28 November 2024

South West Water Limited

Half Year Update 2024/25

Pennon Group plc announced its results for the half year ended 30 September 2024. Following this announcement South West Water Limited is providing an update on the South West Water performance for the same period. References to the “Group" in this announcement are to Pennon Group plc and its subsidiaries. References to “South West Water”, “South West Water Group” or “SWW” are references to South West Water Limited and its subsidiaries. For the avoidance of doubt, Pennon Group plc does not provide any credit support in respect of any financial instruments guaranteed by South West Water Limited. South West Water Limited is a component part of, but not the totality of, the Group and the Group’s results or SWW’s results are not South West Water Limited’s results.

Susan Davy, Group Chief Executive Officer, commented:

“Water companies are rightly being challenged to do more for customers today and invest more for the future. We are doing both. 100% of customers across the south west found their bills affordable for the first time – five years ahead of the sector-wide pledge to eradicate water poverty. We continue to lead the way in helping customers to use less water and save more with a range of money saving campaigns and pilots. Whilst that’s led to lower wholesale water business revenues, it’s the right thing to do.

“Alongside our bill support, we are delivering record capital investment. Our supply chain ’amplify’ is up and running, delivering accelerated K8 investment to tackle the use of storm overflows. We are forecasting growth in regulatory capital of 75% over this regulatory period.

“Underpinned by solid relative operational performance, as assessed in Ofwat’s latest Water Company Performance Report , we have continued to deliver to all of our customers across South West Water or Bristol Water customer. When things go wrong, as they did for customers and businesses in and around Brixham earlier this year, we put it right, with no excuses. But we know we have more to do.

“As we look ahead, we are energised following our SWW Business Plan achieving an ‘outstanding’ ratings from Ofwat. In preparation, we are reshaping the Group and driving cost base efficiency. We are putting more resources on the front line than ever before, streamlining our support functions, with clear business lines, aligned to our four strategic priorities.

“Overall, we are well positioned for the future, with lower revenues protected by regulatory mechanisms, as we continue to focus on sustainable growth. Our financial position remains resilient to the challenges ahead, with good liquidity and a diversified debt portfolio. ”

South West Water

FINANCIAL PERFORMANCE

South West Water Group

Underlying	*H1 2024/25 SWW*
Revenue	***£371.3m***
Operating costs	*(£220.6m)*
EBITDA^	***£150.7m***
Depreciation and amortisation	*(£82.5m)*
Operating profit	***£68.2m***
Net interest charge	*(£80.2m)*
(Loss)/profit before tax	***(£12.0m)***
Non-underlying items before tax	*(£19.5m)*
(Loss)/profit before tax	***(£31.5m)***

South West Water Group includes South West Water Ltd and its subsidiaries including South West Water Finance plc and Bristol Water plc.

Financial results for H1 2024/25

- Results for H1 2024/25 in line with management expectation[1]
- On a like for like basis, lower revenues in South West Water ('SWW') compared to H1 2023/24 driven by successful water demand and customer initiatives resulting in a loss before tax on both an underlying and statutory basis, with regulatory revenue mechanisms in place to protect future recovery
- Capital expenditure run rate is slightly lower than H2 2023/24, but increased by £65.5m on H1 2023/24, as we invest to secure operational improvements
- Solid relative performance for the wholesale water business in respect of common Outcome Delivery Incentives (ODIs)
- Balance sheet for SWW is robust with total SWW Group RCV gearing of 64%
- Strong investment grade credit ratings with liquidity of c.£475m in place to support continued investment
- Return on regulated equity for SWW is relatively strong, equating to 10.8% on a nominal, actual balance sheet basis, and 6.0% on a real notional WaterShare basis

Reshaping our business

- Four clear business units established focused on Water Services, Wastewater Services, Pennon Power and Retail Services, aligned with our four strategic priorities

- The programme is targeted to deliver the synergies identified through the acquisition of Bristol Water in 2021,with c.£18m annualised savings delivered in H1 2024/25 in Bristol Water, we are on track for the c.£20m targeted by the end of 2024/25
- right size and reshape the Group to ensure we have resources focused on our priorities – bolstering front line staff by c.100, and ensuring we have a best-in-class customer service platform to serve our customers

Investment driving benefit

- SWW capital expenditure in H1 2024/25 broadly in line with the K8 run rate; delivering investments to meet our K7 commitments, support performance in our ODIs and respond to operational incidents as well as accelerate agreed K8 transitional spend and early start planning and design activities
- Investment in water resource diversification continues with the completion of the abstraction and new water treatment works at Rialton – supplementing resources in Cornwall by c.4%, bringing the cumulative resource position to 34% since 2022, with Devon benefitting from the cumulative 30% uplift in availability reported in the 2023/24 results
- Water quality investments are on track including the two new treatment works in Bournemouth – the treatment works will serve c.85% of the population of Bournemouth – with the first works on track for commissioning by the end of 2024/25
- Tackling sewer overflow spills through our WaterFit 2025 programme - preventing c.12,500 spills with over c.350 interventions, with two thirds of our top spillers in 2023 resolved this year
- Supporting customers with c.£110m customer benefit for K7, including innovative tariffs driving water efficiency and affordability

Strong relative sector performance

- Upper quartile performance in: SWW on internal sewer flooding and water quality for water and sewerage companies; Bristol Water on customer service.

Underpinned by an 'outstanding' Business Plan for K8

- SWW's Business Plan for Bournemouth, Bristol, Cornwall, Devon, and the Isles of Scilly categorised as outstanding and recognised as a 'leading plan' in July
- SWW Draft Determination reflects minimum c.30% RCV growth to 2030, with a cost of capital protected against reduction between Draft and Final Determinations, with 30bps upside potential

- Representations made to Ofwat in respect of risk return balance (particularly focused on ODIs), providing additional evidence for our totex investments, requesting that natural rates are applied for capital charges and the balance between our regions and priorities
- Final Determination confirmed as 19 December 2024

Well positioned for a period of significant growth

- We have a sustainable supply chain to deliver our K8 programme – over 1,000 schemes already underway, with transition expenditure of c.£75m for storm overflows we have launched our 'Turning the Tide' storm overflow investment programme
- Strong investment grade credit ratings secured, with £2.5bn EMTN programme launched and an inaugural £400m public bond issuance. We have access to good liquidity funding through our sustainable financing framework to support our growing capital programme

Notes:
All percentage movements are on a half on half basis unless otherwise stated
^ Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items
[1] As set out in the Pennon Group plc Trading Statement in September 2024

For further information, please contact:

Institutional equity investors and analysts

Debt investors

Chris Tregenna – Group Treasurer 01392 446 688

GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

Water companies are rightly being challenged to do more for customers today and into the future. We are doing both, with good progress in K7, ensuring we are well positioned for the delivery of our 2025-30 (K8) Business Plan and in laying the foundations for sustainable future growth.

Our c.4,000 colleagues who live and work in the communities we support, care passionately about what we do, each day and I couldn't be more proud. Our customer and community roadshows continue to ensure we are hearing first-hand what matters most and as we fix the things they care about. From Bristol to Bournemouth, Devon, Cornwall, and the Isles of Scilly, we continue to help customers to use less and save more with a range of money saving campaigns and pilots, leading the way.

Whilst South West Water ('SWW') revenues are lower on a like for like basis due to our water efficiency initiatives, it's the right thing to do and is protected by future regulatory mechanisms.

Reshaping our business to align with our four strategic priorities

To support the delivery of our "outstanding" rated Business Plan for SWW we are reshaping the Group. We are putting more resources on the front line than ever before, with clear business lines, aligned to our four strategic priorities.

With Managing Directors in place for Water Services, Wastewater Services, Pennon Power and Retail Services, we have also commenced a Group-wide reshaping programme ensuring we have the right resources and capabilities, with more resources on the front line, supported by expert and streamlined corporate functions. Our supply chain partnership 'amplify' has already been stood up and is on track to deliver £75m of accelerated investment to kick start our plans to reduce storm overflows.

Investment driving benefits

With over £300m of capital investment in SWW in the first half of 2024/25, we are investing to make sure we make good operational progress on our four priorities in the long term. We are well prepared to deliver almost double the rate of investment from K7 ending the period at the K8 run rate.

Building water resources, improving water quality

Our investments mean we are making good progress in providing a more resilient and diverse portfolio for water resources across Devon and Cornwall. This has been a monumental undertaking, with teams across South West Water and our supply chain partners. Blackpool pit has been fully operational since the end of March with construction completed at the new treatment works at Rialton. We have supplemented capacity in Cornwall by 4% in this half year, with 34% cumulatively achieved since 2022, alongside the 30% uplift to Devon. Overall, water resource levels are at 80% across Devon and Cornwall, and we achieved 100% supply demand balance index for the first time in the 2023/24 EPA.

There are always two sides to the coin to ensuring a sustainable supply demand balance, and reducing demand is also key to future resilience. Our sector leading demand reduction schemes are focused on supporting customers to use less and save money. Leading with our 'Water is Precious' water efficiency campaign targeting both residents and visitors, we are also trialling several firsts for the region with progressive tariff trials. In Cornwall residents were given £10 off bills for delivering a

5% reduction in consumption, and we have also launched innovative trials including rising block tariffs and seasonal tariffs. Early analysis shows a c.2-9% reduction in demand from these trials.

Whilst we are focused on protecting water resources, safe, clean drinking water remains customers' number one priority and we continue to make good progress in rolling out our successful Quality First culture and training programme in Bristol.

The incident earlier in the year in Brixham highlights just how important it is that all customers can have confidence in their water supply. We continue to work with the Drinking Water Inspectorate on the lessons learned from the incident. We supported customers throughout, ensuring homes and businesses had access to bottled water, and went over and above our customer promise of £15, with customers compensated to the equivalent of a year's annual bill, given the rarity of the incident.

Our primary focus throughout was the health and safety of our customers and the 800 strong team who worked tirelessly around the clock to restore clean, safe drinking water to customers and businesses affected. Nothing mattered more, and over the period, SWW flushed over 34km of water pipes 27 times at high velocity to clean network pipes, with 17 phases of ice-pigging and swabbing the network, and installed ultraviolet (UV) solutions and microfilters to provide barriers. Over 1.2km of new pipework was laid to provide future resilience across the network.

Our underlying water quality is improving. With SWW upper quartile for water and sewerage companies, we are confident that we can do even more as we share best practice.

For Bournemouth customers, we continue to make good progress with upgrades to provide state-of-the-art water treatment works at Alderney and Knapp Mill. In Devon and Cornwall, we are on track to deliver improvements at four works and our tactical investments in Bristol – ahead of significant investment in K8 – are showing improvements on last year's performance.

Tackling storm overflows and pollutions

Tackling storm overflows is a priority, and there's no doubt we have been challenged with high rainfall and the third wettest October 2023 to August 2024 since records began. Ground water levels have remained exceptionally high with a corresponding increase in the headline number of storm overflow spills. However, beneath the headlines our investments are working, having resolved two thirds of our highest spillers from 2023, and preventing c.12,500 spills through c.350 interventions since 2022. Importantly, we have maintained our sector leading performance for internal sewer flooding and upper quartile for external flooding incidents.

Our WaterFit investments are focused on:

- reducing the flows into our network, with 57km of sewers relined to reduce infiltration and completing over 12 hectares of sewer separation
- increasing storage at 60 sites, nearly tripling our storage capacity to capture flows that otherwise would have split, returning them for treatment after the storm event
- increasing treatment capacity at 15 wastewater treatment works
- and maximising existing capacity at 90 sites through interventions such as increasing weir heights and flow optimisation.

With our region's 860 miles of coastline, we are rightly focused on improving our bathing beaches, with a 12% reduction in the number of spills during the 2024 bathing season and maintaining 100%[2] quality standards for the fourth year in a row.

[2] For those beaches impacted by our own assets on a like for like basis

Six new bathing water designations were made in 2024, and we are working to support catchment schemes to ensure the designations meet the highest standards. Three have already met standard, the remaining three are where our assets have a limited impact, so we are working to understand other upstream sources to support improvements.

We also recognise that there is still more to do on pollutions. We have some of the lowest absolute levels of serious pollutions across the sector, and we have not had a Category 1 incident since 2018. We remain focused on driving improvements to overall levels for Devon and Cornwall. Reducing levels of Category 3 pollutions remains a top priority.

Historically, the majority of our pollutions occurred in the network and the work we have done here is working with c.40% reduction in network incidents over K7. We have seen improvement underlying performance at our treatment works but our focus has now turned to our pumping stations, where resilience to the weather and increased flows has been challenging. We are responding with improved site MOTS and enhanced cleansing as well as tackling power resilience. We are also focused on up-skilling teams so we are better equipped to mitigate and react to pollution events.

Driving environmental gains

Customers and communities across our region live, relax and work around our bathing beaches and more and more people are using our rivers and water courses all year round.

Our award-winning catchment management programme is leading the way for biodiversity gains as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience. Activities range from building ponds, improving farm tracks, slurry storage, planting trees and creating buffer strips to catch and filter water, as well as peatland restoration that is benefiting from third-party contributions. Overall c.135,000 hectares have been improved, with a c.£25m ODI benefit forecast for K7.

We are supporting six newly designated bathing waters this year four of which are on the Dart Estuary. We are improving water quality by reducing the amount of post treatment phosphorus by c.80% at 37 sites, and have improved RNAGs[3] over K7 from 19% to 12%.

Supporting affordability, delivering for customers

In tackling affordability, we are doing two things, keeping bills as low as possible and supporting those who are vulnerable. By focusing on efficiency, we have kept bills below inflation and our bill in the South West is lower now (in actual value) than it was 10 years ago, with the average bill now less than £1.50 per day.

Whilst bills are lower, we are supporting more customers than ever before with over 140,000 across the Group benefitting from our support tariffs. By unlocking over £110m of financial support we have increased affordability to 100% for customers in South West and Bristol – on track to meeting our pledge of having zero customers in water poverty by March 2025 and five years ahead of the sector. We continue to support customers to use less and save more with our progressive charges trials.

Key to building trust is reducing complaints and with Bristol recognised as a top performer for complaints and customer service, we see opportunities for improvements across the Group – with South West Water reducing billing complaints by 18% last year and we see opportunities to share best practice from Bristol Water across our regions.

[3] RNAGs – Reasons for Not Achieving Good status

Delivering strong relative sector performance

Against our customer commitments, c.70% of our ODI commitments are ahead or on track and as outlined in Ofwat's Water Company Performance Report we are delivering good relative performance in the sector. We are industry leading or upper quartile in a number of measures including internal sewer flooding and unplanned outages in South West, quality and and in customer service in Bristol.

The common ODI framework has been challenging across the sector, with the majority of companies in net penalty for water and wastewater measures, with significant outperformance largely achieved on bespoke measures during this period.

As we enter the next regulatory period with the majority of measures common, our relative position puts us in a solid position.

While we are targeting an EPA 2-star rating for 2024, 4-star EPA status remains our focus. In recognition of the progress we are making and the challenges we face from the weather and topography, Ofwat has set a target of 2028 for achieving 4-star status. Pollution incidents remain the key element of this and while we have seen improvements in underlying performance across our networks and treatment works, we continue to focus on ensuring our pumping stations are resilient to the high flows we are experiencing. The Environment Agency's consultation on the revised EPA is underway and we are contributing to ensure an appropriate performance framework for the future – which truly reflects overall environmental performance.

Underpinned by an 'outstanding' Business Plan for K8

We were delighted to be awarded 'outstanding' status on our SWW business plan by Ofwat, recognising the quality and ambition within our proposals. The Draft Determination provides a floor for RCV growth of c.30% for SWW to 2030. The cost of capital is protected against reduction, with 30bps upside if we meet four criteria by 2028, including 4-star EPA.

We had one of the lowest levels of totex reductions of any water and sewerage company in the sector at c.8% reflecting the efficient Business Plan we had submitted, and we positively received all funding for our storm overflow plans – allowing us to accelerate £75m of early start transition spend, which will be included in our March 2025 RCV, and returns applied over K8.

Given the "outstanding" status for our plan, our response to the Draft Determination covered four key areas, many of which were consistent across the sector:

- we need to ensure a balance of risk and return with targets set at stretching but achievable levels that show upper quartile performance in one area can substantively offset underperformance in another. Whilst we welcomed the recent Outcome Adjustment Model proposed by Ofwat the underlying framework, targets and incentives also need to be balanced;
- our response provided further evidence and justification to support a return to the expenditure levels within our submitted plan;
- we recognise the need to balance customer bills, particularly given the scale of investment planned to 2030, however our customer research shows that this should not be at the expense of future customers and therefore capital charges (specifically RCV run-off) should reflect the natural rates;
- as a Group that supports customers from as far west as the Isles of Scilly to Surrey in the east, we wanted to ensure our investment plans were balanced both between water and wastewater, but also across our regions where totex reductions had been greater in Bristol, SES and the Isles of Scilly, compared with Devon and Cornwall,

with the Final Determination due on 19 December.

Talented people doing great things for customers and each other

As a purpose led business, we recognise that the best way to deliver for customers is to focus on our people. Key to this is embedding our new business operating model, led by the four Managing Directors as we drive end to end accountability for delivery. We are ensuring we get the balance right between protecting and improving local services for customers and communities, through our brands, and using our size and scale to deliver efficient and effective support services across the Group. This includes having more resources on the front line than ever before and as we support the wider supply chain. We are also focused on making it simpler, easier and cheaper to work together by reducing duplication and management layers, with clear roles and responsibilities, with everyone living our values.

At the same time, we continue to invest in future skills and capabilities. We are the only water company to have been recognised as a Top 100 employer for apprenticeships for the second year running, as we are ahead of plan to offer 1,000 apprenticeships and graduate roles by 2030, with 680 to date. We've delivered over 4,000 courses at our growing number of internal training facilities and in November, were recognised for our "earn and learn" approach to development, with platinum status awarded to us by the '5% Club' who share an ambition to shape the future of workforce development and national prosperity.

We continue to promote social mobility, through the Social Mobility Business Partnership giving young people the opportunity to dive into their local water company, so important in a region where deep seated social mobility issues exist, and where the South West ranks the third worst for upward occupational mobility.

Well positioned for period of significant growth

As we move towards K8, we have built our sustainable supply chain through our delivery partners, establishing 'amplify', an alliance with six tier one and multiple tier two partners, supported by a network of local sub-contractors which is already delivering on over 1,000 schemes.

We have a robust financial position with good liquidity having secured £550m of funding in H1 2024/25. This provides appropriate liquidity as we complete the K7 period and look ahead.

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

South West Water

SWW includes the operating businesses trading as South West Water, Bournemouth Water and Bristol Water.

SWW's statutory and underlying revenue for H1 2024/25 was £371.3m, £6.5m or 1.7% lower, compared with H1 2023/24. This was driven by lower customer demand, following our 'Water is Precious' water efficiency campaign, which more than offset tariff increases of c.3% and new customer numbers.

Underlying operating costs of £220.6m increased by £9.9m or 4.7% with increased non-commodity power costs, inflationary increases in employment costs as well as the cost of implementing the new digital customer services platform. These increases were partially offset by lower wholesale commodity power costs and efficiency savings.

SWW's underlying EBITDA reduced by 9.8% to £150.7m (H1 2023/24: £167.1m) reflecting the combined impact of lower revenue and higher costs in the period. Depreciation increased by 3.6% to £82.5m as our capital investment programme starts to impact the depreciation charge. Underlying operating profit also decreased by 22.1% to £68.2m (H1 2023/24: £87.5m) as a result of these factors.

SWW's statutory loss before tax was £31.5m (H1 2023/24: profit of £1.2m) after non-underlying costs of £19.5m (H1 2023/24: £5.4m). £16.3m of non-underlying costs related to the Brixham water quality incident and included enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. A further £3.2m of non-underlying costs were incurred in connection with restructuring and reshaping actions in SWW.

SWW's capital expenditure was £306.0m, in line with expectations in the Trading Statement, continuing the increased investment path from H2 2023/24. This was largely driven by a c.55% increase in investment in tackling storm overflows and in reducing the risk of pollution incidents, sewer blockages and collapses. Clean water investment increased by c.17% driven by continued investment in new water treatment works. There were also increases due to transitional spending and targeted incident responses in the period.

SWW PERFORMANCE

Net finance costs

The net interest charge of £80.2m (H1 2023/24: £80.9m) was broadly flat on the prior period, with the lower inflationary environment and benefit of a lower effective interest rate^ (5.3%) offsetting the higher debt levels consequent on increased capital expenditure.

The non-cash element of our finance charges, which accretes to the debt principal, was c.£11m (H1 2023/24: c.£29m).

With the majority of debt in SWW, our efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.3% (H1 2023/24: 5.8%) for SWW. The Group continues to secure efficient funding for SWW to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury Policy, which is achieved both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked. SWW has a lower proportion of index-linked debt than the industry average.

SWW's net debt at 30 September 2024 comprised:

At 30 September 2024	Notional	Proportion	Industry average*
Fixed/swapped	£2,676m	75%	39%
Floating	£430m	12%	11%
Index-linked	£455m	13%	50%
Total	**£3,561m**	**100%**	**100%**

*UK Water position at 31 March 2024 as per published Annual performance Reports – weighted average

From March 2025, c.£600m of our K7 interest rate swaps mature reverting to floating rate. In preparation for K8, over £500m of swaps have been executed to fix our floating rate portfolio.

In addition to our effective interest rate hedging, the short term RPI-linked swaps issued in 2022 will be maturing in 2025.

Capital expenditure

Capital expenditure	H1 2024/25	H1 2023/24
South West Water	**£306.0m**	**£234.4m**
Water	£175.2m	£150.2m
Wastewater	£130.8m	£84.2m

SWW capital expenditure in the first half was £306.0m, driven by a £71.6m increase in SWW investment. Investment reflects the ongoing focus on transitioning to K8, as well as delivering the final regulatory commitments for K7. With more resilient water resources, excellent progress on our state-of-the-art water treatment works in Bournemouth and 100% water quality at bathing waters, our investment is delivering benefits as we close out the regulatory period.

Robust liquidity and funding position

At 30 September 2024, SWW had £475.0m of cash and committed facilities contributing to a resilient balance sheet and strong liquidity position. This consisted of cash and cash deposits of £105.0m (including £26.0m of restricted funds representing deposits for future debt obligations) and £370.0m of undrawn committed facilities, providing SWW with enough funding to support its obligations for at least the next 12 months. SWW continues to receive support and enquiries from a diverse group of debt providers, showing investor appetite to support SWW, notwithstanding sector volatility.

We secured strong investment grade credit ratings at South West Water Limited, which enabled us to launch a £2.5bn EMTN programme. This EMTN programme will allow us to diversify our funding opportunities and positions us well for funding the K8 investment programme. SWW's gearing based on net debt at 30 September 2024 and forecast shadow RCV was 64.0%, within our K7 policy. SWW completed two debt raises totalling £550m at fixed rates. These were:

- £150m in US private placements with an average maturity of 15 years
- £400m inaugural public bond issuance through our EMTN programme

These issuances signal the move to more benchmark-sized transactions in both the private placement and public bond markets as the scale of capital expenditure and ongoing refinancing grows. The bond followed the launch of our £2.5bn EMTN programme, which allows us to issue funding across the forthcoming regulatory period to fund the growth in the business and improvement in services reflected in our Business Plan.

SWW debt

SWW net debt at 30 September 2024 was £3,561.3m (31 March 2024: £3,294.0m).

At 30 September 2024, SWW's net debt/forecast shadow RCV gearing ratio was 64.0% (31 March 2024: 63.5%), reflecting increased capital expenditure and reduced operating cashflows.

SWW's gross debt at 30 September 2024 was £3,666.2m (31 March 2024: £3,323.3m). The debt has a maturity of up to 33 years with a weighted average maturity of 14 years.

Return on Regulated Equity^

During K7 to date we have continued to deliver SWW RORE outperformance (excluding SES Water). Cumulatively to H1 2024/25 SWW Group RORE was 6.0% (6.1% in South West and 4.8% in Bristol) on a real notional basis. On an actual gearing basis, returns increase to 6.5% real and 10.8% nominal. This equates to c.£176m of cumulative outperformance to H1 2024/25. This consists of c.£308m financing outperformance, net of c.(£90m) totex^ overspend (including tax impact), and c.(£42m) ODI net penalty impact[9]. This has enabled the funding of additional capital investment initiatives.

The cumulative benefits from the structure of our debt book on financing costs persist but have reduced due to the impact of falling inflation. Additional expenditure to deliver our K7 commitments is more than offsetting positive outperformance delivered earlier in the regulatory period.

ODI performance across the SWW Group has continued to be dominated by pollutions performance, partly mitigated by areas of outperformance such as internal sewer flooding, catchment management and bathing waters. Overall a net penalty is anticipated in 2024/25.

The table below summarises the cumulative average RORE position for South West and Bristol over K7 to 2024/25:

	South West Water	**Bristol Water**
Base return	4.0%	4.5%
Financing	4.0%	1.0%
Totex	(1.3%)	1.0%
ODI	(0.6%)	(1.7%)
Cumulative RORE	**6.1%**	**4.8%**

[9] Excludes the ODI impact of the third party Carland Cross event in 2021

Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods

(i) Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

(ii) Effective interest rate

A measure of the mean average interest rate payable on net debt associated with South West Water Limited's group of companies which excludes interest costs not directly associated with net debt. This measure is presented to assess and monitor the relative cost of financing for South West Water.

	H1 2025	H1 2024
	£m	£m
Net finance costs before non-underlying items (note 6)	88.6	77.3
Remove: net finance (cost)/income before non-underlying items not associated with South West Water Limited's group of companies	(8.4)	3.6
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**80.2**	**80.9**
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	0.6	0.7
Capitalised interest (note 6)	10.2	4.1
Net finance costs for effective interest rate calculation	**91.0**	**85.7**
Group net debt (opening) (note 14)	3,809.2	2,965.4
Remove: opening net debt not associated with South West Water Limited's group of companies	(514.5)	(100.1)
Opening net debt for calculation	**3,294.7**	**2,865.3**
Group net debt (closing) (note 14)	4,232.2	3,326.8
Remove: closing net debt not associated with South West Water Limited's group of companies	(670.9)	(235.4)
Closing net debt for calculation	**3,561.3**	**3,091.4**
Average net debt (opening net debt + closing net debt divided by 2)	**3,428.0**	**2,978.4**
Effective interest rate (%)	**5.3**	**5.8**

(iv) Effective cash cost of interest

Effective cash cost of interest for South West Water Limited's group of companies is based on the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	H1 2025	H1 2024
	£m	£m
Net finance costs for effective interest rate calculation (as above)	**91.0**	85.7
Remove non-cash interest accrued (income statement indexation charge)	**(12.6)**	(28.7)
Net finance costs for effective cash cost of interest calculation	**78.4**	57.0
Opening net debt (as above)	**3,294.7**	2,865.3
Closing net debt (as above)	**3,561.3**	3,091.4
Average net debt (opening net debt + closing net debt divided by 2)	**3,428.0**	2,978.4
Effective cash cost of interest (%)	**4.6**	3.8

Alternative performance measures (continued)

(iii) Return on Regulated Equity (RORE)

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.3.9% for South West Water and c.4.4% for Bristol Water for the period 2020-25) plus Totex (see ix) outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The three different types of return calculated and added to the base return are:

- Totex outperformance – Totex is defined below, and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination.

Regulated equity is a notional proportion of regulated capital value (RCV which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation). For 2020-25, the notional equity proportion is 40.0%.

References are made to Ofwat RORE and Watershare RORE which utilise differing inflation assumptions and the disclosure of tax.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year.

(iv) Total Expenditure (Totex)

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

(v) Outcome Delivery Incentive (ODI)

ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.

(vi) Regulatory Capital Value (RCV)

RCV has been developed for regulatory purposes and is primarily used in setting price limits.

RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of totex expenditure, changes in inflation rates and other regulatory adjustments.