



Who owns Southern Water and how is it funded?

Southern Water Services Limited is a privately owned company. It's owned by Greensands Holdings Limited (GSH). All companies in the group are UK tax resident and liable for tax in the UK. GSH is owned by a group of long-term investors representing infrastructure investment funds, pension funds and private equity.

In September 2021, a fund managed by Macquarie Asset Management acquired a majority stake in GSH, with an investment of over £1 billion of new equity into the group. This money was used to improve our debt position and operational performance, none of it was paid to existing shareholders.

Why we raise finance?

We raise finance so we're able to update and maintain our sites and networks and repay loans. We can't just rely on loans to pay for everything, so our shareholders contribute approximately 30% of the money we need. They also act as a financial buffer in case we need to absorb any financial risk.

We also use the money we make from our customers' bills to help us run the business.

This money goes towards maintaining our sites and networks and helps to pay the interest on the loans we take out. We also use it to provide a return to our shareholders (dividends) who help to finance the business. We only pay these dividends when we meet certain business performance targets. We haven't paid any dividends to our shareholders since 2017.

Our economic regulator, Ofwat, makes sure that we can only charge our customers a certain amount, which is benchmarked against our peers.

The charts on the next page show where the money comes in and where it gets spent, based on our business plan 2020–25, which set the limits on customer bills for the five-year price period.

GSH investors

MSCIF Wight Bidco Ltd – Funds managed by Macquarie Asset Management on behalf of long-term investors including pension funds and insurance companies.

IIF Int'l SW UK ParentCo Ltd – A constituent entity of the Infrastructure Investments Fund, a fund advised by JP Morgan Asset Management (JPMAM), a largescale global asset manager advising institutional investors.

UBS Asset Management – Shareholding advised by UBS Asset Management, a large-scale global asset manager.

Hermes Infrastructure funds – Hermes Infrastructure is part of Federal Hermes International and is a specialist infrastructure manager operating a UK-focused shared investment platform.

Other minor shareholdings held by infrastructure investment companies.



Key

- Main customers 79%
- New borrowings 16%
- Developers 3%
- Non-price control 2%



Key

- Capital investment 45%
- Operating costs 36%
- Interest 15%
- Rates and licences 3%
- Working capital 1%

Where the money comes from

Main customers – income from our core water and wastewater services.

Developers – income from services to developers for infrastructure and new connections to our network.

Non-price control – income from activities not required under our licence, which involve the use of our sites and networks. For example, treating tankered waste.

New borrowings – additional financing raised to support delivery of engineering and construction schemes.

Where the money goes

Operating costs – Day-to-day running costs include wages, power, chemicals, materials and bad debt* costs.

Capital investment – includes investment to maintain our network and treatment works as well as the construction of new sites and networks to enhance treatment standards and cater for growth.

Rates and licences – business rates on buildings, wastewater treatment and water supply works and Environment Agency licences.

Working capital – the timing and growth of the difference between expenditure and receipts.

Interest – is interest on money we have borrowed to finance improvements to the business over the long term.

*Bad debt = the cost of providing for unpaid customer charges.

How do we decide what to spend money on?

Every five years we carry out a public consultation to develop a five-year ‘asset management plan’, or AMP, as part of what’s called a regulatory price review process. This involves speaking to our key stakeholders, customers and partners, to make sure we have a clear idea of their priorities, which inform our plans alongside fulfilling statutory obligations prescribed by our regulators.

These priorities and obligations include delivering clean, safe water and effectively removing and treating wastewater at an affordable price, but also focus on supporting our customers in vulnerable circumstances,

securing future resources and protecting and enhancing our natural environment.

This five-year plan is then submitted to our regulator, Ofwat, who decides how much we can spend on certain activities – as part of the price review process. Ofwat delivers this decision in a Final Determination which we use to create our five-year delivery plan. This is when we work out how much money our shareholders need to invest to top up the spending allocated by Ofwat.

We use the money our shareholders invest to fund our capital investment schemes – large construction projects – as this means our customers are not paying directly for future improvements.