Financial performance

Financial performance

The financial results have been prepared in accordance with FRS 101 and the accounting policies of the company as set out in note 1 to the Financial statements.

Read more in the **Financial statements** on pages 201 to 251

Financial results

The financial results are summarised in the table below:

	Years ended 31 March	
	2022	2021*
Income statement	**£m**	£m
Revenue	**823.5**	784.2
Amortisation of regulatory settlement payments	**21.0**	35.6
Total revenue	**844.5**	819.8
Other operating income	**1.8**	1.7
Operating costs before court fine and costs and charge for bad and doubtful debts	**(384.7)**	(360.0)
Court fine and costs	**(91.5)**	0.0
Charge for bad and doubtful debts	**(29.9)**	(34.8)
Depreciation, net of amortisation	**(324.1)**	(287.9)
Operating profit	**16.1**	138.8
Profit on disposal of fixed assets	**1.5**	0.8
Profit before interest and tax	**17.6**	139.6
Net finance costs	**(196.2)**	(155.0)
Fair value losses on derivative financial instruments	**(669.0)**	(346.1)
Loss before tax	**(847.6)**	(361.5)
Tax	**86.1**	65.7
Loss for the financial year	**(761.5)**	(295.8)

*Please refer to note 1 for an explanation of prior year presentational changes

Revenue

Revenue increased to £823.5 million (2021: £784.2 million). This principally results from the changes to our inflation-linked water and wastewater tariffs, which were agreed as part of our business plan for 2020–25 and increased by £21 million because of tariff changes.

In the current year, we billed £13 million more than we estimated at March 2021 for 2020–21 household consumption and this is therefore included within our revenues for 2021–22. In addition, we experienced a recovery of non-household revenues by £8 million following the resumption of trading after the more extensive lockdown for COVID-19 in the prior year.

In 2018–19, we made provision for customer rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period from 2020–25. These customer 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.

An analysis of revenue is provided in note 5 to the financial statements.

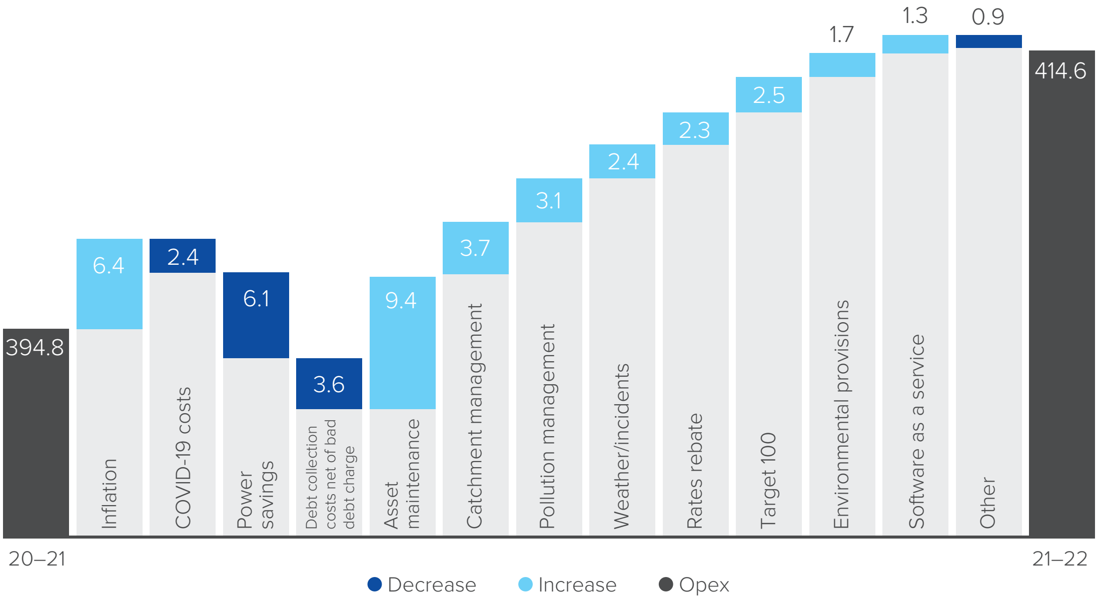
Financial performance continued

Read about our performance on pages 76 to 91

Operating costs and charge for bad and doubtful debts

Operating costs including the charge for bad and doubtful debts for the year increased by £19.8 million from £394.8 million to £414.6 million. This increase is explained in the chart below:

Movement in operating costs including charge for bad and doubtful debts £m



Over the course of the year the most significant cost reductions were:

- **COVID-19** – during 2020–21 there were additional one-off costs incurred, excluding the impact on debt collection, in relation to the pandemic.
- **Power savings** – following the successful hedging of our wholesale power costs we achieved a total cost saving of £6.1 million in 2021–22.
- **Debt collection costs** – as life has started to return to normal, following the impact of COVID-19 over the past two years, we have restarted our debt collection processes. The increased costs of debt collection activities have been offset by a reduction in our bad debt charge resulting in a net year-on-year reduction of £3.6 million in our operating costs. This reduction would have been significantly larger were it not for the pressure, currently being experienced on household budgets, from rising inflation. Our overall bad debt charge for the year was £29.9 million (2021: £34.8 million) and includes an additional £10.3 million to reflect the impact of the current economic situation on our expected future recovery of debt.

The impact of these cost reductions has been offset by a number of cost increases:

- **Asset maintenance** – we increased maintenance expenditure of our wastewater treatment assets by £9.4 million to improve our wastewater compliance and operational performance and reduce the risk of equipment failures.
- **Catchment management** – as part of the Water Industry National Environment Programme (WINEP), we are undertaking investigations and implementing schemes to improve the quality and quantity of drinking water supplies to make our catchments more resilient to our business operations, working with key stakeholders including the agricultural sector to reduce pollution risks. In addition, we started developing an approach to embed natural capital considerations into our investment decision-making process, which will enable us to assess the value of the environmental and social outcomes of projects we deliver. These activities increased our operating costs by £3.7 million this year.
- **Pollution management** – we increased the surveying, jetting and proactive maintenance of our sewerage network by £3.1 million as part of our pollution reduction programme.

- **Weather/incidents** – we incurred an additional £2.4 million compared to the prior year responding to weather related incidents, for example storm Eunice in February.
- **Rates rebate** – following a successful appeal in 2020–21, we received a one-off net reduction in our business rates charges of £2.3 million in 2020–21 as a result our charges have increased for 2021–22.
- **Target 100** – additional costs incurred in support of our water efficiency campaign to help customers reduce their personal use to 100 litres a day by 2040.
- **Environmental provisions** – in 2018–19 we made an environmental provision for ecological work to be undertaken on the Rivers Itchen and Test and the Candover Stream between 2018 and 2030. We have reviewed the likely future work required to meet these obligations and increased the provision held in respect of this work by £1.7 million in 2021–22.
- **Software as a Service (SaaS)** – during the year, the IFRS Interpretations Committee published its agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (SaaS). This has resulted in certain costs, that would have previously been capitalised as an intangible asset, being held on the Balance Sheet as a prepayment and recognised as an operating expense over the life of the contract. We had no SaaS arrangements in place in 2020–21 and the impact on our operating costs is an increase of £1.3 million in 2021–22.

Court fine and costs

As disclosed on page 38 the company was subject to a detailed investigation by the Environment Agency (EA) regarding permit breaches at some of our wastewater treatment works during the period 2010 to 2015. On 9 July 2021, the company was sentenced and fined £90.0 million plus £2.5 million of costs for these historic offences. These costs, less the provision of £1.0 million made in 2019–20 have been charged to the income statement in 2021–22.

Depreciation and amortisation

Depreciation and amortisation increased to £324.1 million (2021: £287.9 million) following the completion and commissioning of a large number of our capital investment schemes and the acceleration of depreciation in relation to assets at our Weirwood Water Supply Works where we are planning a major refurbishment. This included a number of large schemes across our wastewater treatment works network aimed at improving our wastewater asset performance together with a number of short-life IT and system-related assets.

Operating profit

As a result, operating profit decreased to £16.1 million (2021: £138.8 million), an 88% reduction, the majority of which relates to the court fine and costs described earlier.

Financing costs and profit before tax

Net finance costs increased by £45.9 million to £196.2 million (2021: £150.3 million). This increase is largely driven by higher indexation on our index-linked debt of £26.0 million and a lower level of interest capitalised during the year of £17.0 million.

The fair value loss on our derivative financial instruments amounted to £669.0 million (2021: loss £346.1 million). The primary driver for changes in the valuation are the fluctuation in UK Government bond yields, which are used to discount the future cash flows and inflation which increases the liability associated with our index-linked instruments. As government gilt yields are constantly moving and inflation has increased significantly over the past few months, the valuation of our derivative instruments is volatile. The balance sheet value represents the present value of future cash flows using financial market forecasts for inflation and interest rates. This balance sheet value does not, however, reflect the expected impact of inflation on future revenues and future Regulatory Capital Value (RCV) which is expected to more than offset the reported balance sheet value.

The loss before tax for the year amounted to £847.6 million (2021: £356.8 million loss).

Taxation

We have recognised a total tax credit to the income statement of £86.1 million (2021: £65.7 million tax credit). This differs from the credit that may be expected of £161.0 million, based on the loss before tax of £847.6 million and the current period tax rate of 19%, as described in note 10. The difference is primarily due to the disallowance of the court fine and costs from the tax calculation together with the announcement made in the government's Budget Statement in March 2021 that the rate of corporation tax would be increasing from 19% to 25%, effective from 1 April 2023. As a result of this tax rate change, a charge of £59.2 million has been recognised in the income statement for the impact of this on our deferred tax balance.

Read about Target 100 on pages 81 to 82

Financial performance continued

Cash flow statement

Overall, cash and cash equivalents decreased in 2021–22 by £182.1 million (2021: £235.2 million increase) and details of the principal movements in the cash flow are provided in the table below.

	Years ended 31 March 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 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 a fund managed by Macquarie Asset Management, the inter-company debtor issued to SWSG was repaid.
Net interest-related transactions	(123.0)	(201.1)	78.1	In total, the net cash outflow in relation to interest increased by £78.1 million. The principal reasons were: A payment of £46.9 million was made in 2021–22 (2021: £194.5 million) in relation to accrued indexation on our index-linked loans. An increase in the value of our inter-company loan with SWSF, which is used to pay the interest on our bonds of £18.1 million (2021: £39.4 million reduction).
Net movement on borrowings	(16.9)	411.0	(427.9)	During the year, we made loan and credit facility repayments totalling £16.9 million (2021: £696.2 million); no new bonds were issued during the year (2021: £1,107.2 million).
Movements in short-term investments	(285.0)	25.0	(310.0)	Funds held on deposit for periods greater than three months increased by £285.0 million in the year following the equity injection by a fund managed by Macquarie Asset Management.
Settlement of court fine and costs	(92.5)	–	(92.5)	Payment of the court fine and costs relating to the Environment Agency prosecution as disclosed on page 38.
Equity dividends paid	–	(4.0)	4.0	No dividends were paid during 2021–22. In FY21 a dividend of £4.0 million was made to SWSG to enable SWSG to make interest payments back to SWS. These historic dividend payments will no longer be required following the repayment of the loan by SWSG.
Other	(186.0)	4.3	(190.3)	The net cash movement from operating activities and our capital investment programme. Largely driven by the increase in our capital investment programme during the year which increased cash expenditure by £130.8 million and additional lump sum deficit payments made into our final salary pension scheme of £59.8 million.
	(182.1)	235.2		

*The prior year has been restated to reflect cash held on short-term deposit at 31 March 2020.

Statement of financial position

	31 March 2022 £m	31 March 2021 £m (Restated*)
Non-current assets	6,887.2	6,731.0
Current assets (excluding cash)	539.2	227.0
Cash and cash equivalents	157.4	339.5
Total assets	7,583.8	7,297.5
Current liabilities	(735.2)	(349.7)
Non-current liabilities	(6,259.6)	(5,983.4)
Total liabilities	(6,994.8)	(6,333.1)
Total net assets	589.0	964.4
Total equity	589.0	964.4

*For details of the prior year restatement see note 1 to the accounts.

At the end of the year to 31 March 2022, we had non-current assets of £6,887.2 million (2021: £6,731.0 million), an increase of £156.2 million from March 2021. This increase results from our ongoing capital investment programme, which – after depreciation – increased the value of property, plant and equipment and intangible assets by £308.8 million.

Overall, during 2021–22 our capital investment in property, plant and equipment was £569.7 million (2021: £393.5 million). This step-up in expenditure was targeted at making refurbishments to our assets to improve operational performance as well as schemes to enhance the level of wastewater treatment we undertake, for example to reduce phosphorus levels.

The increase in asset values was offset by a decrease in the value of our non-current financial derivative assets of £22.6 million and the settlement of a long-term inter-company debtor of £130.0 million as part of the investment into the group by a fund managed by Macquarie Asset Management.

Current assets increased to £539.2 million (2021: £227.0 million). Most of this increase resulted from £285.0 million held in short-term investments at March 2022 (2021: £nil). In addition, following the relaxation of COVID-19 restrictions during 2022, the value of the accrual for non-household revenue increased by £2.7 million at March 2022. This increase in accrued debtors, together with an increase in the balance on our inter-company debtor with Southern Water Services (Finance) Limited of £18.1 million, which is used to pay the interest on our loans, were the main reasons for the remaining growth in the value of current assets.

Current liabilities increased to £735.2 million (2021: £349.7 million). This was mainly caused by loans of £274.9 million, which are due to be repaid during 2022–23 and have therefore been re-classified within current liabilities at March 2022, together with an increase in the level of creditor accruals of £109.7 million. The higher level of accruals was largely the result of the acceleration of our capital investment programme which increased capital accruals by £88.7 million.

At 31 March 2022, non-current liabilities totalled £6,259.6 million (2021: £5,983.4 million). This increase of £276.2 million was principally the result of the following:

- A reduction in borrowings of £242.0 million largely resulting from the re-classification to short-term creditors of loans totalling £274.9 million which are due for repayment in 2022–23 and the repayment of loans of £16.9 million, offset by indexation on our inflation-linked bonds of £46.5 million.
- An increase in the derivative financial instrument liability of £688.3 million.
- A decrease in the deferred tax liability of £99.4 million as a result of the fair value loss on derivatives recorded for the year offset by the change in corporation tax rate effective from 1 April 2023.
- A reduction in retirement benefit obligations of £56.6 million. The final salary pension scheme was closed to future accrual on 31 March 2020. During the year, lump sum deficit payments totalling £77.3 million were made into the scheme, but these were offset by the movement in market conditions at 31 March 2022, which increased the deficit by £18.4 million, together with past service and financing costs of £2.3 million.
- The transfer of £21.6 million of the Ofwat regulatory settlement provision to short-term liabilities for rebates that will be applied through customers' bills during 2022–23.

Overall, net assets decreased from £964.4 million to £589.0 million.

Financial performance continued

Read more on page 105

Dividend policy

Our dividend policy is formulated to ensure a fair balance of reward between customers and investors. To enable the successful delivery of our business plan for 2020–25, all stakeholders must share in success: customers benefiting through enhanced service and lower bills, and shareholders earning a fair return on the equity invested.

When proposing payment of a dividend, the directors of Southern Water Services Limited, acting independently in accordance with their directors' duties and in accordance with the company's licence, will apply the following principles:

1. Determination of a base level of dividend, based on an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, we will take into account all aspects of our performance. This would reflect our overall financial performance as compared to the final business plan as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.
3. We will consider our financial resilience ahead of any dividend decision and whether any financial out-performance should be reinvested to benefit customers. This consideration will include taking into account the interests of our employees, other stakeholders, and our pension schemes.

Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of step three, we carry out an assessment of:

   a. headroom under debt covenants
   b. the impact on the company's credit rating
   c. the liquidity position and ability to fulfil licence conditions
   d. key areas of business risk.

4. We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
5. We will publish our dividend policy annually (in the Annual Report) and highlight any changes.

No dividends were declared or paid in 2021–22 (2021: £4.0 million).

Historically, the tests described above were not applied to the interim dividends of £4.0 million paid in 2020–21 to Southern Water Services Group (SWSG) as this dividend payment was instantly offset by a corresponding interest receipt from SWSG and therefore immediately repaid to the company in a 'dividend loop', resulting in no net cash outflow for the company. As part of the investment by a fund managed by Macquarie Asset Management into the group in September 2021, the inter-company loan of £130.0 million has been repaid by SWSG, removing the requirement for these dividend loop payments.

The Board has not approved the payment of preference share dividends for 2021–22 (2021: £nil). Preference share dividends are disclosed as interest in the financial statements and an accrual totalling £12.2 million in relation to the cumulative liability is included within the financial statements as an inter-company creditor.

Tax strategy and policies

Southern Water and all group companies adopt the tax strategy and policies outlined below.

Our approach to the management of tax affairs is driven by our core values of succeeding together, always improving and doing the right thing, alongside the corporate strategy of the company. We have a low-risk tax appetite and this is reflected in our management of tax.

The foundation of our tax strategy is to comply fully with tax legislation and to focus upon maintaining a strong tax compliance culture.

To enable this, we undertake regular compliance reviews both internally and externally to ensure our tax policies are consistently applied. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders, rather than use tax planning to drive or determine business decisions. The very nature of our business means we always take a long-term view on all the activities we undertake. We therefore ensure our tax strategy, and approach to tax, is sustainable, ethical, considers both social and corporate responsibilities and can stand up to external scrutiny. When faced with a decision or business case, the ongoing tax impact is always considered as part of that decision-making process.

Our approach to tax management and governance

We ensure we are fully compliant with tax laws, rules, regulations and reporting requirements in all operations. This extends to following both the letter of the law as well as the spirit of the law. A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by ensuring we pay the right amount of tax, in the right place, at the right time. We also use the expertise of professional tax advisers to ensure we maintain best practice in our approach to compliance and in circumstances when additional advice is deemed appropriate.

The day-to-day management of the tax affairs of Southern Water and all companies in the group is the responsibility of the Tax team. Roles and responsibilities within the Tax team are clearly defined. The Tax team reports to the Group Treasurer, who in turn reports to the Chief Financial Officer (CFO). The CFO is the Senior Accounting Officer (SAO) and has ultimate responsibility for the tax affairs for Southern Water and the Southern Water Group companies.

Our management of tax risk

As indicated above, we adopt a conservative approach to tax risk. Our tax management focus is on compliance, systems and governance and our tax planning is always aligned with our commercial and economic activity. All companies within the group are subject to UK tax and all companies are UK tax resident, irrespective of their place of incorporation, ensuring that each company is subject to UK tax.

Tax risk primarily emanates from the evolution and complexity of the Southern Water business, along with the ever-changing regulatory and legislative environment. We manage this risk by having an experienced Tax team dedicated to tax compliance and the identification and management of tax risks in our business.

Our Tax team works with the wider business to ensure there are sufficient processes and controls in place and determine what level of risk is acceptable. We also have a support network of industry tax experts who provide specialist tax services, check what we are doing and provide advice and guidance on new tax compliance requirements. Our Internal Audit team also carries out assurance on the control environment relating to the transactional processes underpinning our payments to the Exchequer and our collection of taxes on behalf of the Exchequer.

Our relationship with Her Majesty's Revenue & Customs (HMRC)

A key factor in our management of our tax affairs is our relationship with HMRC.

We meet all statutory and legislative requirements and we manage our tax affairs in an open and transparent way. This extends to us sharing information with HMRC, which goes beyond the normal filing of statutory returns, such as the sharing of internal audit findings so that we can be open and transparent in our approach to managing tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs with the last HMRC assessment being that we were deemed to be a 'low-risk' company.

Maintaining public trust

As previously stated, we are committed to complying fully with tax legislation, maintaining a strong culture of compliance and having open and constructive relationships with tax authorities. We do not use tax avoidance schemes or take an aggressive approach on tax planning when interpreting tax legislation.

We apply government and fiscal authority tax incentives and exemptions, where they exist. For example, the UK tax system recognises the benefit to the economy of investment in infrastructure and environmental protection through the availability of capital allowances, which reduce the corporation tax Southern Water pays. Any benefits of this are passed to our customers through reduced bills.

Southern Water and all Southern Water Group companies pay taxes in the UK and have never used offshore companies to avoid tax or levies. We have a Cayman Islands-registered subsidiary company, which was set up to issue debt in the UK (see page 107 for more information). Its Cayman Island registration does not have any impact on the tax due by the group. However, we know that this company has contributed to misconceptions about our business practices, which is why we are working towards closing it. The closure process is now substantively completed after receiving all the requisite approvals for the removal of this entity. It is anticipated that the final part of the removal process will be completed in 2022–23.

Read more on page 107

Financial performance continued

The full amount of the court fine and the associated costs awarded to the Environment Agency (EA) that were incurred and recorded in the accounts for 2021–22 has been fully disallowed for tax, i.e. Southern Water does not receive any tax benefit for this deduction.

Although our tax strategy is reviewed and updated each year, it is not expected to significantly change from year to year.

We regard this publication as complying with our duty under paragraph 16(2) of Finance Act 2016 for the financial year ended 31 March 2022.

Understanding our taxable profits and our corporation tax

Our taxable profits are generally different to our accounting profits for the following reasons:

- **Capital allowances and depreciation** – capital allowances are a way of obtaining tax relief on certain types of capital expenditure. These are treated as a business expense and so reduce our taxable profit. Depreciation represents how much of an asset's value has been used up and reduces accounting profit. Capital allowances are applied at different rates than used for depreciation. As a result, there is a difference between capital allowance deductions made against our taxable profits and depreciation made against our accounting profits. The annual variance between capital allowances and depreciation results in a difference between our taxable profit and our accounting profit. Due to the large scale of our capital expenditure programme and the level of capital allowances available and utilised, our taxable profits are significantly reduced.
- **The treatment of interest costs** – we borrow money to finance our capital expenditure programme. The interest associated with this borrowing is recognised as both an accounting and tax expense, reducing profit and the amount of tax we pay. However, there are differences between the amounts of interest recognised for accounting profits and for taxable profits. Examples are that movements on the fair value of our financial derivatives are not recognised in our taxable profits and interest that is capitalised in our financial statements is treated as an expense when calculating our taxable profits.
- **Group relief** – Southern Water is part of the Greensands Holdings group of companies as set out on page 106. All of these companies are taxable as UK companies and profits or losses of the companies within the group can be set off against one another in the financial year. Group relief can be claimed by Southern Water Services Ltd where the standard rate of tax for the losses claimed is paid. For 2021–22, no tax for these losses was paid, therefore there was no group relief claimed.
- **Deferred tax** – the cumulative difference between taxable profits and accounting profits, which are expected to be temporary and reverse in future years, is presented as deferred tax on the statement of financial position. Changes to the future rate of corporation tax revise the carrying value of these differences.

Our tax charge is reduced by our large capital expenditure programme and the interest we are charged on borrowings. The benefit of this is passed to our customers through reduced bills. There is no corporation tax allowance within our customer bills for the regulatory period from April 2020 to March 2025.

Details of our tax charge for the current financial year are disclosed in note 10 to the financial statements and the current year charge to the income statement is also explained further on page 202.

Our other tax contributions

Our other contributions to the Exchequer amounted to £76.4 million. These are explained below:

- Business rates of £27.8 million paid to local authorities (2021: £25.2 million) and payments to the Environment Agency of £8.0 million (2021: £8.3 million) for abstraction licences and discharge consents, which reduce profits chargeable to corporation tax.
- Employment taxes of £40.6 million (2021: £36.5 million) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

No payments have been made to other group companies for tax losses surrendered to the company. As a result of capital allowances and interest charges, no corporation tax was paid by the company to HMRC in 2021–22.

Financial KPIs

Within our financial debt structure is a comprehensive set of covenanted financial ratios. Of these, there are two key ratios, namely the ratio of net debt to Regulatory Capital Value (RCV) and the ratio of adjusted net cash income to net interest cost.

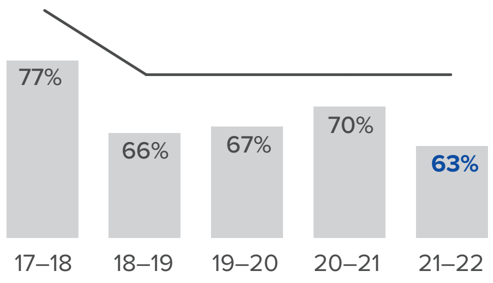
The net debt to RCV ratio is calculated as short- and long-term senior borrowings less cash and short-term deposits to the RCV (all values taken from our Regulatory Accounts). The RCV is set by Ofwat at each five-year review and reflects our initial market value plus subsequent capital investment and inflation. The RCV is adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period.

The adjusted cash interest cover is measured as the ratio of net cash inflow from operating activities less RCV depreciation to net cash interest expense.

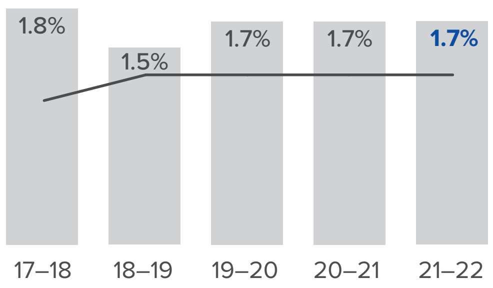
The credit ratings shown here were updated in the summer/autumn of 2021 in response to our 2021 results, the outcome of the EA prosecution and the new equity investment by a fund managed by Macquarie Asset Management. The outlook for Standard and Poor's improved from Negative to Stable Outlook, the outlook for Fitch moved from Ratings Watch Negative to Negative, and the outlook for Moody's remained Stable.

Debt covenant

Net debt/RCV



Adjusted cash interest cover ratio



The covenanted lock-up level/trigger level refers to debt covenants where payment of dividends by Southern Water is not permitted. These are structural buffers to protect against a default covenant, e.g. the covenanted default net debt to RCV level is at 95%.

Credit rating as at 31 March

Standard & Poor's

Class A debt:

BBB+

Fitch

Class A debt:

BBB+

Moody's

Class A debt:

Baa3

Read more on page 107

Notes: A further credit rating downgrade by one or more Rating Agencies would result in a Trigger Event under our Common Terms Agreement which would restrict the payment of dividends and require the preparation of a remedial plan for our lenders. Southern Water has obtained a waiver from its lenders to continue to access permitted financial indebtedness to refinance the business in the event of a downgrade Trigger Event.

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.

Under our Common Terms Agreement, 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; and a Default would occur if any two of the credit ratings are less than the minimum rating required for the status of investment grade.