to developers, aiming to move from 15th position to 10th in the industry league tables.

Providing customer value and service

Understanding our customers and the communities we serve is at the heart of everything we do. We are working hard to deliver value to our customers, particularly in these tough times, and we want to make sure that our vulnerable customers are supported.

Working in our communities is an important part of what we do. In October we launched two new Community Grant schemes – a Community Energy Grant and a scheme focusing on improving outcomes for young people – to support those in need during difficult times.

Innovating for the future

We have continued to develop projects spearheading our work in innovation. The latest projects include piloting both a smart metering device that can be clipped onto existing meters, as well as looking at using sewers as a sustainable heat source. The team has also developed a new training method using virtual reality to improve how we respond to pollution incidents.

The digitalisation of our wastewater network is also progressing at pace. Across our region we have already installed over 12,000 of the 22,000 monitors due to be installed this year, and we are on track to complete the project by December. The whole purpose of this programme is to get ahead of trouble, not fix it after an event.

Moving forwards as a team

As previously announced, Stuart Ledger will join the executive team as Chief Financial Officer in January 2023. Stuart will bring a significant amount of water utility experience to the team having worked in senior financial roles at Thames Water and Affinity Water and, more latterly, as Interim Chief Executive Officer at Affinity.

The Board has commenced a search for two new independent non-executive directors and we expect to be able to conclude the process by the end of the financial year. These are planned changes to manage succession in which Paul Sheffield and Rosemary Boot, who will by then have committed nine and eight years' service to the company, will retire from the Board.

I am confident that the progress made in our delivery over the past six months demonstrates that we are making significant and tangible improvements in our service delivery. I am thankful to our committed team of more than 2,000 colleagues who are constantly adapting to the challenges we face as a company and an industry, while following our company values of succeeding together, doing the right thing and always improving. Together, I know that we will be able to make a positive difference that will benefit our customers and communities long into the future.



Keith Lough
Chairman
29 November 2022

How we measure our progress

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

Owat 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

Making sure our customers receive high-quality water and the right support if they contact us, is all part of the service we deliver to our customers, whatever their specific needs.

Water quality

The Drinking Water Inspectorate (DWI) assesses any treated water compliance failures and measures the risk using the Compliance Risk Index (CRI). Water quality is monitored at treatment works, treated water storage facilities and customers' taps. In our Annual Report published in July 2022, we reported that our water quality measure – the CRI score – had risen to 6.69 (2020–21: 4.53). Although we are not meeting our Ofwat target of 0, we are predicting a small reduction to our CRI score for 2022 to 6.53.

CRI can be greatly influenced by a small number of irregular large scoring breaches and over the last six months, we have recorded three isolated incidents that we expect will account for most of our score: a coliform detection at a single treatment works in August (1.89); three aesthetic failures from a customer tap after planned network flushing works on 4 January (1.34); and a taste test failure (0.35) linked to discolouration caused by a burst main.

As part of our commitment to deliver great service, the water we supply to our customers needs to be good quality with little or no colour, taste or odour. For drinking water appearance, we are expecting to fall outside our 2022 target of no more than 0.65 contacts per 1,000 population, with a forecast of 0.90 contacts, which is in line with our 2021 score of 0.89. This score is mainly due to issues in three water supply zones, which have generated a number of contacts. We have seen an increase in taste and odour contacts month-on-month across 2022, and we are expecting to be broadly in line with our year-end target of 0.23 contacts per 1,000 population.

Supply interruptions

Our target for supply interruptions for 2022–23 was five minutes 45 seconds per property, per year, over and above three hours. Despite excellent performance in the first three months of the year, a single event on the Isle of Sheppey contributed 35 minutes to the overall performance for the year. Following on from this, we are forecasting an expected score of 43 minutes 11 seconds. Despite this incident, over the past six months, we have seen our overall performance stabilise, even with demand and temperatures reaching a record high during July's drought. Work has started on a £3 million infrastructure scheme to replace pipes under the Swale, the body of water which sits between the Isle of Sheppey and the mainland, to secure the supply. Our new water tankering team will improve our ability to respond to supply issues quickly across our whole region.

Customer experience

As a result of several incidents and the introduction of Temporary Use Bans in Hampshire and the Isle of Wight, the past six months has been busy for our customer facing teams, with our inbound call centre reaching a peak of contact at one point in August of 300% above forecast call volumes in one day. We remain in 16th place in the industry league tables for C-MeX – our customer satisfaction measure – out of 17. Although Q1 saw our gap between 17th and 16th increase by three points, if we were able to maintain this trajectory, this would see us achieve an industry leading improvement to 12th place. We are aware that our customers still feel we have room for improvement in the service we deliver, and are forecasting to maintain our position of 16th with a stretch target of 15th. Our focus remains on improving our customer journeys and reducing the number of times our customers need to contact us.

In terms of void properties – those that are vacant but still with access to water and wastewater services – our maximum target as a percentage of our total number of properties is 2.68% and we are forecasting finishing the year slightly above our target on 2.73%, which is an improvement on our previous score of 3.12%.

Our target for gap sites – unbilled properties – is, over the year, to connect 65 properties to our billing system. These are customers who are already connected to the water supply but who were previously not registered for use, and up to the end of September we connected 20. Last year, we did not reach our target for gap sites, with a total of 33. A third party has been sourced to map address data to external data, to accurately identify gaps and we are now forecasting 40 by the end of 2022–23.



Deliver great service

Performance
2021–22

Water quality: It is essential to always provide clean safe drinking water. This is seen 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)



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



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



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



External sewer flooding



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



Effectiveness of financial assistance



Priority services for customers in vulnerable circumstances



Priority services – actual contacts



Priority services – attempted contacts



Value for money



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



RAG status, based on forecast end-of-year position:



Green indicates where we have met or exceeded a performance commitment.



Amber indicates where we have missed a performance commitment but are still on target to deliver the outcomes we promised to customers over the five-year period.



Red indicates where we have not met a performance target and have not delivered the outcomes we promised to customers. In some cases we will incur a penalty for the shortfall.

Sewer flooding prevention

Following a disappointing performance in 2021–22 of 614 incidents, we have redoubled our efforts to reduce internal flooding in our customers' homes. This year, while we are no longer on track against our target of 321, we are making a significant improvement on our previous year's performance with a forecast of 326. We continue to closely monitor our performance in this area. Blockages remain the predominant cause of internal sewer flooding and our network resilience team continue their proactive work with customer engagement in blockage hotspot areas. Our plan for sewer network cleaning has already had its lowest ever backlog, with 91% of planned activities completing on time, and we are continuing to push for further improvement to reduce the risk of internal sewer flooding. The roll out of 22,000 sewer level monitors will be completed by December 2022, further assisting our efforts to prevent sewer flooding.

For external sewer flooding, last year we reported a total of 3,944 incidents against a target of 4,141 and we have continued to build on this good performance. The sewer network is remaining resilient to the impacts of both dry and wet weather, and hydraulic overload and equipment failure are low. Sewer network cleaning, blockage reduction activities and an intensive focus on repeat issues is helping us maintain our best ever performance in this area, and we are forecasting a reward for a second year running, reducing the number of external flooding incidents even further to 3,160.

Supporting customers in vulnerable circumstances

According to 2022 research, over half of our vulnerable customers live on their own and almost two thirds have fixed incomes. Given this information, and the current cost of living crisis, it is understandable that more customers are now saying they struggle to pay household bills. We have a number of schemes in place to help customers, including our Hardship Fund.

The customer satisfaction with vulnerability support survey is carried out at the end of each financial year and in 2022 we reported a satisfaction level of 73%. This year, we expect to fall short of our target to reach a figure of 84%. However, there is an increase in satisfaction levels for the additional support received by being on the register, which was at 67% in March 2022 compared to 46% previously.

The effectiveness of financial assistance to customers in need, is measured by the percentage of customers paying their bills in the following 12 months after receiving support. At the end of the last financial year, we reported a level of 67% of those accepted onto a financial assistance scheme, and six months on, this measure continues to hold stable, and we are on track to meet our Ofwat target of 80% for 2022–23.

To support those who need it most during the current challenging economic times, we also launched a Community Energy Grant, to help with energy costs at community hubs, for refugees and at food banks. Under this scheme, two £1,000 grants per county were made available. The second new scheme focused on improving outcomes for young people aimed at charities, and the successful applicant from each region (five in total) will become our regional charity partners for 18 months and each can receive £10,000.

The common performance commitment for priority services for customers is the percentage of households that are registered on the company's PSR (Priority Services Register) that the company supplies with water and/or wastewater services. Our target for the percentage of customers on our Priority Services Register at the end of the coming financial year increases to 4.3% from last year's target of 3%. Over the past six months, although there was a slight dip in new additions in August, we have achieved our end of year target six months ahead of schedule.

The percentage of customers surveyed by the Consumer Council for Water (CCW) that state they are satisfied with the value for money of water and sewerage services was 67%, which was slightly lower than our 2020–21 score of 71%. Overall, the industry average for satisfaction with value for money has decreased by 1% in 2021–22, and we believe the cost of living crisis could impact this further in the future. Our combined score fell by 4% with additional decreases to customer satisfaction primarily coming from the reaction to existing legacy challenges (such as the Environment Agency prosecution and associated media coverage in the summer of 2021). We are not expecting to reach our target of 77% this year.

Water pressure

Following a large number of additions to the risk of low pressure list as a result of higher than average temperatures this year, we have now reduced the number of properties at risk from a peak of 2,079 at the end of July to 277 at the end of September. This means we are on track to meet this year's target of 212.

Use water wisely

In the water-stressed South East, climate change and population growth are very real challenges.

We are working with customers to help them save water while we reduce leakage across our region.

Leakage

Despite a positive start to the year in terms of leakage reduction, a long hot summer has seen a significant increase in demand, and leakage levels have also risen. We will not meet our Ofwat target of a three-year rolling average of 90.9 MI/d. Despite these challenging circumstances, we have renewed our efforts to drive down leakage and have reduced our year end forecast from 97.5MI/d, to 95.2MI/d. This has been achieved as a result of increased resource and activity, further capital investment in pressure management, and network digitisation.

Water consumption

At the end of the last financial year, we reported water consumption at 133.6 litres per person, per day as a three-year rolling average. The target set for us by Ofwat at the start of the current business plan period was 122.5 litres per person per day. While our regulator has recognised that COVID-19 has had a significant impact on customer consumption, this target remains unchanged. We expect our three-year rolling average to continue to be above target for the remainder of the current five-year period.

We experienced a fall in consumption from 139.0 in 2020–21 to 133.6 in 2021–22, and despite the hot dry summer, we are expecting to see a year-on-year reduction in customer usage for 2022–23, with the forecast for the end of the year being 129.6. Reducing customers' water use remains an important area of focus and we are constantly reviewing how we can best support them to do this. Our water efficiency plans continue to be delivered, including our linked performance commitments around home visits and Target 100, alongside communications campaigns and other activities across the region.

Our industry leading Target 100 goal is measured as the percentage of household customers with an estimated per capita consumption (PCC) of less than 100 litres per person, per day. Last year we recorded a figure of 35%, against a target of 51%. So far this year, this has increased to 37% so it is unlikely we will achieve our target for this year of 53%.

In terms of water saved from water efficiency visits, we are also behind our target, due to the impacts of COVID-19 and subsequent restrictions. The estimated reduction in consumption, as a result of water efficiency visits, is measured in cubic metres per day and our target this year is 1,500. Through our increased number of visits in year, we have managed to save 359 cubic metres per day and expect to end the year on 471 cubic metres per day.

Our target for the number of households provided with devices giving access to daily water consumption is 3,529. In July we confirmed with Ofwat the terms of our metering plan, and in line with our Target 100 performance commitment, we are currently doing a smart meter trial, testing an industry assumption that we can reduce water consumption by 3% to 5%, over a year, by giving people data on how much they use. We are working with a behavioural science platform to give smart meter households access to their data hourly, including as part of our trial. The platform allows us to talk to householders regularly and offer incentives and prompts to reduce consumption.

While we know we will not hit our target of having fitted over 3,500 smart meters by the end of the year, we are working on plans to install smart meters at 30% of our households by 2027, 60% by 2028 and 90% by 2029, allowing everyone to have personalised data to help them use less water and to meet the metering penetration targets set out in the Water Resource Management Plan and our business plan.



Use water wisely

Performance
2021–22

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



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



Target 100



Water saved from water efficiency visits



Access to daily water consumption data



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

We want to keep our precious water sources and the environment around them healthy.

We work with stakeholders across our region to look for nature-based solutions that will improve the environment and protect the biodiversity within it.

Pollution

Our work to reduce pollution incidents to keep our bathing waters, rivers and reservoirs clean, continues. Pollution incidents are recorded on a calendar year basis, and from January to September we recorded 210 Category 1-3 pollution incidents, compared to 297 at the end of September 2021. We are currently forecasting a total for the year of 250, a reduction of nearly 122 incidents compared to 2021. Although extreme weather and drought impacted the sewer network during this time, we are making significant improvements to our performance, as detailed in our Pollution Incident Reduction Plan (PIRP), which we publish alongside our annual pollution figures on our website.

We are on track to deliver our Thanet sewer enhancement scheme by 31 March 2025. Survey works are progressing, and we are considering delivery options.

Our target for the delivery of the Water Industry National Environment Programme (WINEP) is to meet all schemes in the programme. The programme has a set of actions that all water companies in England are required to complete between 2020–25. The actions aim to make improvements to the natural environment, ensuring that there is no negative impact when taking water from rivers, reservoirs and groundwater sources. This involves improving the water quality along 537km of rivers. As part of this, we have a specific commitment to improve 182.3km during the current business plan period (2020–25). Having met our target in 2021–22, we remain on track to deliver a cumulative total of 102.7km by the end of 2022–23.

High quality bathing and river waters

Our region includes 700 miles of coastline which plays an important part in the local economy. We are committed to protecting these coastal waters to ensure they are of the highest quality, including our 84 designated bathing waters.

In 2021, all 84 of our bathing waters met strict European standards and 60 of these were classified as 'Excellent' by the Environment Agency. For 2022, we are currently predicting 59 bathing waters to be classified as 'Excellent'. Two further performance commitments for bathing water will come into effect in 2024, based on 2024 sample data. These are for improving a number of bathing waters to the standard to at least 'Good' and 'Excellent'.

We want 100% compliance with Environment Agency and Ofwat standards regarding the maintenance and improvement of our wastewater treatment works. Although we had a positive start to 2022 with no failed works in the first five months of the year, we expect to end 2022 with a total of five failed works compared to seven failed works in 2021. Five failed works will give a compliance score of 98.53% for this year (2021: 97.94%), bringing us closer to our target of 100%.

Our target for monitoring of Combined Sewer Overflows (CSOs) is to reach 99% of CSOs with effective spill monitoring. We currently have a monitor installed at 978 of our storm overflows, which represents 99% coverage versus 98% in 2021–22 and are maintaining fully effective monitoring for 88%. The challenge is to ensure all monitors remain fully functional to keep to this rate and although we are not meeting the performance commitment set by Ofwat, we do expect to continue to see a year-on-year improvement on this figure.

Water resource abstraction

Distribution Input is the volume of potable water entering the distribution network, which peaked at the end of August, following high temperatures over the summer, at approximately 559 million litres per day. As a result, we are currently forecasting that we will miss our Ofwat target of 516MI/d, but we are hoping to reduce this down from the 2021–22 outturn of 556 to 534MI/d.

To protect our rivers in Otterbourne and Twyford, and their ecologically important chalk streams, we have a target to abstract at least 15MI/d less than the legal limit of 2,280 during the month of September, following the summer's hotter weather when the river level is lowest. Given the exceptional recent drought conditions, a strategic decision was made not to target a reduction of the abstraction, to prioritise maintaining supply to our customers. We have not met this performance



Protect and improve the environment

Performance
2021–22

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



Thanet sewers



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



River water quality



Maintain bathing waters at 'Excellent'



Improve the number of bathing waters to at least 'Good'



Improve the bathing waters at 'Excellent' quality



Treatment works compliance



Combined Sewer Overflows (CSO) monitoring



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



Abstraction incentive mechanism



Effluent re-use



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 energy as well.

Renewable generation



Natural capital



Satisfactory bioresources recycling



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

commitment, but still managed to keep abstraction 11 MI/d below the limit set, to protect the local environment.

We are forecasting making 100.5m³ of treated effluent available for direct re-use by local authorities, businesses, farmers and communities this year (2021: 127m³). This is due to a reduction in requests, however this still represents 105m³ of water that has not been taken out of our freshwater supply for these purposes.

Renewables

Our target for renewable generation in this financial year is to generate 24% of our company's total electricity consumption. We are expecting to generate 18.1% this year, falling short of our Ofwat target, but in line with our 2022 execution plan and improving on the 2021–22 score of 15.85%.

We are expecting to reach our target for natural capital by establishing and publishing baseline

natural capital accounts for one cumulative set of river catchments. This is done to better understand the current condition of the environment that we own, or can influence, and the impact of our interventions. Earlier this year, we completed the first-ever natural capital baseline assessment of our land holdings. We are already starting to implement natural capital decision-making across the business and looking for nature-based solutions where possible.

We continue to maintain our record of 100% satisfactory bioresources recycling, meaning 100% of biosolids (a by-product of the treatment process) have been recycled as a fertiliser, with none going to landfill.

Fit for the future

Our purpose is to provide water for life, and that means planning long into the future to create a water resilient South East.

Asset health

We expect to have completed 115.6 mains repairs, per thousand kilometres of the entire water main network, by the end of this financial year, falling outside our target of 107.7. This is an increase on our performance in 2021 of 101.5, partially driven by ground movements resulting from the extended dry period causing more bursts needing repairing, particularly in the summer months. During August for example, the monthly volume of repairs to burst mains was 153% higher than August 2021, and the highest monthly total since 2014–15, with this trend expected to continue as we move into the autumn and winter.

The percentage of water production capacity lost due to unplanned maintenance work is measured in our performance commitment of unplanned outage. We outperformed our target of 9.11% by achieving 7.19% in 2021–22 but are unfortunately currently forecasting that we will miss this target with the expected outcome for 2022–23 being 7.50%. With this in mind, and given the peak demand during the summer, we are working on our outage recovery plan, to put us in the best possible position for future drought and get us back on track.

Having reduced our flooding risk to 11.5% at the end of 2021–22, we are expecting this to remain below the target of 12.42% for 2022–23. The measurement is based on modelled predictions to estimate the percentage of the region's population at risk from flooding from a 1-in-50-year storm, and we continue to drive down flood risk for our customers.

We know that sewer collapses can have a significant impact on our customers and the environment, and our teams are working hard to reduce the number of incidents on our network, with a target of no more than 5.48 per 1,000km of sewers by 2025. Our forecast for the number of sewer collapses, including mains bursts, at the end of the year is 265 (2021–22: 314). While this is an improvement on last year, it still takes us outside our target for this year of 224 or 5.59 incidents per 1,000km.

Water resilience

Our performance commitment for water supply resilience measures the number of residential properties at risk of long-term loss of supply (>48 hours) in our Thanet, Brighton and the Isle of Wight water supply zones. Our target for this year is 142,987 properties and we are on track to achieve this with an estimated year end figure of 139,121 properties. Improvement will be driven through these three supply zones, with anticipated delivery in 2024–25. All schemes are currently on schedule.

Our Long-Term Supply Demand Scheme performance commitment is designed to measure our progress against schemes to address supply capacity deficits by 31 March 2027, counting the expected number of months delay to deliver a total of 182.5Ml/d of supply capacity. Although we are currently forecasting a 50-month delay, due to a number of schemes no longer being feasible, we are investigating replacement schemes in consultation with both our regulators and our customers to bring this expected delay back to 0 by the end of 2024–25. We will be bringing in an independent third party to assess our progress in the area in the next twelve months.

Drought in our region caused us to put a Temporary Use Ban in place in Hampshire and the Isle of Wight for households from August until 4 November, with a water-saving incentive scheme for businesses in place from September to the end of November. This was due to extremely low levels of rainfall and hot dry weather over the summer leading to increased pressure on water sources. During this time, households helped save 11 million litres of water per day. We know that climate change and population growth are likely to increase pressure on water sources in the future.

Our impounding reservoirs metric relates to the progress made with a programme of work enhancing the safety of four reservoirs (Bewl, Darwell, Powdermill and Weir Wood), with a target of 48.8% completion by March 2023 and 100% completion by March 2025. As stated in our Annual Report (2021–22), schemes in the programme of work are under review, pending updated Reservoirs Act 1975 Section 10 reports (periodic inspection reports from an independent engineer with recommendations as to measures to be taken) for Weir Wood and Darwell. We are subsequently forecasting penalties in 2022–23 and 2024–25.



Fit for the future

Performance
2021–22

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	
Unplanned outage	
Risk of sewer flooding in a storm	
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	
Long-term supply demand schemes	
Risk of severe restrictions in a 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	
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	
Schools visited and engagement with children	

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

Growth

We are forecasting an improvement to our Developer Services Satisfaction score (D-MeX), from 15th place to 10th by the end of the financial year.

Reducing surface water returned to our network is a priority, and we are focusing our efforts in the area via our Clean Rivers and Seas Task Force, and addressing this through nature-based solutions for surface water management. We are partnering with local authorities on mains sewer connections, to trial a series of interventions for reducing the pressure of surface water run-off on our sewers and storm overflows over targeting individual customers. Our Surface Water Management performance commitment measures reduction in volume (m³) of surface water entering the surface or combined sewer network as a result of rough sustainable urban drainage approaches, and therefore are forecasting to continue to report 0 m³ until the end of the current business plan period.

Community engagement

Our community engagement score is measured by a third party company B4SI and Business in the Community. It is based on our position measured against a small cohort of water utilities companies assessed by B4si, as set out in the Performance Commitment. BSi provide this information in November and December based on our performance in the previous financial year.

Our community engagement has been increasing over the past six months, with funding opening up to an growing number of volunteer groups via our Community Grants scheme. We have also been taking part in a greater variety of community events since expanding our team. We are working closely with B4si to help us to evaluate and improve our social impact, to be on track to achieve our target score of 75%.

Coming out of the pandemic, we have been able to increase our face-to-face engagement with schools. We are now reaching and exceeding our target of 90% with 94% of feedback from visits being 'Good' or 'Excellent' at the end of the financial year. In addition to regular school visits talking about unflushables and the water cycle, in September, we took part in the Crawley Junior Citizen event with our Community Ambassadors, where we spoke to over 1,500 year six pupils over just a few days.

Interim report – financial performance

Key financial performance indicators

	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited (restated*) £m	Increase/ (decrease) %
Total revenue	417.2	424.9	(1.8)
Operating costs before Court fine and costs	(392.6)	(348.8)	12.6
Court fine and costs	–	(91.5)	–
Operating profit/(loss)	25.4	(14.6)	273.9
Net finance costs	(113.3)	(73.1)	55.0
Loss before taxation and movement in fair value of derivatives	(85.7)	(86.8)	(1.3)
Profit/(loss) after taxation from continuing operations	503.4	(431.3)	(216.7)
Gross capital expenditure**	313.2	278.6	12.4
Net cash inflow from operating activities	142.9	156.2	(8.5)

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

** Excludes asset adoptions and capitalised interest

Income statement

Revenue for the period decreased to £417.2 million (period to 30 September 2021: £424.9 million). This decrease principally arises from higher levels of billing raised, than had been anticipated, during the period to September 2021 for the preceding financial year and the application of Outcome Delivery Incentive penalties to our wastewater tariff for 2022–23.

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 12.6% to £392.6 million (period to 30 September 2021: £348.8 million). This increase was largely driven by an increase in operating expenditure described below and additional depreciation arising from our capital programme of £17.1 million offset by a reduction in our bad debt provision charge of £3.8 million.

Over the period to September 2022 the principal drivers of additional operating costs were as follows:

- Catchment management activities to improve the quality and quantity of drinking water supplies as part of the Water Industry National Environment Plan

- Pollution management, including a Clean Rivers and Seas Task Force to identify solutions to the management of surface water
- A large water main burst on the Isle of Sheppey in July that unfortunately left 24,000 of our customers without water
- The impact of a revision to the accounting for Cloud Computing Arrangements (Software as a Service) which resulted in an additional £1.3 million being recorded as operating costs in the current financial year
- Inflation which has increased prices for all our operational costs, most notably our power, chemicals and materials

We disclosed in our Annual Reports for March 2021 and March 2022 that we are investing heavily to improve the resilience of our existing assets, improve operational performance and enhance the level of wastewater treatment we undertake. The increase in depreciation in relation to these operational schemes was £9 million. In addition, we have been making improvements to our IT infrastructure, for example with a new data centre and improved IT security. The investment in IT increased depreciation in the period by £6 million.

In the period to 30 September 2022 we recognised a bad debt provision charge of £7.4 million (period to 30 September 2021 £11.2 million). We have also retained the additional provision of £10.3 million we made in the accounts to March 2022, to recognise the likely impact on the recoverability of outstanding debt from the current economic pressure being felt by households. To date cash collection has remained in line with expectations.

As reported in our Annual Report for 2021–22, we were 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 July 2021, the court imposed a fine of £90 million and awarded EA costs of £2.5 million. These costs, 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 in the results for the prior year.

As a consequence of the above we incurred an operating profit of £25.4 million for the period (period to 30 September 2021: £14.6 million loss).

Net finance costs, excluding fair value movements on financial derivatives, increased to £113.3 million (period to 30 September 2021: £73.1 million). This was largely due to an increase in indexation on our index linked debt following an increase in RPI of £24.0 million and an increase in the interest payable on our loans of £17.0 million.

As a result of the above movements the loss before taxation and movement in fair value of derivatives amounted to £85.7 million (period to 30 September 2021: loss £86.8 million).

The fair value gain on our derivative financial instruments amounted to £754.0 million (period to September 2021: loss of £346.9 million). This gain largely reversed the losses experienced during 2021–22 of £669.0 million and 2020–21 of £346.1 million. The primary driver for the decrease in our derivative liabilities, which result in the profit reported in the income statement, is the fluctuation in UK Government bond yields which are used to discount the future cash flows. As Government gilt yields are constantly moving the valuation of our derivative instruments can be volatile, as experienced with the significant market movements in gilt yields over the past 2 years. These changes do not represent cash flows.

In the Finance Bill 2021, the main rate of corporation tax was increased from 19% to 25% from 1 April 2023 and the deferred tax balances at 30 September 2022 have been calculated based on the increased rate. Our tax charge of £164.9 million largely results from our profit from continuing operations (period to 30 September 2021: £2.4 million credit).

The gain from continuing operations after tax was £503.4 million (period to 30 September 2021: loss of £431.3 million).

Statement of financial position

As at 30 September 2021, non-current assets were £7,054.0 million (£6,887.2 million at 31 March 2022), an increase of £166.8 million. This largely results from the increase in the value of property

plant and equipment and intangible assets by £166.8 million, resulting from our ongoing capital investment programme and an increase in the asset value of our derivative financial instruments of £29.2 million. This is partially offset by the removal of the investment of £29.2 million in Southern Water Services (Finance) Ltd, our Cayman registered subsidiary, as part of the replacement of this company with two new UK incorporated companies.

Current assets decreased by £218.3 million from £696.6 million at 31 March 2022 to £478.3 million at 30 September 2022. This reduction primarily arises from a decrease in cash and investments of £220.3 million, largely driven by settlement of the court fine of £90.0 million, a one-off lump sum contribution into the defined benefit pension scheme of £59.6 million and capital investment over the period since last March.

Current liabilities of £718.0 million at 30 September 2022 were £17.2 million lower than at 31 March 2021 (current liabilities of £735.2 million). This movement largely results from the settlement of an inter-company loan of £30.3 million with Southern Water Services (Finance) Ltd as part of the closure of this subsidiary company described above offset by indexation of £10.3 million on a loan due for settlement in March 2023.

There was a small increase to the value of our long-term borrowings which grew by £22.8 million, from £3,680.1 million at 31 March 2022 to £3,702.9 million at 30 September 2022, from indexation on our loans of £35.7 million offset by repayments of loans and preference shares of £14.2 million. 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 2022 and decreased by £713.3 million from £2,188.9 million at 31 March 2022 to £1,475.6 million at 30 September 2022.

The pension scheme deficit of £14.9 million (31 March 2022: £59.9 million) is based on the latest actuarial valuation as at 31 March 2022 updated by a qualified independent actuary to reflect the increase in corporate bond yields from March which are used to set the discount rate and the latest asset values as at 30 September 2022. The reduction in the deficit of £45.0 million largely results from the increase returns on corporate bond yields which are used to determine the discount rate offset by lower projected investment returns as a result of the volatile market conditions in September.

Overall net assets increased from £589.0 million at 31 March 2022 to £1,126.8 million at 30 September 2022.

Cash flow

The cash position increased from £157.4 million at 31 March 2022 to £222.1 million at 30 September 2022, a rise of £64.7 million. Details of the principal movements in the cash flow are provided in the table below.

Cash flow for the six months ended 30 September 2022

	2022 £m	2021* £m	Movement £m	Explanation
Proceeds from share issues	–	391.3	(391.3)	In September 2021, a fund managed by Macquarie Asset Management (MAM) acquired a majority stake in Southern Water's ultimate parent company Greensands Holdings. As part of this investment new equity totalling £391.3 million was issued by Southern Water Services.
Settlement of loan to SWSG	–	130.0	(130.0)	As part of the investment into the group by MAM, the inter-company debtor issued to SWSG was repaid.
Net interest related transactions	(29.8)	(56.9)	27.1	In total, the net cash outflow in relation to interest decreased by £27.1 million. The principal reasons were: A reduction in the value of our inter-company transfer to SWSF which is used to pay the interest on our bonds resulting in a £34.9 million lower cash movement (2021: £13.7 million increase). A reduction in interest received of £7.2 million. Payment of accrued preference share dividends in July 2022 of £12.3 million.
Net movement on borrowings	(14.0)	(8.2)	(5.8)	During the year, we made loan repayments of £8.9 million (2021: £8.2 million) and preference share repayments totalling £5.2 million (2021:nil); no new bonds were issued during the year (2021: nil). The loan repayment to SWSF of £30.2 million is offset by the return of an equivalent value in respect of the investment held by Southern Water in SWSF. Resulting in no net cash movement.
Movements in short-term investments	285.0	(490.0)	775.0	Funds held on deposit for periods greater than three months matured resulting in a cash inflow of £285.0 million (2021: £490 million investment).
Other	(176.5)	(80.0)	(96.5)	The net cash movement from operating activities and our capital investment programme. Largely driven by the increase in our capital investment programme during the period which increased cash expenditure by £82.3 million.
	64.7	(113.8)		

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

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+ (negative 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).

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 since 31 March 2022

On 26 July 2022, having undertaken a careful consideration of the company's financial position, progress in delivery for customers, and all other relevant factors, the Board approved the redemption of 5,164 of its Class B preference shares, at nominal value plus the premium on issue, including settlement for fixed value dividends due to that date. The total amount paid was £17.5 million, comprising principal redemption of £5.2 million and dividends of £12.3 million.

As previously reported in our Annual Report we had 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 has now been completed and the existing loans have been transferred to two new financing subsidiaries SW (Finance) I plc and SW (Finance) II plc.

In October 2022 we renewed our revolving credit facility (RCF) and the standstill liquidity facility for a further 5 years to October 2027. As part of this facility renewal, we increased the overall value of the RCF from £330 million to £350 million.

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 2022.

In forming this assessment, the directors have considered the period to 30 November 2023 and the following information:

- The company's business activities, together with the factors likely to affect its future development, performance and position.
- The financial position of the company, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities.
- Reasonable downside sensitivities to the cash flows to check whether the company can operate within its current facilities and covenants.

Financing

The company received new equity in 2021 of £529.9 million of which £230 million was to enable additional investment over the period to 2025 to improve operational performance.

At 30 September 2022 the company has available a combination of cash and committed undrawn bank facilities totalling £509 million (30 September 2021: £1,068.2 million). The undrawn facilities included within this were renewed for a further five years on 31 October and extended from £330 million to £350 million.

The company is required 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 is forecast to amount to £289.9 million due on 31 March 2023, and the capital investment programme includes internally approved spend of £619 million in the next 12 months.

Operating cashflow forecasts

The company has sufficient cash and undrawn facilities in place to meet the forecast financial obligations of the business for at least twelve months from the signing of the interim accounts (29 November 2022) based upon the Board approved plan to 2025.

Performance in FY23 to date has been behind that plan, but the business continues to pursue operational and other efficiencies in the normal course of business to mitigate operational and inflationary pressures on current expenditure while also preparing plans for additional investment to meet capital intensive activity. These, with appropriate financing proposals, will be brought to the Board and shareholders for approval at the appropriate juncture.

Taking into account the pace of additional investment needed to deliver operational performance, the cashflow forecasts show sufficient liquidity headroom to accommodate the current Board approved operational and investment plans.

Refinancing

The Board approved plan includes the proposal to raise additional capital of approximately £500 million in the first half of 2023 and advisors and legal counsel have been engaged to support this process. Based on its history of being able to raise debt finance in the past, the directors believe this will be successful. If this does not occur, and if operating expenditure is 1.5% above plan over the going concern period, liquidity headroom would be reduced to nil.

Should this occur, the following mitigating activities are available to management, and within management's control:

- Temporarily reducing or deferring the timing of delivery of discretionary operating expenditure, this could typically include items such as non-essential recruitment, consultants, marketing, travel and other such costs not directly linked to the delivery of regulatory outcomes.
- Adjusting the pace of the delivery of the capital investment programme, of which £619 million has been approved for delivery within the next 12 months, but has not yet been fully committed externally to our delivery partners.

Covenant compliance and Trigger events

The positive financial headroom is forecast across all key debt covenant ratios for the going concern period, but there is limited financial headroom against the adjusted interest cover ratio to a Trigger Event (although the headroom to Default is material) and therefore pressure from this limited headroom on credit ratings. Credit ratings are currently Baa3/BBB+/BBB+. If operating expenses are 8.5% above forecast during the period to 31 March 2023, the interest cover ratio covenant could be breached. As the interest cover ratio is a cash ratio, any potential breach may be mitigated by the company's ability to control working capital during this period.

The company obtained a waiver from its Lenders in February 2021 which allows full use of available liquidity, plus the raising of new finance, even in a Trigger Event scenario of a credit rating downgrade or a breach of a trigger debt compliance ratio. Therefore, the directors consider that the risk of a Default is low given the current level of financial and rating headroom to this event.

The directors therefore have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, taking into account uncertainty around access to debt capital markets, inflationary and operational pressures on cashflow forecasts and the ability of management to implement mitigating actions.

Accordingly, the directors 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 Audit Committee. The Audit Committee receives a risk report at its meetings four times per year and advises the Board on the company's overall risk appetite, tolerance and strategy. The Board retains ownership and approval of the company's overall risk appetite, tolerance and strategy.

At November 2022, the principal risks and uncertainties that the business faces over the remainder of this financial year remain unchanged from those we reported in our last Annual Report and Financial Statements. We regularly review key developments and emerging risks to assess whether the current set of risks require any changes and will report proposals for any changes to the Audit Committee and Board.

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

Operational risks

- **Water** – 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

Corporate risks

- **Financial** – ensuring we maintain our credit ratings and overall financial position 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
- **Health, safety and wellbeing** – ensuring the health, safety and wellbeing of our employees and the public
- **Corporate affairs** – ensuring that we are responding to the additional political and regulatory focus on the water industry in order to meet customer expectations
- **People** – adapting our ways of working to the longer-term impact of COVID-19

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 17.

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 2022, which can be found on our website [southernwater.co.uk/our-reports](https://www.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)

Lawrence Gosden

(Executive director – Chief Executive Officer)

(Appointed 1 July 2022)

Ian McAulay

(Executive director – Chief Executive Officer)

(Resigned 30 June 2022)

Nadim Ahmad

(Executive director – Interim Chief Financial Officer)

(Appointed 31 July 2022)

Sebastian Boelen

(Executive director – Chief Financial Officer)

(Resigned 31 July 2022)

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)

(Resigned 31 July 2022)

Michael Putnam

(Independent non-executive director)

Martin Bradley

(Non-executive director)

(Resigned 1 May 2022)

Mark Mathieson

(Non-executive director)

William Price

(Non-executive director)

Stephen Fraser

(Investor-nominated non-executive director)

(Appointed 1 May 2022)

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 2022:



Keith Lough
Chairman

Nadim Ahmad
Chief Financial Officer

Interim financial statements

Condensed income statement for the six months ended 30 September 2022

	Notes	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited (Restated)* £m
Continuing operations			
Revenue	5	406.0	412.8
Amortisation of regulatory settlement		11.2	12.1
Total revenue	5	417.2	424.9
Other operating income	5	0.8	0.8
Operating costs			
• before court fine and costs, charge for bad and doubtful debts, depreciation and amortisation		(217.7)	(187.2)
• court fine and costs		–	(91.5)
• charge for bad and doubtful debts		(7.4)	(11.2)
Operating costs before depreciation and amortisation		(225.1)	(289.9)
Depreciation and amortisation		(167.5)	(150.4)
Total operating costs		(392.6)	(440.3)
Operating profit/(loss)		25.4	(14.6)
Operating profit/(loss) before regulatory settlement		14.2	(26.7)
Amortisation of regulatory settlement		11.2	12.1
Operating profit/(loss)		25.4	(14.6)
Income from subsidiary	5	1.1	–
Other income	5	–	0.1
Profit on disposal of fixed assets	5	1.1	0.8
Profit/(loss) before interest and taxation		27.6	(13.7)
Finance income		1.4	4.2
Finance costs		(114.7)	(77.3)
Movements on derivative financial instruments		754.0	(346.9)
Net finance income/(cost)	6	640.7	(420.0)
Profit/(loss) before taxation from continuing operations		668.3	(433.7)
Tax (charge)/credit	7	(164.9)	2.4
Profit/(loss) after taxation from continuing operations		503.4	(431.3)

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

Condensed statement of other comprehensive income for the six months ended 30 September 2022

	Notes	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited (Restated)* £m
Profit/(loss) for the period		503.4	(431.3)
Items that cannot be reclassified to profit or loss			
Actuarial gain/(loss) on retirement benefit obligation	15	45.8	(20.2)
Deferred tax asset movement relating to retirement benefit obligation	7	(11.4)	(4.8)
		34.4	(25.0)
Total comprehensive profit/(loss) for the period		537.8	(456.3)

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

Condensed statement of financial position as at 30 September 2022

	Notes	Six months ended 30 September 2022 Unaudited £m	Year ended 31 March 2022 Audited £m
Non-current assets			
Intangibles	9	104.1	100.0
Property, plant and equipment	10	6,875.1	6,712.4
Investments	11	–	29.2
Derivative financial instruments	12	74.8	45.6
		7,054.0	6,887.2
Current assets			
Inventories		11.6	10.2
Trade and other receivables		244.6	244.0
Investments		–	285.0
Cash and cash equivalents		222.1	157.4
		478.3	696.6
Total assets		7,532.3	7,583.8
Current liabilities			
Trade and other payables		(401.9)	(400.7)
Borrowings	19	(285.0)	(304.4)
Lease liabilities		(3.7)	(3.6)
Regulatory settlement liability	13	(26.1)	(25.0)
Provision for liabilities	14	(1.3)	(1.5)
		(718.0)	(735.2)
Non-current liabilities			
Borrowings	19	(3,702.9)	(3,680.1)
Lease liabilities	19	(29.7)	(29.6)
Derivative financial instruments	12	(1,475.6)	(2,188.9)
Deferred tax liabilities		(379.4)	(203.0)
Retirement benefit obligations	15	(14.9)	(59.9)
Regulatory settlement liability	13	(41.5)	(53.8)
Provisions for liabilities	14	(3.9)	(5.0)
Other non-current liabilities		(39.6)	(39.3)
		(5,687.5)	(6,259.6)
Total liabilities		(6,405.5)	(6,994.8)
Net assets		1,126.8	589.0
Equity			
Called up share capital	16	0.1	0.1
Share premium account	17	437.5	437.5
Non-distributable reserve		88.2	85.1
Retained earnings		601.0	66.3
Total equity		1,126.8	589.0

Condensed statement of changes in equity for the six months ended 30 September 2022

	Called up share capital (Note 16) £m	Share premium (Note 17) £m	Non- distributable reserve £m	Retained earnings £m	Total £m
Balance as at 1 April 2022	0.1	437.5	85.1	66.3	589.0
Profit for the financial period	–	–	4.0	499.4	503.4
Other comprehensive income/(loss) for the period:					
Actuarial gain on pension scheme	–	–	–	45.8	45.8
Movement on deferred tax relating to retirement benefit obligation	–	–	–	(11.4)	(11.4)
Total comprehensive income for the period	–	–	4.0	533.8	537.8
Reserves transfer**	–	–	(0.9)	0.9	–
Equity dividends (note 8)	–	–	–	–	–
At 30 September 2022 (unaudited)	0.1	437.5	88.2	601.0	1,126.8

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 (Restated)* £m	Total (Restated)* £m
Balance at 1 April 2021	0.1	46.3	76.9	777.5	900.8
Prior year adjustment*	–	–	–	63.6	63.6
Restated at 1 April 2021	0.1	46.3	76.9	841.1	964.4
Profit/(loss) for the financial period*	–	–	3.6	(434.9)	(431.3)
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	–	–	–	(459.9)	(456.3)
Issue of shares	–	391.2	–	–	391.2
Reserves transfer**	–	–	(0.9)	0.9	–
Equity dividends (note 8)	–	–	–	–	–
At 30 September 2021 (unaudited)	0.1	437.5	79.6	382.1	899.3

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

** 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 2022

	Notes	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited (Restated)* £m
Cash from operations		142.9	156.2
Tax paid		–	–
Net cash from operating activities	18	142.9	156.2
Investing activities			
Interest received		1.5	8.7
Purchase of property, plant and equipment		(303.1)	(217.3)
Purchase of intangible assets		(14.8)	(18.3)
Proceeds on disposal of property, plant and equipment		0.9	0.6
Acquisition of short term investments		(50.0)	(590.0)
Maturity of short term investments		335.0	100.0
Repayments of intercompany loan receivables		–	130.0
Return on investment in subsidiary		1.1	–
Return of investment in subsidiary		29.2	–
Net cash used in investing activities		(0.2)	(586.3)
Financing activities			
Equity dividends paid		–	–
Preference share dividends paid		(12.3)	–
Interest paid		(30.5)	(77.5)
Receipts on derivative financial instruments		11.5	11.9
Repayment of borrowings	19	(44.3)	(8.2)
Repayments of principle on leases	19	(2.4)	(1.2)
Proceeds from share issue	16, 17	–	391.3
Net cash (used)/generated in financing activities		(78.0)	316.3
Net (increase)/decrease in cash and cash equivalents		64.7	(113.8)
Cash and cash equivalents at beginning of the period		157.4	339.5
Cash and cash equivalents at end of the period	19	222.1	225.7

* 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 2022

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 2022, 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 2022 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 2022 were approved by the Board on 15 July 2022 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 2022 should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2022 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 2022, 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 2023.

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 Environment 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

In 2011 the company received consideration for taking on derivative obligations that were 'out of the money' at the time the derivative obligations were transferred. The derivative obligations are used to economically hedge inflation linked debt (hedge accounting is not applied). Under previous GAAP the amount of the consideration was recognised as "deferred credit" within borrowings and amortised to interest cost in the income statement over the life of the associated debt. This deferred credit should have been derecognised on transition to IFRS, but was not. Correcting entries were accounted for in the financial statements for the year ended 31 March 2022 and in accordance with IAS 8 the 2021 financial statements were restated accordingly. Consequently, the prior period for these interim financial statements has also been restated. Retained earnings brought forward at 1 April 2021 increased by £63.6 million to £841.1 million as a result of the transfer of the value of the deferred credit as at 31 March 2021 of £76.3 million less deferred tax of £12.7 million. Additionally, amortisation of the deferred credit of £2.4 million in the prior period income statement to 30 September 2021 has been removed, as well as the related tax credit of £0.6 million.

	Six months ended 30 September 2021		Six months ended	
	As reported £m	Restatement £m	As restated £m	
Retained earnings brought forward	777.5	63.6	841.1	
Movements in the period to 30 September 2021:				
Finance costs	(74.9)	(2.4)	(77.3)	
Tax credit	1.8	0.6	2.4	
Retained earnings carried forward	837.5	61.8	899.3	

The table above shows the impact of these adjustments to the relevant lines in these interim financial statements for the comparative period ended 30 September 2021.

There has also been a presentational change in the cash flow statement in respect of the company's payments into and movements out of the debt service payments bank account held by the company's subsidiary Southern Water Services (Finance) Limited. In previous years, the movement on this bank account has been included within total movements on inter-company receivables within investing activities however in the financial statements for the year ended 31 March 2022, the substance of this movement was reassessed as relating to interest paid under IAS 7 'Statement of cash flows' and reclassified as such within financing activities in the cash flow statement. As a result, the prior period for these interim financial statements has also been restated, and the increase on this bank account for the period ended 30 September 2021 of £13.6 million representing interest prepaid to Southern Water Services (Finance) Limited, has been moved out of 'repayments of inter-company loan receivables' within investing activities and included within financing activities, increasing 'interest paid' in the year from £63.9 million to £77.5 million.

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 2022.

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end and is a key source of estimation uncertainty. As at 31 March 2022, the accrual for unbilled measured income was £233.5 million. The value of household billings raised in the

period to 30 September 2022 for consumption in prior years was £224.0 million, £9.5 million (4.1%) less than the accrual at 31 March 2022, with further billing for prior years still to be finalised. This difference is well within our view of acceptable tolerances for accounting estimates.

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy. The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 30 September 2022. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +1%.

Event	+1% Increase £m	-1% Increase £m
Interest Rates (IR)	312.3	(394.7)
Inflation Rates (IFR)	(966.0)	797.2

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 2022 (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 2022. 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 2022	Six months ended 30 September 2021
	Unaudited	Unaudited (Restated)*
	£m	£m
Water and sewerage services		
Household – measured	256.4	276.4
Household – unmeasured	55.7	55.7
Non-household – measured	66.8	53.4
Non-household – unmeasured	2.1	2.2
Total water and sewerage services	381.0	387.7
Bulk supplies	2.3	2.4
Infrastructure charge receipts	2.2	2.6
Trade effluent	3.6	3.9
Cesspools	3.9	2.9
New connections	1.9	2.5
Adoptions (see note (a) below)	4.0	3.6
Other services	7.1	7.2
Total revenue before amortisation of regulatory settlement	406.0	412.8
Amortisation of provision for regulatory settlement payments	11.2	12.1
Total revenue	417.2	424.9
Other operating income (see note (c) below)	0.8	0.8
Income from subsidiary	1.1	–
Other income	–	0.1
Profit on disposal of fixed assets	1.1	0.8
Interest receivable (note 6)	1.4	0.2
Interest revenue from SWSG Limited (note 6)	–	4.0
Total income	421.6	430.8

* Figures have been restated to show £1.2 million previously included within Non-household – measured as Household – measured. Total revenue from water and sewerage services for the year to 31 March 2021 remains as previously stated.

- a) Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.
- b) As reported in Note 13 the company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

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

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

6. Net finance costs

	Notes	Six months ended 30 September 2022 Unaudited £m	Six months ended 30 September 2021 Unaudited (Restated)* £m
Finance income			
Interest revenue from SWSG Limited		–	4.0
Deposit income on short-term bank deposits		1.4	0.2
		1.4	4.2
Finance costs			
Interest payable on other loans		(0.6)	(0.7)
Interest paid to SWSF Ltd		(81.1)	(64.1)
Indexation of index-linked debt		(46.0)	(22.0)
Amortisation of issue costs		(0.8)	(0.8)
Amortisation of gilt lock proceeds		0.1	0.1
Amortisation of bond premium		0.3	0.3
Finance lease interest		(0.5)	(0.4)
Other finance expense		(0.8)	(1.2)
Dividends on preference shares**		(2.4)	(2.4)
		(131.8)	(91.2)
Amounts capitalised on qualifying assets		17.1	13.9
		(114.7)	(77.3)
Movements on derivative financial instruments	11	754.0	(346.9)
Net finance income/(costs)		640.7	(420.0)

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

** Dividends due to Class B preference shareholders of £70 per share for the period ending 30 September 2022 totalled £2.4 million (30 September 2021: £2.4 million). Of this amount £0.1 million was paid during the year (2021: £nil) with £2.3 million accrued at 30 September 2022 (2021: £2.4 million). The cumulative balance sheet liability for unpaid preference share dividends at 30 September 2022 was £2.3 million (2021: £9.7 million) with accrued dividends due to 31 March 2022 of £12.2 million being settled in the period.

7. Taxation

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

Tax on profit/(loss) on continuing operations

	Six months ended 30 September 2022	Six months ended 30 September 2021
	Unaudited	Unaudited (Restated)*
	£m	£m
Current tax:		
In respect of the current period	–	–
Total current tax charge	–	–
Deferred tax:		
Origination and reversal of temporary differences	164.9	(63.4)
Adjustment in respect of prior years	–	(0.6)
Effect of corporation tax rate change	–	61.6
Total deferred tax charge/(credit)	164.9	(2.4)
Total tax charge/(credit) on profit/(loss) from continuing operations	164.9	(2.4)

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

In line with the requirements of FRS 104, the tax charge for the six months ended 30 September 2022 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 2023.

An increase in the main rate of corporation tax from 19% to 25% effective from the 1 April 2023 was enacted in the Finance Bill 2021, and deferred tax balances at 30 September 2022 were calculated based on the increased rate. The total deferred tax charge of £164.9 million includes £5.7 million credit relating to super deductions, calculated at the rate of 25%.

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

Deferred tax

	Six months ended 30 September 2022	Six months ended 30 September 2021
	Unaudited	Unaudited
	£m	£m
Arising on income and expenses recognised on other comprehensive income:		
Tax charge/(credit) on actuarial losses on defined benefit pension scheme	11.4	(3.8)
Deferred tax movement due to rate change	–	8.6
Total deferred tax charge recognised in other comprehensive income	11.4	4.8

8. Dividends

	Six months ended 30 September 2022	Six months ended 30 September 2021
	Unaudited	Unaudited
	£m	£m
Equity dividends:		
– Ordinary	–	–
	–	–

9. Intangible assets

	£m
Cost	
At 1 April 2022	231.1
Additions	13.7
Disposals	(1.0)
At 30 September 2022 (unaudited)	243.8
Accumulated amortisation	
At 1 April 2022	131.1
Charge for the period	9.6
Disposals	(1.0)
At 30 September 2022 (unaudited)	139.7
Net book amount	
At 30 September 2022 (unaudited)	104.1

10. Property, plant and equipment

£m

Cost

At 1 April 2022	10,218.3
Additions in the period	320.6
Disposals	(26.4)

At 30 September 2022 (unaudited) 10,512.5

Accumulated depreciation

At 1 April 2022	3,505.9
Charge for the period	157.9
Disposals	(26.4)

At 30 September 2022 (unaudited) 3,637.4

Net book amount

At 30 September 2022 (unaudited) 6,875.1

11. Investments

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited £m	Audited £m
Shares in subsidiaries:		
Southern Water Services (Finance) Limited	–	29.2
SW (Finance) I Plc	–	–
SW (Finance) II Limited	–	–
Total investments	–	29.2

The company has the following direct investments in subsidiary undertakings at 30 September 2022:

	Registered Office	Class of share capital	Activity
Southern Water Services (Finance) Limited (SWSF)	Ugland House, PO Box 309, George Town, Grand Cayman	Ordinary (100%)	To raise debt finance
SW (Finance) I plc	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant

SWSF is tax resident in the UK for tax purposes. The directors are satisfied that the carrying value of the investment in SWSF is supported by the underlying assets and activities of SWSF.

On 13 October 2021, two entities, SW (Finance) I plc and SW (Finance) II Limited, were incorporated as part of the process to remove the Cayman Islands-registered entity, SWSF. Both of the new companies are wholly-owned by Southern Water Services Limited.

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 and the substitutions were completed on 3 October 2022.

On 30 September 2022, Southern Water Services Limited repaid an intercompany loan of £30.25 million to SWSF, and SWSF paid £29.2 million as a return of investment to Southern Water Services Limited.

On 3 October 2022 the substitution of Southern Water Services (Finance) Limited with SW (Finance) I PLC and SW (Finance) II Limited as Issuer/Borrower of the Bonds and Artesian loans was completed.

*STID Proposal means a proposal or request made by the Security Group Agent in accordance with the Security Trust and Intercreditor Deed (STID) proposing or requesting the Borrower Security Trustee to concur in making any modification, giving any consent or granting any waiver under or in respect of any Common Document.

12. Derivative financial instruments

Categories of financial instruments at fair value

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Inflation swaps	74.8	45.6
Total derivative financial assets	74.8	45.6
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Inflation swaps	(1,475.6)	(2,188.9)
Total derivative financial liabilities	(1,475.6)	(2,188.9)

Changes in value of financial instruments at fair value

	Six months ended 30 September 2022	Six months ended 30 September 2021
	Unaudited	Unaudited
	£m	£m
Movements on derivative financial assets at FVTPL	29.2	(33.9)
Movements on derivative financial liabilities at FVTPL	713.3	(321.1)
Total movements on derivative financial instruments at FVTPL	742.5	(355.0)

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

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

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

13. Regulatory settlement liability

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
At 1 April	78.8	99.8
Decrease in period/year	(12.5)	(23.9)
Reassessment of provision for changes in future inflation estimates	1.3	2.9
At 30 September 2022 and 31 March 2022	67.6	78.8
Included in:		
Current liabilities	26.1	25.0
Non-current liabilities	41.5	53.8
	67.6	78.8

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25 reflecting the seriousness of the breaches identified in the investigation. These amounts have been provided for in the financial statements at outturn prices and are reassessed each year to account for the impact of inflation. After reassessment at 30 September 2022, the profile for release of the provision is as follows:

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
	1	2	3	4	5	
AMP6 Bill Rebate (2017–18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	4.87	5.57	16.95
Provision (Nominal)	35.75	23.93	25.03	27.20	27.90	139.81

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

14. Provisions for liabilities

	Environmental obligations	Other	Total
	£m	£m	£m
At 1 April 2022	6.5	–	6.5
Utilised in period	(1.3)	–	(1.3)
At 30 September 2022	5.2	–	5.2
At 1 April 2021	5.7	2.5	8.2
Utilised in year	(1.0)	(2.5)	(3.5)
Increase in year	1.8	–	1.8
At 31 March 2022	6.5	–	6.5

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited £m	Audited £m
Included in:		
Current liabilities	1.3	1.5
Non-current liabilities	3.9	5.0
	5.2	6.5

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

Environment Agency

The company is seeking to work proactively with the Environment Agency to resolve its ongoing investigation into sampling and flow compliance and reporting issues for the period 2013 to 2017 (inclusive). The Board has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from this separate investigation and further details are provided in note 20 Contingent liabilities, to these interim financial statements.

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. The first payment was made in November 2018 and payments up to March 2021 totalled £51.4 million. On 1 April 2021 the company made a scheduled contribution of £17.7 million and on 31 March 2022 an additional one-off lump sum deficit contribution of £59.6 million into the Southern Water Pension Scheme covering agreed deficit contributions through to March 2025. Future contributions will be dependent on levels of RPI, and based on the assumptions made at 31 March 2019 the expected base deficit contributions over the period from 1 April 2025 to 1 April 2029 will be paid annually and total £101.7 million.

The retirement benefit obligations shown at 30 September 2022 are based on the valuations at 31 March 2022, updated by a qualified independent actuary reflecting the movement in corporate bond yields, which impact the discount rate, and asset values. These are not formal interim valuations of the scheme assets and liabilities; however an assessment of the actuarial losses has been made and shown in the summarised statement of other comprehensive income.

The resulting net defined benefit liability has decreased significantly in the 6 months to 30 September 2022. This is primarily due to an increase of 2.35% per annum in the discount rate used to calculate the defined benefit obligation, which is based on high-quality corporate bond yields, which were significantly higher at 30 September 2022 than at 31 March 2022. The decrease in the defined benefit obligation has been largely offset by lower than assumed investment returns over the period, which is primarily due to the value of the Government Bonds / Liability Driven Investment Portfolio decreasing as a result of significant increases in gilt yields over the period.

The major assumptions used by the actuary are set out in the table below:

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	% p.a.	% p.a.
Price inflation (RPI)	3.50	3.50
Price inflation (CPI)		
– RPI less 1% pa up to 2030	2.50	2.50
– Equal to RPI after 2030	3.50	3.50
Rate of increase of pensions in payment:		
– MIS* members only***	2.50 [†]	2.50 [†]
– Old section** members only***	3.50	3.50
– New section and ex FSLP (RPI max 5%)***	3.35	3.35
– Post 5 April 1988 GMP (CPI max 3%)***	2.15 [†]	2.15 [†]
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.25	2.25
Rate of increase for deferred pensions:		
– MIS* members only***	2.50 [†]	2.50 [†]
– Old section** members only***	3.50	3.50
– New section and ex FSLP (RPI max 5%)***	3.35	3.35
– Post 5 April 1988 GMP (CPI max 3%)***	2.15 [†]	2.15 [†]
– All sections post-31 March 2013 service (RPI max 2.5%)***	2.25	2.25
Price inflation (RPI)		
Discount rate	5.10	2.75

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

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

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

[†] 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 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
Total fair value of assets	591.0	779.4
Present value of the defined benefit obligation	(605.9)	(839.3)
Deficit recognised in the statement of financial position	(14.9)	(59.9)

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

	Six months ended 30 September 2022	Six months ended 30 September 2021	Year ended 31 March 2022
	Unaudited	Unaudited	Audited
	£m	£m	£m
At 1 April	(59.9)	(116.5)	(116.5)
Employer's contributions	–	17.7	77.3
Financing charge	(0.8)	(1.2)	(2.3)
Actuarial gain/(loss)	45.8	(20.2)	(18.4)
Deficit in the scheme at end of the period	(14.9)	(120.2)	(59.9)

16. Called up share capital

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£000	£000
Equity shares		
Authorised		
46,050,000 Ordinary shares of £1 each	46,050	46,050
Allotted and fully-paid		
Ordinary shares of £1 each		
At 1 April	112	56
Issued for cash	–	56
At 30 September/31 March	112	112
Non-equity shares		
Issued		
64,665 (31 March 2022: 69,829) Class B Preference shares of £1 each	65	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.

The redeemable preference shares are presented as a liability at an amount of £64.7 million (31 March 2022: £69.8 million) including share premium of £64.6 million (31 March 2022: £69.7 million) and accordingly are excluded from called up share capital in the balance sheet.

On 26 July 2022, the company redeemed 5,164 of its Class B preference shares, at nominal value plus the premium on issue, including settlement for fixed value dividends due to that date. The total amount paid was £17.5 million, comprising principal redemption of £5.2 million and dividends of £12.3 million.

17. Share premium account

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
Equity share premium		
At 1 April	437.5	46.3
Issued for cash	–	391.2
At 30 September/31 March	437.5	437.5

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.

18. Cash generated by operations

	Six months ended 30 September 2022	Six months ended 30 September 2021
	Unaudited	Unaudited
	£m	£m
Continuing operations		
Operating profit/(loss)	25.4	(14.6)
Adjustments for:		
Fair value of sewer adoptions	(4.0)	(3.6)
Depreciation of property, plant and equipment	157.9	142.5
Amortisation of intangible assets	9.6	7.9
Receipt of grants and contributions	1.3	5.6
Difference between pension charge and cash contributions	–	(17.7)
Amortisation of grants and contributions	(0.8)	(0.8)
Operating cash flow before movement in working capital	189.4	119.3
Increase in inventories	(1.4)	(2.0)
Increase in receivables	(36.5)	(31.1)
Increase in payables	3.8	84.2
Decrease in regulatory settlement liability	(11.2)	(12.1)
Decrease in provisions	(1.2)	(2.1)
Cash generated by operations	142.9	156.2
Tax paid		
– Group relief	–	–
Net cash generated from operating activities	142.9	156.2

19. Analysis of net debt

	At 1 April 2022	Cash flow	Fair value adjustments	New finance leases	Other non-cash changes	At 30 September 2022
	Audited					Unaudited
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	157.4	64.7	–	–	–	222.1
Net liabilities from financing activities:						
Term facilities/index linked loans	(68.0)	9.1	(3.0)	–	–	(61.9)
Loans from subsidiary	(3,846.7)	30.0	(44.2)	–	(0.4)	(3,861.3)
Finance lease liabilities	(33.2)	2.4	–	(2.6)	–	(33.4)
Redeemable preference shares	(69.8)	5.1	–	–	–	(64.7)
Net interest rate swaps	(2,143.3)	(11.5)	754.0	–	–	(1,400.8)
Total liabilities from financing activities	(6,161.0)	35.1	706.8	(2.6)	(0.4)	(5,422.1)
Net debt	(6,003.6)	99.8	706.8	(2.6)	(0.4)	(5,200.0)

The non-cash movement on loans from subsidiary of £0.4 million relates to the amortisation of loan issue costs and gilt lock proceeds.

Unaudited balances at 30 September 2022 comprise:

	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total
	£m	£m	£m	£m	£m
Cash and cash equivalents	–	222.1	–	–	222.1
Derivative financial instruments	74.8	–	–	(1,475.6)	(1,400.8)
Lease liabilities	–	–	(3.7)	(29.7)	(33.4)
Borrowings due within one year	–	–	(285.0)	–	(285.0)
Borrowings due after one year	–	–	–	(3,702.9)	(3,702.9)
Net debt	74.8	222.1	(288.7)	(5,208.2)	(5,200.0)

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, and include £27.5 million of restricted cash to satisfy availability of funds as required by the terms of the securitisation.

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

20. Contingent liabilities

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

As has been reported previously, we continue to assist the EA in its investigation into legacy issues relating to wastewater sampling and flow compliance for the period 2013 to 2017. This investigation is ongoing and there have not been any significant developments during the year. We do not know when the investigation stage will be concluded, and we do not know if or when any charges against the company are likely, or how many charges may be brought, or how any specific charges might be framed. As the investigation is ongoing, and as the EA has not stated what its intentions are so far as the next steps in the investigation are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, or its timing (which could be several months or years), but will keep the situation under review.

In November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all water and wastewater companies in England and Wales. As we reported in our Annual Report at March 2022, Ofwat has opened enforcement cases into six water companies. However, all water and wastewater companies in England and Wales remain subject to their ongoing investigation as they continue to review the information they have gathered. As the investigations are ongoing, and as neither the EA nor Ofwat have stated what their intentions are so far as the next steps in the investigations are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from these investigations, or its timing (which could be several months or years), but will keep the situation under review.

The Board has taken these investigations extremely seriously and monitors and supports 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.

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

There is an ongoing claim in respect of property search income going back 6 years. A number of property search companies claim the return of amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. It is a highly complex group action against multiple Defendants across the sector, with many legal, factual, and evidential issues to be resolved. It is proceeding in phases, with the stage 1 trial expected in late 2023, and it is not anticipated to be concluded for several years. The Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this claim, or its timing, but will keep the situation under review.

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 (2021: £nil).

21. Financial commitments

(a) Capital commitments

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
Contracted for but not provided for in respect of contracts placed in respect of:		
– property, plant and equipment	928.3	1,179.0
– intangible assets	14.4	22.3
Right to receive water from Portsmouth Water Limited ¹	658.0	658.0
	1,600.7	1,859.3

¹ In February 2021 the company entered into a contractual arrangement with Portsmouth Water Limited ('Portsmouth Water'), under which after constructing the reservoir, and Southern Water have laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day from 1 April 2029 as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £658 million over the period to 2100, using a discount rate of 4.98%, being the nominal return on capital allowed per the PR19 final determination, is £130.8 million at 31 March 2022 (31 March 2021: £124.6 million). The volumetric charge will be recognised as water is supplied, from 1 April 2029.

(b) The company as lessee

	Six months ended 30 September 2022	Year ended 31 March 2022
	Unaudited	Audited
	£m	£m
Lease payments under operating leases recognised as an expense in the year	2.0	3.1

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

22. Related party transactions

The immediate parent undertaking is SWS Holdings Limited.

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

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.

23. Post balance sheet events

On 3 October 2022 the substitution of Southern Water Services (Finance) Limited with SW (Finance) I PLC and SW (Finance) II Limited as Issuer/Borrower of the Bonds and Artesian loans was completed.

Also in October 2022, the company renewed its revolving credit facility (RCF) and the standstill liquidity facility for a further 5 years to October 2027. As part of this facility renewal, the overall value of the RCF was increased from £330 million to £350 million.

Independent review report to the members of Southern Water Services Limited

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the condensed income statement, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flow and related notes 1 to 23.

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 2022 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.

Basis for Conclusion

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

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). 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".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

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

Responsibilities of the directors

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

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

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

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.



Deloitte LLP

London, United Kingdom
29 November 2022

southernwater.co.uk

Southern Water
Southern House
Yeoman Road
Worthing
West Sussex
BN13 3NX

Registered no. 02366670

**Southern
Water** 
Ensuring water for life