Southern Water

Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 2024

Confidential

Important Notice

This report is being distributed in fulfilment of a finance document, the Common Terms Agreement. It is directed to, and intended for, existing investors in the company. No other persons should act or rely on it. The company makes no representation as to the accuracy of forecast information. This report should not be relied on as a guide to future performance and should not be relied on in deciding whether to undertake future investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

Investor Report

Contents **Page**

General overview and business update

This Investor Report is updated for the period ended 30th September 2024. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its lenders and investors.

Projected financial ratios are published for the current PR19 / AMP7 period from April 2020 to March 2025, and include additional interest cover ratios to maintain the effectiveness of financial ratios following regulatory building block changes from the previous PR14 (AMP6) price determination. In addition the first year of AMP8 is shown here based on our response to Ofwat's Draft Determination in August 2024. Noting that the Final Determination from Ofwat is currently scheduled to be released on 19th December 2024.

Significant events during the period ended 30 September 2024

Since the year end the weather has been a constant source of issue and the persistant wet weather has continued which resulted in increased costs in dealing with associated ground water flooding and other impacts. Despite this we had managed to reduce pollutions significantly from 2022 to 2023 and even though challenging conditions remain, we do not expect a significant reversal of these improvements made to date. In August 2024 we submitted our response to Ofwat's Draft Determination and await Ofwats update in the form of the Final Determination (FD) projected to be released on 19th December 2024. As a result of the level of uncertainty surrounding the FD outcome and the level of the sectors regulatory risk caused by the Draft Determination, all 3 of the rating agencies have downgraded the company.

As reported in our Annual Report last year, this period of additional spend and investment has put pressure on our debt covenant ratios and credit ratings. We remain in a credit rating Trigger Event following the downgrade by Fitch of our credit rating to BBB (negative outlook) in July 2023 and an Interest Cover Ratio Trigger Event. We expect to remain in Trigger for the remainder of the investment period to March 2025.

General levels of service

Customer

While we continue to improve our services for customers and aim to increase our satisfaction measure (C-MeX), which sees us ranked in 16th position out of 17 water companies currently (2022–23: 16th), our score is impacted by broader reputational perceptions of Southern Water. The target set for us by our regulator is to achieve an average or median score among the total number of water companies. Digital technology has been a key enabler of improvements put in place this year. The introduction of our new virtual inspector in July, using video triage with customers to resolve their water issues, has meant that we no longer need to send an inspector to visit a property, speeding up resolution of customer queries. The virtual inspector has avoided a significant number of inspector visits since it was introduced. We launched a new operational job management system in April, allowing us to log, manage and track customers' water and waste problems and keep customers up to date on the progress of their query more easily using text messaging. The launch of our new mobile-friendly website in April enabled us to provide the latest information to customers in a format that makes it easier for them to self-serve and find what they need more quickly.

In February 2023, the CCW (Consumer Council for Water) carried out an in-depth assessment of our complaint handling. Overall feedback was positive, and they noted significant improvements over the past 18 months, comparing us favourably to the industry leader and commenting on the clarity of our response letters and our efforts to talk to customers rather than sending letters or emails. CCW's report in March 2023 stated we are an improving company. Our Turnaround Plan actions have helped cut complaints by 59% when compared to 2022–23. This moves us from one of the poorest performing companies to just below average.

Our Developer Services Measure of Experience (D-MeX) score places us 16th out of 17 water companies (2023: 15th). Our medium-term target is to raise performance to the 'median' industry score in the next three years, placing us around 8th or 9th out of the total number of water companies. The D-MeX score breaks down into the quantitative component, where we have completed a higher percentage of jobs on time than last year, and the qualitative component made up of customer services which has seen an improvement for the third year in a row. To continue our improvement, we introduced welcome calls and gave our customers a named contact person to support them and answer any questions they may have. Our contact centre continues to answer over 95% of all calls with an average wait time of under 30 seconds, while our online chat capability, using AI to power our quality assurance (QA) processes, is offering us more data analysis tools to improve our reporting.

	31-Mar 2020	31-Mar 2021	31-Mar 2022	31-Mar 2023	31-Mar 2024
Position	*16*	*16*	*16*	*16*	*16*
D-Mex position	*14*	*15*	*15*	*15*	*16*

Operational performance

As mentioned earlier, the interim period continued to be plagued by wet weather conditions and this had a significant impact on operating costs. Within our operating costs there are £21.1m attributed to the cost of dealing with the assocated impacts of flooding and high ground water levels as well as costs of dealing with a major water outage incident at Hastings earlier in the period. EBITDA did increase in the period by 12% driven by the higher allowed revenues in 2024-25.

In October Ofwat published its review of industry performance for 2023–24. This report highlighted that, based on our 2023–24 results, our performance has improved, but is still lagging behind our Ofwat performance commitments. Our Turnaround Plan, which was developed to provide a robust performance improvement over the last two years of the current Business Plan, is delivering improvements in areas such as external sewer flooding and unplanned outage. However,work must continue to improve our performance across all areas as we move towards putting in place the next Business Plan for 2025–30. As reported by Ofwat, we were one of only two of the 11 water and sewage companies to reduce pollution incidents in 2023 compared to 2022; however the number of pollution incidents is still higher than we'd like them to be, with the actions we are putting in place needing time to take effect.

Our approach to leakage will achieve a reduction this year; however, the three-year rolling average, including the previous two years' leakage levels, is still high compared to our Ofwat Performance Commitment. Through our focus on proactive find and fix activities we have repaired over 12,000 leaks so far this year, and more than 7,000 of these have been through proactive leak detection activity. Following our April Leakage Summit, a set of around 50 leakage management activities has been monitored region by region on a weekly basis.
We reported last year that our Compliance Risk Index, which measures water quality, was our best score since the measure was introduced in 2019. While there has been a marginal increase in this score so far this year, affected by failures at customer taps, this represents a significant improvement compared to the beginning of the 2020–25 Business Plan and we are still on track to meet our Turnaround Plan. We have provided customer advice, and we are always checking water quality through sampling to make sure water remains high quality from source to tap. We are prioritising asset health and keeping customers in supply. Every month there has been a consistent reduction in unplanned outage, showing how our targeted activity at key water treatment sites is making a difference, putting in upgrades to equipment and processes, increasing training and making improvements to our safe control of operation programme.

Our customers deserve a high level of service, whether that's during or after an incident or for any day-to-day enquiries, and we are working to improve first contact resolution and make sure customers are regularly updated when there's an issue. We have continued to increase the number of customers registered on our Priority Services register, with around 7,500 new registrants each month, and the publication of our draft Vulnerability Strategy in June outlined the services available to customers needing extra support. Making sure our customers have easy access to information is important to us. Our new website went live in April providing customers with more user-friendly access to information and our online services, making it easier to find out about any local incidents, as well as what we're doing to improve our performance.

Please see the Interim Financial Statement and Report for the period ended 30 September 2024 for more information. This can be found on the southernwater.co.uk website.

Financial performance for the year ended 30 September 2024

Accounts are prepared under IFRS (FRS101).

Period ended 30 Sept	**2023 £m**	**2024 £m**	***Change %***
Revenue	441.8	497.2	*11.1*
Operating costs	-275.6	-308.3	*-10.6*
EBITDA	**166.2**	**188.9**	***12.0***
Depreciation & amortisation	-174.7	-185.1	
Non-operating income	0.3	0.5	
Net finance costs	-119.5	-102.1	
Fair value movement	186.1	39.0	
Profit before tax	**58.4**	**-58.8**	
Tax	-17.3	-4.3	
Profit after tax	**41.1**	**-63.1**	

CHP income treated as revenue and includes other operating income and incls regulatory settlement and adoption income (the latter 2 items are non cash in nature)

Full interim financial statements are published on the southernwater.co.uk website

Financing

By way of a reminder, funds managed by Macquarie Asset Management acquired a majority stake in our ultimate parent company, Greensands Holdings Limited, on 08 September 2021. This acquisition resulted in an equity injection into the Greensands Group of over £1 billion. These funds were in part used to settle some external debt obligations in companies in the Greensands Group, resulting in £529.9 million being invested in Southern Water Services through new equity and the settlement of an inter-company debtor and associated accrued interest.

To maintain momentum on our Turnaround Plan we engaged with shareholders on an additional £550 million of new equity funds for the group. This process concluded in October 2023 and the proceeds were received with £375 million of that new equity being injected into Southern Water.

Liquidity now as at 30 September 2024 comprises £631.4 million of cash reserves in the capex reserve and operating accounts (including £27.5m of drawings from the Debt Service Reserve and O&M Reserve accounts) and inclusive of the £350 million drawn RCF. In addition there is £162.5m million of unused standstill facilities and standstill cash reserves.

Southern Water has, as recognised by the credit ratings agencies, strong liquidity through to March 2026, having secured a total of £1.5 billion of new debt financing over the past 12 months, including a £300 million bond issue completed earlier this month

Credit rating	
Standard & Poor’s	Class A debt: BBB-
Fitch	Class A debt: BBB-
Moody’s	Class A debt: Ba1

The credit rating for Moody's moved to Ba1 in October 2024 on review for downgrade. Fitch published their updated rating in November 2024 with a downgrade to BBB- which is on Fitch Rating Watch Negative. S&P also published their latest rating in November 2024 which was a downgrade to BBB- on credit watch negative.

As a result of the Fitch downgrade to BBB in July 2023 this credit rating downgrade has resulted in a Trigger Event under our Common Terms Agreement (A Trigger Event would occur if any two of the credit ratings fall to BBB or Baa2) which in turn would restrict the payment of dividend (a STID approval was secured in February 2021 to provide the ability to raise certain permitted financial indebtendess during a credit rating downgrade Trigger Event and has been extending this through a further STID Proposal approved in August 2023). A cash lock-up under our Licence of Appointment would occur if SWS has a credit rating with any of the rating agencies of Baa3/BBB- (negative outlook) or lower.

Dividend and Financing Policy

Our dividend policy is formulated to ensure a fair balance of reward between customers and investors. To deliver on our vision for the successful delivery of our Business Plan for 2020–25, all stakeholders must share in success: customers benefitting through enhanced service and lower bills, and shareholders earning a fair return.
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 our financial and non-financial performance. This would reflect our overall financial performance as compared to the final Business Plan for 2020–25 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 outperformance should be re-invested to benefit our customers. This consideration will also 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 (as part of the Annual Report), and highlight any changes.

Board membership (of Southern Water Services Ltd) as at 30 September 2024

Keith Lough (Chairman)
Lawrence Gosden (Chief Executive Officer, appointed 01 July 2022)
Stuart Ledger (Chief Financial Officer, appointed 3 Jan 2023)
Malcolm Cooper (Independent Non-executive Director)
Dame Gillian Guy DBE (Independent Non-executive Director)
Kerensa Jennings (Independent Non-executive Director)
Christele Delbe (Independent Non-executive Director)
Neil Mcarthur (Independent Non-executive Director -appointed Oct 2024)
Stephen Fraser (Non-executive Director)
Neil Corrigall (Non-executive Director)
Phil Swift (Non-executive Director)
William Price (Non-executive Director)
Richard Manning (Company Secretary)
Please see southernwater website for current Board membership

Ultimate parent company

The ultimate parent company is Greensands Holdings Ltd.

Financial ratios

As required by the CTA, financial ratios are reported up to the end of the current five year regulatory period. The forecasts used to generate the financial ratios are derived from the SWS Business Financial Model and are in the format specified by the CTA.

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

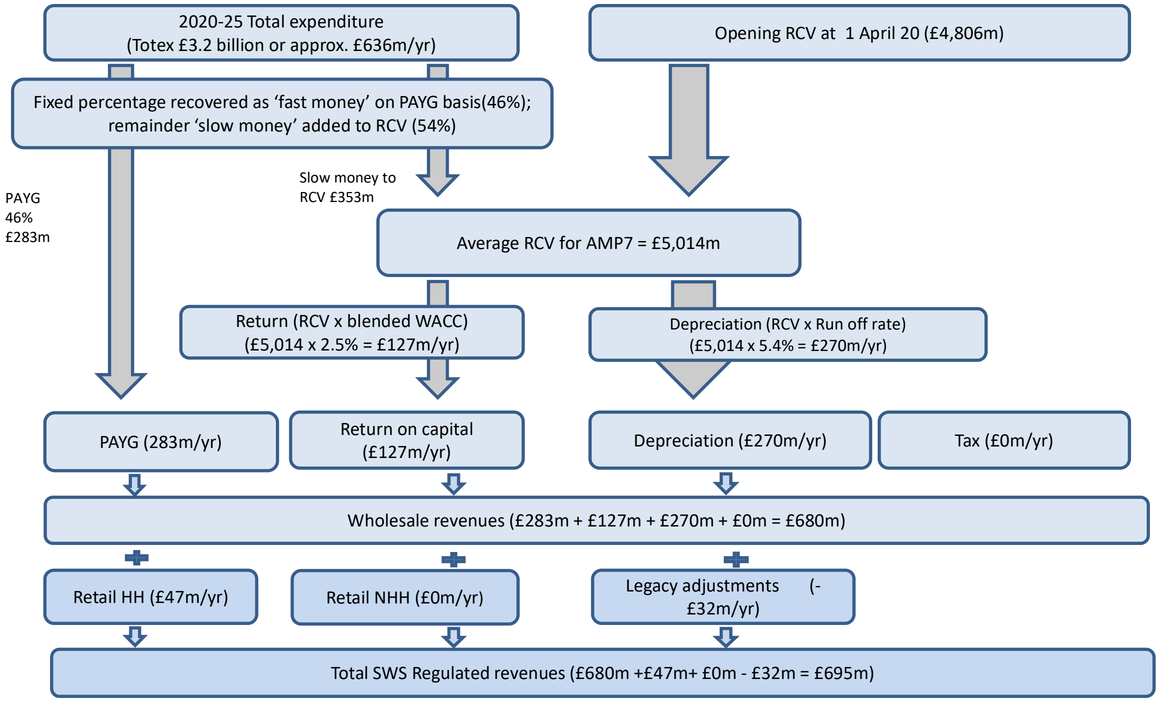
New interest cover ratios have been included (page 17) as a result of regulatory and accounting changes from the PR14 / AMP6 period. A total expenditure assessment was also introduced ('Totex'), with a recovery of 'fast money' through revenues, and 'slow money' added to the RCV.

Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR19, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR19 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net operating cash flow input to the interest cover ratios.

Inflation forecasts are based upon the HMT published forecasts. RPI and CPIH year-on-year change at March 2024 was 4.30% and 3.79% respectively. Inflation forecasts used are; 2024-25, RPI 3.7% CPIH 2.50% + 90bps spread when comparing to historical data (3.40% total); 2025-26, RPI 3.30% and CPIH 2.3% + 70bps spread when comparing to forecasted data (3.00%). HMT do not forecast CPIH.

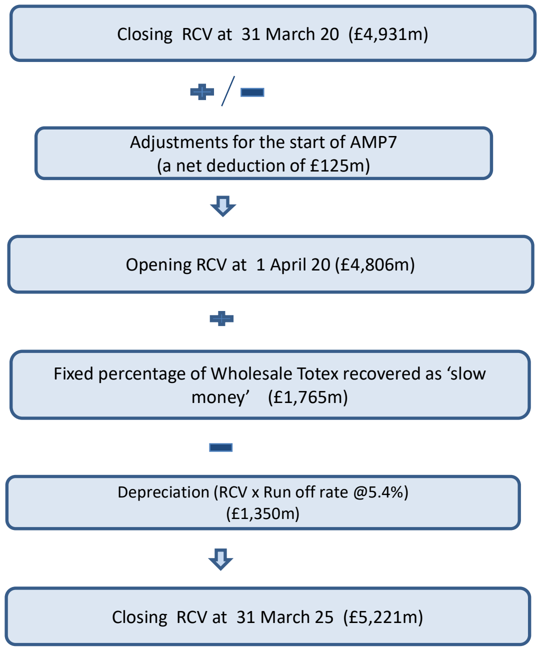
RCV reported used in this report, unless indicated otherwise, is based upon the PR19 determined RCV inflated by the relevant RPI and CPIH indices. The value for the RCV for 2021-22, 2022-23 and 2023-24 is different to that reported by Ofwat. Southern Water, and other companies, have queried the calculation of the RCV published by Ofwat.

An illustration of the Totex approach to cost recovery for AMP7 (the 'revenue building blocks'). 2017/18 prices



Note: Values stated are rounded average annual values used to illustrate the totex approach to cost recovery, rather than determined annual values

An illustration of the construction of the RCV for AMP7. 2017/18 prices



Consolidated cashflow

Ref.		31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026 £m
	Revenue							
1	Appointed *	874.6	778.8	813.8	759.5	820.9	905.4	1541.5
2	Non Appointed	10.5	9.9	10.4	10.4	10.4	10.0	10.3
	Operating Costs							
3	Appointed	400.4	395.1	428.5	412.2	558.8	572.8	732.3
4	Non Appointed	7.9	7.5	8.4	7.9	8.2	8.4	8.6
	Exceptional item **	0.0	0.0	152.1	0.0	22.2	29.3	0.0
5	Net Capital Expenditure (inc Disposals of Assets)	472.9	381.2	511.3	678.2	738.8	798.5	1293.7
	Annual Finance Charge	115.2	68.3	65.3	75.2	32.2	108.2	197.7
6	Taxation	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	Payments on Subordinated Debt and Distributions	59.1	0.0	0.0	17.5	0.0	0.0	0.0
	Net cash flow before financing	-170.5	-63.5	-341.4	-421.2	-528.9	-601.7	-680.5
	*** Proceeds from new equity for SWS	0.0	0.0	529.9	0.0	375.0	0.0	650.0
	Net proceeds from new financing	138.5	1107.2	0.0	399.9	1092.0	413.3	400.0
	Drawings from RCF	160.0	-330.0	0.0	0.0	0.0	350.0	0.0
	Debt repayments	-311.4	-360.0	-20.1	-310.2	-423.0	-23.7	-359.1
	Swap accretion payments	0.0	-194.5	-46.9	0.0	-40.3	-14.5	-455.0
	Debt Fees	0.0	0.0	0.0	0.0	-18.2	0.0	-3.0
	Movement on DSPA	-4.6	12.8	-0.9	0.0	27.3	0.0	0.0
	Net cash reserves movement after financing	-188.0	172.0	120.6	-331.5	483.9	123.4	-447.7

* Appointed revenues for 2023, 2024, and 2025 include a forecast net ODI penalty of £135m (outturn prices) relating to actual and forecast performance in 2021, 2022, and 2023. In November 2023 Ofwat agreed to defer £21.45m of the 22-23 ODI penalty until 25-26, this is reflected here.

** Southern Water was sentenced and fined £90 million on 9 July 2021 regarding an Environment Agency (EA) prosecution relating to wastewater permit compliance between 2010 and 2015 (inclusive). Southern Water was also ordered to pay £2.5m legal costs of the EA. These costs were paid in 2021-22. Southern Water also made an exceptional pension deficit contribution of £59.6 million. For 23-24 exceptional costs are highlighted in the Operational Performance text in page 5. £16.7m of the 24-25 exceptionals are the cashflow impact of the same items as 23-24 and £12.6m are an assessment of in year costs on excessive groundwater.

*** The equity of £375m shown in 2023-24 completed in October 2023

Annual Finance Charge

Ref.		31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026 £m
	Class A debt interest paid	113.7	69.2	65.1	77.0	37.2	129.1	219.3
	Class B debt interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Interest income	0.9	1.9	0.8	6.2	5.8	22.8	22.6
	Class A Facilities commitment fees	2.4	1.0	1.0	1.4	0.8	1.8	1.0
7	Class A Debt Interest	115.2	68.3	65.3	72.2	32.2	108.2	197.7
8	Senior Debt Interest	115.2	68.3	65.3	72.2	32.2	108.2	197.7
	Annual Finance Charge	115.2	68.3	65.3	75.2	32.2	108.2	197.7
	Monthly Payment Amount *	10.0	5.9	5.5	6.5	3.2	10.9	18.4

* Monthly payment amount is stated gross and reduced by interest received in the Debt Service Payment Account

The reduction in Class A debt interest from 2020-21 includes the refinancing activities undertaken in 2018-19. The refinancing activity included a derivative re-couponing to increase interest receivable from 2020-21 through to 2029-30 plus a further increase as a result of financing the extension of breaks of £175 million on inflation linked swaps to 2025. The result is a reduction in interest payable in 2020-21 to 2024-25 of c. £300 million and a reduction in interest payable from 2025-26 to 2029-30 of c. £130 million.

Class A Debt Interest is the sum of interest paid, interest income and commitment and monoline fees.

Cash accounts and reserves

Ref.		31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026 £m
	SWS O&M Reserve account							
	Opening balance	0.0	0.0	27.5	27.5	5.8	12.9	13.0
	Cash transferred	0.0	27.5	0.0	-21.7	7.1	0.1	0.0
	Closing balance	0.0	27.5	27.5	5.8	12.9	13.0	13.0
	Capex Reserve account							
	Opening balance	49.1	0.9	232.8	268.8	50.1	0.1	90.4
	Cash transferred	-48.2	231.9	36.0	-218.7	-50.0	90.3	0.0
	Closing balance	0.9	232.8	268.8	50.1	0.1	90.4	90.4
	Debt Service Payment account							
	Opening balance	15.5	10.9	23.7	35.0	30.1	117.1	75.1
	Cash transferred	-4.6	12.8	11.3	-4.9	87.0	-42.1	-11.2
	Closing balance	10.9	23.7	35.0	30.1	117.1	75.1	63.9
	SWS Operating accounts							
	Opening balance	307.8	172.6	72.4	146.6	59.5	499.3	574.4
	Cash transferred	-135.2	-100.2	74.2	-87.1	439.8	75.1	-436.6
	Closing balance	172.6	72.4	146.6	59.5	499.3	574.4	137.8
	Total Cash Balances							
	Opening balance	372.4	184.4	356.4	477.9	145.5	629.4	752.8
	Cash transferred	-188.0	172.0	121.5	-332.4	483.9	123.4	-447.8
9	Closing balance	184.4	356.4	477.9	145.5	629.4	752.8	305.1

Bonds, Authorised Loan Facilities and Leases

Ref.			31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026 £m
	*	Senior £350m A1 6.192% Fixed Rate Bonds due 2029	350.0	350.0	350.0	350.0	350.0	350.0	350.0
	*	£150m A2a 3.706% Index-linked Bonds due 2034	243.7	247.7	257.2	288.9	315.0	326.2	336.5
	*	£35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	59.9	63.0	66.2	68.5	70.7
		£350m A4 6.64% Fixed Rate Bonds due 2026	350.0	350.0	350.0	350.0	350.0	350.0	0.0
		£150m A5 3.816% Index-linked Bonds due 2023	243.7	247.7	257.2	0.0	0.0	0.0	0.0
	*	£350m A7 5.0% Fixed Rate Bonds due 2021	350.0	0.0	0.0	0.0	0.0	0.0	0.0
	*	£150m A8 5.0% Fixed Rate Bonds due 2041	150.0	150.0	150.0	150.0	150.0	150.0	150.0
	*	£200m A9 4.5% Fixed Rate Bonds due 2052	200.0	200.0	200.0	200.0	200.0	200.0	200.0
	*	£300m A10 5.125% Fixed Rate Bonds due 2056	300.0	300.0	300.0	300.0	300.0	300.0	300.0
		£375m A12 2.375% Fixed Rate Bonds due 2028	0.0	375.0	375.0	375.0	375.0	375.0	375.0
		£450m A13 3.000% Fixed Rate Bonds due 2037	0.0	450.0	450.0	450.0	450.0	450.0	450.0
		£300m A14 1.625% Fixed Rate Bonds due 2027	0.0	300.0	300.0	300.0	300.0	300.0	300.0
		£450m A15 7.375% Fixed Rate Bonds due 2041	0.0	0.0	0.0	0.0	450.0	450.0	450.0
		£72m A16 3.315% Index Linked Bonds due 2043	0.0	0.0	0.0	0.0	72.4	74.4	76.7
		£20m A17 4.123% Index Linked Bonds due 2043	0.0	0.0	0.0	0.0	20.1	20.7	21.3
		£550m A18 7.000% Fixed Rate Bonds due 2040	0.0	0.0	0.0	0.0	550.0	550.0	550.0
		Bond Taps in May 24- to be funged into A15 A18	0.0	0.0	0.0	0.0	0.0	150.0	150.0
		£300m A19 7.750% Fixed Rate Bonds due 2031	0.0	0.0	0.0	0.0	0.0	300.0	300.0
		RPI accretion on Index-Linked swaps	202.6	30.7	119.2	392.7	398.3	447.4	95.2
	*	£165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.6	283.0	317.9	346.5	358.9	370.1
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.2	261.9	294.3	320.7	332.1	342.5
		£100m EIB Index Linked loan due 2025	92.0	79.8	68.1	57.1	27.4	6.8	0.0
		£250m USPP Fixed Rate Loan due 2031 / 2036	250.0	250.0	250.0	250.0	250.0	250.0	250.0
	**	New cash required	0.0	0.0	0.0	0.0	0.0	0.0	400.0
		Drawings under the Revolving Credit Facility	330.0	0.0	0.0	0.0	0.0	350.0	350.0
		Drawings under the DSR Liquidity Facility	0.0	0.0	0.0	0.0	14.5	14.5	14.5
		Drawings under the O&M Liquidity Facility	0.0	0.0	0.0	0.0	13.0	13.0	13.0
		Finance Leases (FRS16)	0.0	0.0	31.7	30.4	29.1	27.8	26.4
		Bridge Facility	0.0	0.0	0.0	400.0	0.0	0.0	0.0
		Class A Indebtedness	3,635.2	3,913.5	4,063.2	4,569.3	5,348.2	6,215.2	5,941.9
		Senior Indebtedness	3,635.2	3,913.5	4,063.2	4,569.3	5,348.2	6,215.2	5,941.9
10		Class A Net Indebtedness	3,450.8	3,557.1	3,585.3	4,423.8	4,718.8	5,462.4	5,636.9
11		Senior Net Indebtedness	3,450.8	3,557.1	3,585.3	4,423.8	4,718.8	5,462.4	5,636.9
		Nominal value of fixed rate debt swapped to Index-linked	1,318.0	1,318.0	1,318.0	1,318.0	1,718.0	1,718.0	1,718.0

* Wrapped by AG

** 'New cash required' is a notional class of debt included to forecast compliance ratios correctly. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

Interest Cover Ratios - Original format

		Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026* £m
A	Net Appointed Income (1+3+6)			474.1	383.6	385.3	347.3	262.1	332.7	753.4
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.3	349.7	264.3	334.3	755.1
C	Depreciation (CCD & IRC)			0.0	0.0	0.0	0.0	0.0	0.0	0.0
D	Class A Debt interest (7)			115.2	68.3	65.3	72.2	32.2	108.2	197.7
E	Senior Debt interest (8)			115.2	68.3	65.3	72.2	32.2	108.2	197.7
F	Period end VAT debtor			10.2	11.0	13.0	21.0	20.2	19.3	30.6
G	Capital Maintenance (MNI & IRE)			244.5	193.5	283.1	235.5	225.0	N/A	N/A
Class A Adjusted ICR										
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	4.2	5.8	6.1	5.1	8.8	3.3	4.0
Class A Average ICR		1.4	N/A	5.4	6.0	5.9	4.1	6.2	3.3	4.0
Senior Adjusted ICR										
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	4.2	5.8	6.1	5.1	8.8	3.3	4.0
Senior Average Adjusted ICR		1.2	N/A	5.4	6.0	5.9	4.1	6.2	3.3	4.0
Class A ICR										
	Historic: (B+F)/D Projected: (A+F)/D	N/A	1.6	4.2	5.8	6.1	5.1	8.8	3.3	4.0
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D	N/A	1.0	2.1	3.0	1.8	1.9	1.9	N/A	N/A

CCD (Current Cost Depreciation) and IRC (Infrastructure Renewals Charge) have been removed as regulatory building blocks from the PR14 regulatory period. As a consequence, the values for this input into interest cover ratios is zero for these years.

Additional interest cover ratios have been introduced (following page) that maintain consistency of ratio performance with previous periods.

Further explanation of this change can be found on page 9 of this report.

* AMP8 excludes G&Cs from appointed income

Interest Cover Ratios - New (Post PR14) format

		Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026* £m
A	Net Appointed Income (1+3+6)			474.1	383.6	385.3	347.3	262.1	332.7	753.4
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.3	349.7	264.3	334.3	755.1
C	Depreciation of the RCV:									
	Depreciation (CCD & IRC)			0.0	0.0	0.0	0.0	0.0	0.0	0.0
	RCV run down			282.7	269.2	286.1	325.8	353.2	364.8	365.9
D	Class A Debt interest (7)			115.2	68.3	65.3	72.2	32.2	108.2	197.7
E	Senior Debt interest (8)			115.2	68.3	65.3	72.2	32.2	108.2	197.7
F	Period end VAT debtor			10.2	11.0	13.0	21.0	20.2	19.3	30.6
G	Capital Maintenance (MNI & IRE)			244.5	193.5	283.1	235.5	225.0	n/a	n/a
Class A Adjusted ICR										
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	1.8	1.9	1.8	0.6	-2.1	-0.1	2.1
Class A Average ICR		1.4	N/A	1.8	1.7	1.6	0.4	-1.1	-0.1	2.1
Senior Adjusted ICR										
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.8	1.9	1.8	0.6	-2.1	-0.1	2.1
Senior Average Adjusted ICR		1.2	N/A	1.8	1.7	1.6	0.4	-1.1	-0.1	2.1
Class A ICR										
	Historic: (B+F)/D Projected: (A+F)/D	N/A	1.6	4.2	5.8	6.1	5.1	8.8	3.3	4.0
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D	N/A	1.0	2.1	3.0	1.8	1.9	1.9	N/A	N/A

These new interest cover ratios include the regulatory value of RCV run down in place of CCD & IRC .

* AMP8 excludes G&Cs from appointed income

Comparison of FD PAYG funding ('fast money') to actual operating costs

PR14 & PR19 Final Determinations:		AMP 6 Period to 2020	AMP 7 Period to 2025	
Totex funding	Real £m	2,639.4	3,371.9	Wholesale operating costs and capital expenditure for the regulatory period
Totex funding	Outturn £m	2,957.0	3,927.9	(excluding pension deficit contributions outside of the Totex assessment)
Fast money	Outturn £m	1,403.4	1,647.9	Wholesale Totex recovered via revenues plus Retail opex
Slow money	Outturn £m	1,553.7	2,280.0	Wholesale Totex added to the RCV
Retail costs	FD £m	294.9	261.6	Costs for the Retail price control per Final Determination
Total		3,251.9	4,189.5	
Total Appointed expenditure (treating Retail as Fast money)				
Fast money		52.2%	45.6%	
Slow money		47.8%	54.4%	

Actual costs		AMP 6 Period to 2020	AMP 7 Period to 2025	
Operating costs per accounts	Outturn £m	1,632.9	2,417.8	Wholesale and retail operating costs
Capital expenditure per accounts	Outturn £m	1,733.4	3,396.4	
Total Appointed expenditure	Outturn £m	3,366.3	5,814.2	
Operating costs / Fast money		48.5%	41.6%	
Capital expenditure / Slow money		51.5%	58.4%	

Variance between determined fast/slow money to actual costs

Operating costs / Fast money		3.7%	4.0%
Capital expenditure / Slow money		-3.7%	-4.0%

Reconciliation to Net Appointed Income

	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
Operating costs per Accounts	403.1	391.3	407.1	483.2	574.0	551.1
Non-appointed expenditure	-7.9	-7.5	-8.4	-7.9	-8.2	-8.4
Movement in operating cost working capital	-13.0	-8.1	10.0	-65.2	-9.1	22.9
Difference between pension charge and cash contributions	16.7	17.3	17.7	0.0	0.0	5.0
IFRS16 Lease costs	1.5	2.1	2.1	2.1	2.1	2.1
Appointed operating cost cash flow (ref 3. page 12)	400.4	395.1	428.5	412.2	558.8	572.8

Change to the presentation of interest received in the Annual Report

Net interest received on financial derivatives is no longer presented as net interest received in the income statement and is now included within the annual movement in derivative fair value. This change has taken effect from the 2022 Annual Report and the 2021 comparative values have been restated to be consistent with 2022.

The value of net interest received on financial derivatives, and included with Class A debt interest, is illustrated in the table below

	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m
Class A net interest received on financial derivatives	32.4	98.8	92.3	87.1	123.5	102.0	80.5

Regulatory Asset Ratios

		Lock-up	Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	31 Mar 2026 £m
G	Class A Net Indebtedness (10)				3,450.8	3,557.1	3,585.3	4,423.8	4,718.8	5,462.4	5,636.9
H	Senior Net Indebtedness (11)				3,450.8	3,557.1	3,585.3	4,423.8	4,718.8	5,462.4	5,636.9
I	RCV				5,141.9	5,120.2	5,658.5	6,472.6	6,790.9	7,484.7	8,459.9
Class A RAR											
	Historic / Projected: G/I		0.750	0.950	0.671	0.695	0.634	0.683	0.695	0.730	0.666
Senior RAR											
	Historic / Projected: H/I	0.850	0.900	0.950	0.671	0.695	0.634	0.683	0.695	0.730	0.666
Control of Repayments (maturity buckets)											
Percentage of refinancing - consecutive two years: no more than:				20%		16.9%	11.5%	6.2%	11.7%	7.0%	
Percentage of refinancing - within a regulatory period: no more than:				40%		<<<<<<<<<<<<<<<<<<		22.7%	>>>>>>>>>>>>>>>		

Note: swap accretion payments have been included in this test

Declaration

We confirm that each of the above Ratios has been calculated in respect of each of the relevant periods for which it is required under the Common Terms Agreement and have now breached the Trigger Event Ratio Levels but has not caused Paragraph 20 (Ratios) of Part 2 (Event of Default (SWS and the Issuer)) of Schedule 7 of the Common Terms Agreement to be breached.

We confirm that the Annual Finance Charge is £ 108.2 million for 2024-25 equating to a Monthly Payment Amount after interest received £ 10.90 million

We also confirm that a Trigger Event is outstanding, but no Event of Default, Potential Event of Default or Potential Trigger Event is outstanding and that SWS's insurances are being maintained in accordance with the Common Terms Agreement.

Stuart Ledger
Chief Financial Officer
For and on behalf of
Southern Water Services Ltd

Stuart Ledger
For and on behalf of
SW (Finance) I plc
SW (Finance) II Ltd

Richard Manning
For and on behalf of
Southern Water Services Ltd

James Gillard
For and on behalf of
SW (Finance) I plc
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