

A large circular graphic composed of various white line-art icons on a teal background. The icons include a person with a headset, a cloud with circuit lines, a "net zero" label with a leaf, a checkmark in a water drop, a target, a person at a computer, a hand holding a water drop, a globe with a thermometer, a person with an upward arrow, a leaf, a person, a water drop with a scale, and a glass of water. The central text is overlaid on a white circle within this graphic.

APPENDIX
SES0048
STRESS
TESTING
SCENARIOS

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SES0048 : STRESS TESTING SCENARIOS

A. Executive Summary

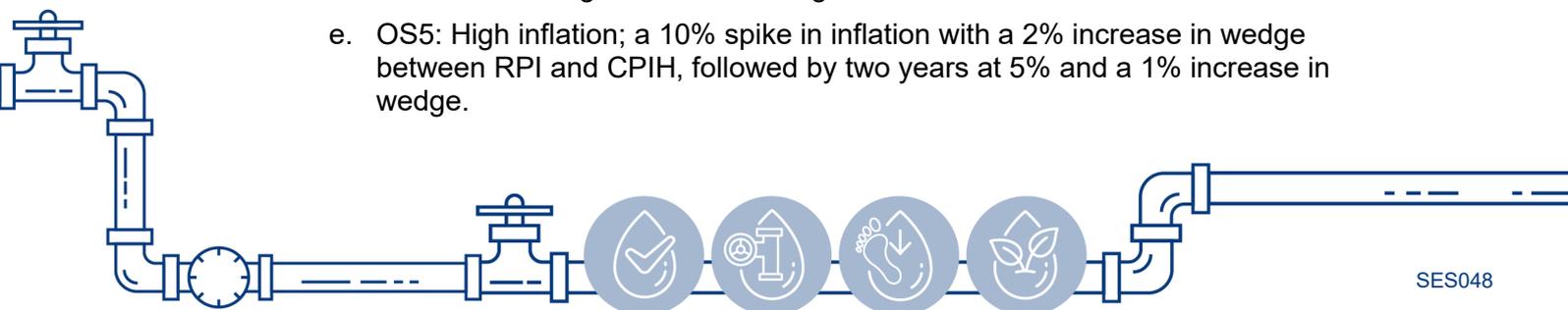
1. We have tested our resilience (defined by the availability of headroom against gearing) across the various stress scenarios.
2. In all cases (with the exception of OS1 TOTEX underperformance across 5 years, OS5 high inflation and OS9 combined scenario of TOTEX underperformance, ODI penalties and financial penalties) we have sufficient headroom to be financially resilient against these scenarios.
3. In the scenarios noted above which we consider to be severe we would mitigate the impact through additional equity and cessation of dividends.

B. Introduction

1. We have assessed the financial resilience of the Company across AMP 8 by measuring the impact of the scenario compared to minimum available headroom across the AMP to our 80% gearing threshold.
2. The main purpose of performing such assessment is to ensure that the Company is financially resilient to withstand various severe but plausible scenarios where operations and financing arrangements are able to continue to deliver critical customer service should such adverse event materialise.
3. The assessment takes into account the Company's current liquidity position and committed borrowing facilities and its potential mitigating actions including increasing both borrowings, increasing equity and suspension of dividends.
4. We have tested both Ofwat prescribed scenarios and our own severe but plausible scenarios.

C. Ofwat Scenarios

5. As per the final methodology the following scenarios have been tested;
 - a. OS1: Totex underperformance (10% of totex) over 5 years.
 - b. OS2: ODI underperformance payment (3% of RORE) in one year applied in year 2.
 - c. OS3: Inflation below the assumption for the base case in the business plan (2% below). This scenario should be applied at 2% below in each year of the price review period.
 - d. OS4: Deflation of -1% for 2 years, followed by a return to the long term inflation target. The deflation should be in years 1 and 2 to allow time for the return to the long term inflation target.
 - e. OS5: High inflation; a 10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.



- f. OS6: Increase in the level of bad debt (20%) over current bad debt levels applied in years 2 and 3.
- g. OS7: Debt refinanced as it matures, with new debt financed at 2% above the forward projections of interest rates.
- h. OS8: Financial penalty – equivalent to 6% of one year of Appointee turnover applied in year 2.
- i. OS9: Combined scenarios - combined scenario for totex underperformance, ODI penalty and financial penalty.

6. The outcomes of the scenarios are shown in the table below:

| | Scenario | Year 1 2025/26 | Year 2 2026/27 | Year 3 2027/28 | Year 4 2028/29 | Year 5 2029/30 | Min Head room (Year 5) | Head room left | Additional funding required / Other mitigation |
|-----|--|-------------------|-------------------|-------------------|-------------------|-------------------|------------------------------------|----------------------|--|
| OS1 | Totex underperformance | (9.30) | (18.89) | (28.03) | (36.12) | -42.86 | 30.97 | | (11.89) |
| OS2 | ODI underperformance | 0.00 | (2.88) | (2.66) | (2.62) | -3.56 | 30.97 | 27.41 | |
| OS3 | Lower than planned inflation | 0.56 | 3.11 | 5.73 | 7.94 | 8.40 | 30.97 | 39.37 | |
| OS4 | Deflation, followed by a return to the long term inflation target. | 0.83 | 4.60 | 8.81 | 13.08 | 16.28 | 30.97 | 47.24 | |
| OS5 | High inflation resulting in an increase in CPI / RPI wedge. | (6.43) | (18.05) | (28.47) | (39.24) | -48.07 | 30.97 | | (17.10) |
| OS6 | Increase in bad debt | 0.00 | (0.20) | (0.39) | (0.37) | -1.54 | 30.97 | 29.43 | |
| OS7 | Higher cost of debt refinancing | (2.82) | (4.62) | (7.59) | (11.65) | -17.27 | 30.97 | 13.69 | |
| OS8 | Financial penalty | 0.00 | (5.95) | (5.48) | (5.40) | -5.32 | 30.97 | 25.65 | |
| OS9 | Combined scenarios - (OS1), (OS2) and (OS8) | (9.30) | (29.47) | (37.78) | (45.73) | -53.58 | 30.97 | | (22.61) |



D. Company Specific scenarios

7. In addition to the Ofwat scenarios that we tested above we also tested our resilience against a number of company specific scenarios, these are all met within our gearing headroom, details of the scenarios as noted below;
- a. CS1: A cyber attack (4% of Y3 turnover applied to Y5)
 - b. CS2: A water quality failure (£50/customer for 75,000 customers+ £1m)
 - c. CS3: Loss of high quality staff (£1.02m additional opex, applied in y5 only)
 - d. CS4: Totex expenditure underperformance- Wholesale and Retail (10% in 3, 5% in y4, 5% in y5)
 - e. CS4a: Totex expenditure underperformance- Wholesale and Retail (10% in 5 only)
 - f. CS5: Ongoing impact of Cost of Living bad debt increase (60%, 40%, 20% in y3,4,5)
 - g. CS5a: Ongoing impact of Cost of Living bad debt increase (20% in y5)
 - h. CS6: Not achieving 1% ongoing efficiency in AMP8
 - i. CS7: Additional climate related costs (2.5% of £207.3m)
 - j. CS8: Unsuccessful small company premium
 - k. CS9: Significant inflation increases (2% increase in CPIH and RPI rates is assumed from Yr 4 onwards)
 - l. CS10: Combined scenario (CS1, CS4 & CS10).

8. The results of these scenarios can be seen in the table below;

| | Scenario | Year 1 2025/26 | Year 2 2026/27 | Year 3 2027/28 | Year 4 2028/29 | Year 5 2029/30 | Min Head room (Year 5) | Head room left | Additional funding required / Other mitigation |
|-------|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------------------|----------------------|--|
| CS1 | A cyber attack | 0.00 | 0.00 | 0.00 | 0.00 | -3.84 | 30.97 | 27.13 | |
| CS2 | Water quality failure | 0.00 | 0.00 | 0.00 | 0.00 | -4.36 | 30.97 | 26.60 | |
| CS3 | Loss of high quality staff | -0.94 | -1.80 | -2.65 | -3.49 | -4.31 | 30.97 | 26.65 | |
| CS4 | TOTEX underperformance (Yr 3,4 and 5) | 0.00 | 0.00 | (9.74) | (13.68) | -17.74 | 30.97 | 13.22 | |
| CS4 a | TOTEX underperformance (Yr 5 only) | 0.00 | 0.00 | 0.00 | 0.00 | -8.86 | 30.97 | 22.11 | |
| CS5 | Ongoing cost of living impact on bad debt (year 3,4 and 5) | 0.00 | 0.00 | (7.32) | (12.04) | -14.38 | 30.97 | 16.59 | |

| | | | | | | | | | |
|-------|--|--------|--------|--------|---------|--------|--------------|-------|--|
| CS5 a | Ongoing cost of living impact on bad debt (year5 only) | 0.00 | 0.00 | 0.00 | 0.00 | -2.87 | 30.97 | 28.10 | |
| CS6 | Operating efficiency not achieved | (0.94) | (2.93) | (5.80) | (9.24) | -13.53 | 30.97 | 17.43 | |
| CS7 | Additional climate change costs | (1.02) | (2.02) | (3.01) | (3.98) | -4.94 | 30.97 | 26.03 | |
| CS8 | Unsuccessful small company premium | (0.57) | (1.13) | (1.71) | (2.31) | -2.30 | 30.97 | 28.05 | |
| CS9 | Inflation increases | 0.00 | 0.00 | 0.00 | 2.09 | -2.91 | 30.97 | 31.14 | |
| CS10 | Combined scenario (CS1, CS4 and CS10) | 0.00 | 0.00 | (9.74) | (11.68) | 3.17 | 30.97 | 11.95 | |

E. Conclusion

As noted above the Company is comfortable that the headroom to raise additional debt within our covenants would be sufficient to address the above scenarios with the exception of the Ofwat scenarios noted above, which would require further debt or equity funding.

