Southern Water

Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 31 March 2021

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 31 March 2021. 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.

General levels of service

Customer

Our performance against Ofwat's Customer Measure of Experience (C-MeX) for the year saw us finish 16th out of 17 companies, incurring a penalty of £4.772 million. While many of the changes delivered by our customer service improvement programme, have not yet been realised in our overall scores, we are confident that the steps taken so far will have a positive impact as we progress through this five-year period.

	31-Mar 2020	31-Mar 2021
Position	*16*	*16*
D-Mex position	*14*	*16*

Customer - Covid-19:

We have adapted remarkably well and continue to deal effectively with maintaining an uniterrupted service to our customers. We are a provider of an essential public service, and many of our employees are key workers whose tasks are critical to keeping water and wastewater services flowing for our customers. We moved in just one week from business as usual to a well-rehearsed Business Continuity Plan running against four simple priorities:

- Maintaining provision of essential services at all times;
- Protecting the health, safety and wellbeing of our employees, including our supply chain, and our customers;
- Providing the maximum practicable level of assistance to our vulnerable customers; and
- Protecting the financial stability of our business.

Ensuring safe working practices for colleagues and customers, and adequate supplies of chemicals and personal protective equipment were a priority as the pandemic surfaced in March 2020. As the months went on, we experienced a significant shift in demand for water and an increase in levels of bad debt as we continued with measures to support our customers. A number of our performance measures have also been directly affected by the effects of COVID-19.

Operational performance

	2020–21		2019–20
	Target	Achieved	Achieved
Overall drinking water quality	*100%*	**99.97%**	99.95%
Water restrictions	*0*	**0**	0
Leakage (million litres of water per day)	*97*	**98.5**	99.5
Wastewater treatement works compliance	*100%*	**97.06%**	99.37%
All pollution incidents (wastewater), Category 1-3	*98*	**402**	434

The water reaching customers' taps continues to meet the Drinking Water Inspectorate's (DWI) stringent water quality tests, with 99.97% of samples meeting all the necessary standards.We had to make significant changes to our sampling programme to accommodate social distancing due to COVID-19; however, less than 0.01% of all the programmed samples were not able to be taken during the year. Our expected year-end CRI score of 4.53 is better than in 2019, but not as low as we would like, and incurred a penalty of £1.6 million.

Until last year, we had seen water use fall by 16% over the previous seven years. With people spending more time in their homes in 2020–21 due to the COVID-19 pandemic, household water usage has increased. The number of customers using less than 100 litres of water per day has decreased and the average amount of water each one uses has increased by 7%. Leakage levels have been recalculated to reflect the additional volume of water being put into supply. Leakage for 2020-21 was 98.5 Ml/d against our three year rolling target of 97 Ml/d.

We aim for 100% compliance at our wastewater treatment works. Unfortunately, we achieved 97.06% compliance during 2020–21 as a result of 10 failed works. For example, we experienced some solids management issues at our Horsham site. Our 'intensive care' processes are being reviewed to enhance the management of these sites. As a result of missing our target, we received a penalty of £19.4 million.

Our total number of pollution incidents for the year was 402, which was higher than we had predicted due to an extended period of wet weather in February. Our target was 24.51 incidents per 10,000 km of sewer which translates into 98 actual incidents. As a result of missing our target, we received the maximum penalty of £7.718 million. Our Pollution Incident Reduction Plan was originally published in 2020, and updated in May 2021. It sets out how we will achieve a maximum of 80 pollution incidents per year by 2025, and zero pollution incidents by 2040.

Southern Water was sentenced and fined £90 million on 6 July 2021 regarding an Environment Agency (EA) prosecution relating to wastewater permit compliance between 2010 and 2015 (inclusive). The fine is payable by July 2022 and Southern Water was also ordered to pay £2.5m legal costs of the EA. Southern Water also continues to support the EA in its investigation into historical wastewater sampling.

Financial performance for the year ended 31 March 2021

Accounts are prepared under IFRS (FRS101).

Years ended 31 March	**2020** **£m**	**2021** **£m**	***Change*** ***%***
Revenue	878	784.2	*-12.0*
Amortisation of regulatory settlement	-	35.6	
Other operating income	1.4	1.7	
Operating costs	-403.1	-394.8	*-2.1*
EBITDA	**476.3**	**426.7**	***-11.6***
Depreciation & amortisation	-264.0	-287.9	
Profit on disposals	0.9	0.8	
Net finance costs	-119.2	-51.6	
Fair value movement	339.9	-444.8	
Profit before tax	**433.9**	**-356.8**	
Tax	-105.2	64.8	
Profit after tax	**328.7**	**-292.0**	

Revenue decreased to £784.2 million (2020:£878.0 million). This decrease in revenue was expected and principally results from the changes to our inflation-linked water and wastewater tariffs as part of the PR19 FD. As a result of COVID-19, we experienced a significant change in the mix of that revenue between household and non-household customers plus a reduction in trade effluent and developer revenues. Household demand and revenues for 2020–21 were £22.2 million above expectations as a result of people being at home, whilst non-household revenues were £30.8 million below expectations as a result of the restrictions on businesses.

In 2018–19, we made provision for rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period from 2020–25. These rebates are now included within our tariffs and so part of the revenue reported in the income statement.

Operating costs including the charge for bad and doubtful debts for the year decreased by £8.3 million from £403.1 million to £394.8 million. 2020-21 included some direct expenses relating to Covid and we have also made provision for the economic impact to our customers. We took a number of steps to help our customers, for example, introducing payment breaks, providing additional support to vulnerable customers, and also pausing our debt collection processes. Operating costs in 2019-20 include an increase to the bad debt provision of £16.0 million relating to the expected impact of Covid on our household customers plus a further £21.5 million increase in 2020-21.

Net finance costs decreased by £67.6 million to £51.6 million (2020: £119.2 million). This reduction is largely driven by 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.

Financing

We are in a strong position of liquidity. As at 31 March 2021 there was £356 million of cash plus £330 million undrawn RCF in addition to £80 million standstill facilities.

This year we have secured £1,125 million in sustainable bonds to support the financing of investments and activities that deliver sustainable outcomes. This includes an £825 million issuance in May 2020 which is the largest ever sustainable transaction for a UK utility company. A £700m RCF, which was put in place during December 2019 and January 2020 in order to support liquidity at that time, was also retired following the sustainable dual tranche bond issuance.

Credit rating	
Standard & Poor’s	Class A debt: BBB+
Fitch	Class A debt: BBB+
Moody’s	Class A debt: Baa3

The Class B credit ratings were removed following the repayment of Class B debt in March 2019. A deed has been entered into by the Southern Water Services Financing group to not issue any Class B debt for so long as debt at Greensands Financing is outstanding.

As at 29 july 2021. The credit rating for Moody' has a Stable Outlook. The credit ratings for Standard & Poor's is negative outlook and the credit rating for Fitch is Rating Watch Negative.

A further credit rating downgrade by one or more Rating Agencies could result 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 require creditor consents to the raising of new debt and restrictions on the payment of dividends. A cash lock-up under our Licence of Appointment would occur where the credit rating outlook assigned the lowest investment grade credit rating has been changed from stable or positive to negative. A STID approval was secured in February 2021 which removed the restrictions regarding the raising of new debt (which also includes the utilisation of of the RCF).

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 on the near £2 billion of 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 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.

The Board has resolved that the company will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position.

Board membership (of Southern Water Services Ltd)

Keith Lough (Chairman)
Ian McAulay (Chief Executive Officer)
Sebastiaan Boelen (Chief Financial Offcer)
Paul Sheffield (Senior Independent Non-executive Director)
Rosemary Boot (Independent Non-executive Director)
Malcolm Cooper (Independent Non-executive Director)
Dame Gillian Guy DBE (Independent Non-executive Director)
Kevin McCullough (Independent Non-executive Director)
Mike Putnam (Independent Non-executive Director)
Sara Sulaiman (Non-executive Director)
MaryKay Fuller (Non-executive Director)
Richard Manning (Company Secretary)

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.

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.

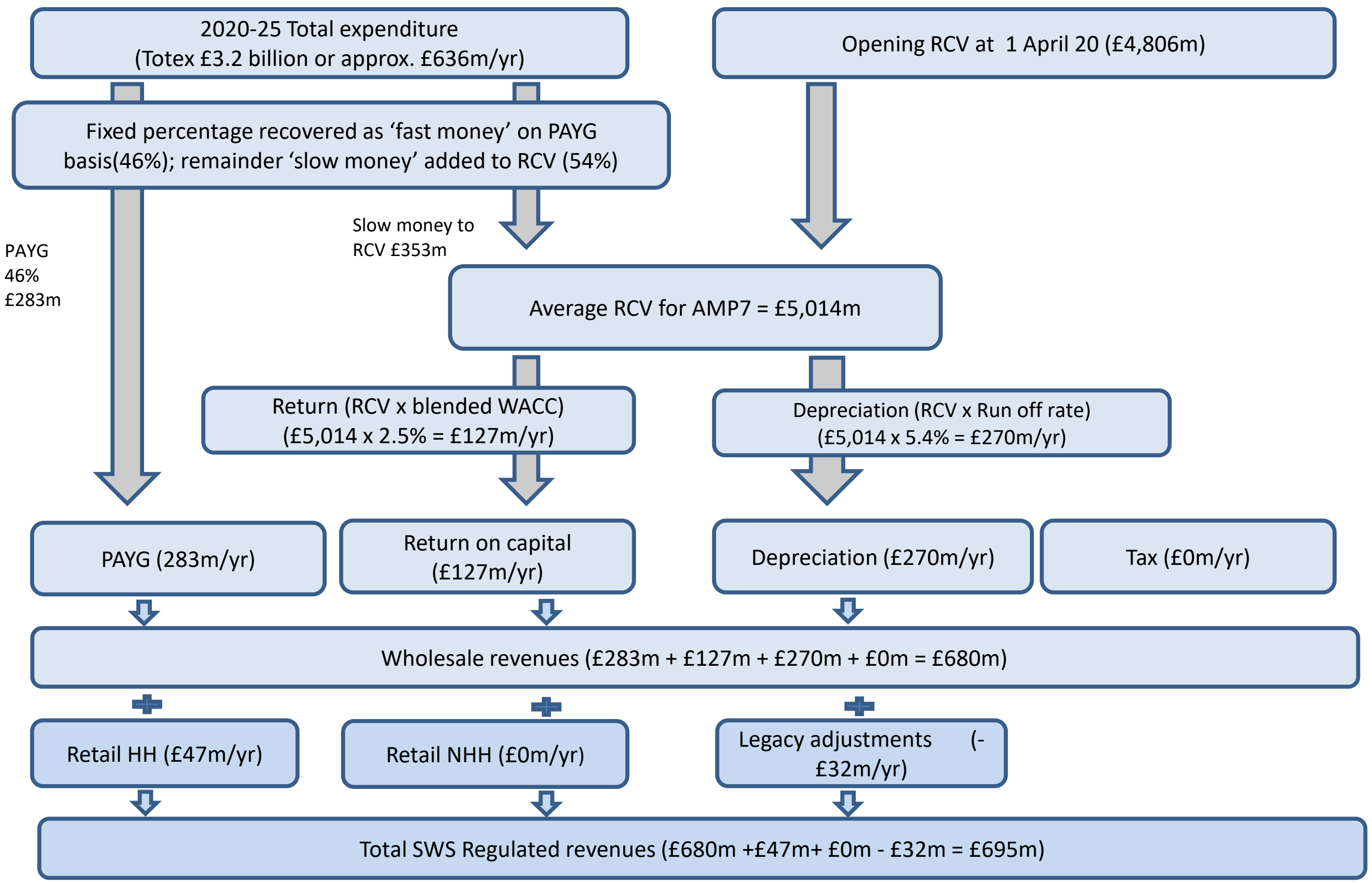
Short term forecast RPI used for this Investor Report are calculated as the average of inflation forecasts published by a number of UK banks. RPI at March 2020 was 2.6%, the RPI used for March 2021 is 1.5% (CPIH 1.0%), and the long term forecast used for RPI is 2.9% (CPIH 2.1%)

For investor reporting, interest paid is reported on an accruals basis in line with the requirements of the CTA.

The value for the RCV for 2020-21, of £5,110.9m, is in line with that reported by Ofwat. Companies, including Southern Water, have queried the calculation of the RCV by Ofwat, and we believe it is potentilly understated by £9.3 million. Forecast values of RCV are based upon the company calculation for uplifting the PR19 determined RCV values in 207-18 prices to forecast outturn prices.

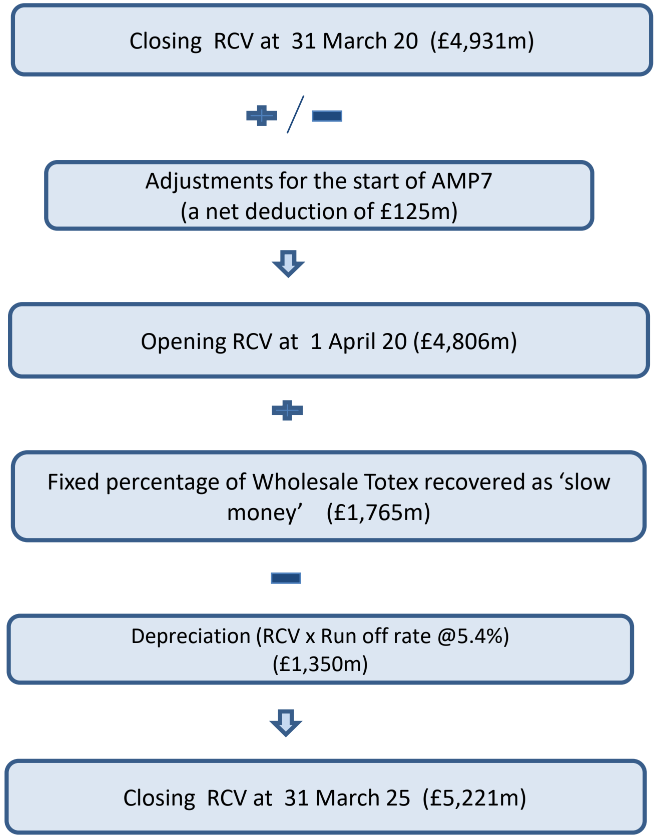
Financial projections do not include the possible outcome of the shareholder process to support the group capital structure which may also improve the financial and operational resilience of Southern Water.

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
	Revenue						
1	Appointed *	874.6	778.8	778.9	816.7	827.7	841.4
2	Non Appointed	10.5	9.9	9.5	9.6	9.7	9.8
	Operating Costs						
3	Appointed	400.4	395.1	393.1	371.0	359.4	351.3
4	Non Appointed	7.9	7.5	7.9	8.0	8.1	8.1
	Exceptional item **	0.0	0.0	92.5	0.0	0.0	0.0
5	Net Capital Expenditure (inc Disposals of Assets)	472.9	381.2	534.3	488.0	498.0	325.0
	Annual Finance Charge	115.2	68.3	66.3	75.1	76.5	77.6
6	Taxation	0.1	0.1	0.0	0.0	0.0	0.0
	Payments on Subordinated Debt and Distributions ***	59.1	0.0	0.0	0.0	0.0	0.0
	Net cash flow before financing	-170.5	-63.5	-305.7	-115.8	-104.6	89.2
	Proceeds from new equity for SWS	0.0	0.0	0.0	0.0	0.0	0.0
	Proceeds from new financing	138.5	1107.2	247.5	297.0	0.0	396.0
	Drawings from RCF	160.0	-330.0	0.0	0.0	0.0	0.0
	Debt and swap accretion payments	-311.4	-554.5	-52.2	-280.4	-23.6	-18.2
	Movement on DSPA	-4.6	12.8	0.0	0.0	0.0	0.0
	Net cash reserves movement after financing	-188.0	172.0	-110.4	-99.2	-128.2	467.0

* Appointed revenues for 2023, 2024, and 2025 include a forecast net ODI penalty of £90m relating to 2021, 2022, and 2023.

** 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.

*** The Board has resolved that the company will not pay any dividends until it is clear that to do so would not be detrimental to the company's financial position. We have therefore not yet forecast a level of dividend for the AMP7 period to 2025.

Financial projections do not include the possible outcome of the shareholder process to support the group capital structure which may also improve the financial and operational resilience of Southern Water.

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
	Class A debt interest	113.7	69.2	65.6	74.3	75.5	76.5
	Class B debt interest	0.0	0.0	0.0	0.0	0.0	0.0
	Interest income	0.9	1.9	0.3	0.2	0.0	0.0
	Class A Facilities commitment fees	2.4	1.0	1.0	1.0	1.0	1.1
7	Class A Debt Interest	115.2	68.3	66.3	75.1	76.5	77.6
8	Senior Debt Interest	115.2	68.3	66.3	75.1	76.5	77.6
	Annual Finance Charge	115.2	68.3	66.3	75.1	76.5	77.6
	Monthly Payment Amount *	10.0	5.9	5.6	6.3	6.4	6.5

* 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.

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
	SWS O&M Reserve account						
	Opening balance	0.0	0.0	27.5	27.5	27.5	27.5
	Cash transferred	0.0	27.5	0.0	0.0	0.0	0.0
	Closing balance	0.0	27.5	27.5	27.5	27.5	27.5
	Capex Reserve account						
	Opening balance	49.1	0.9	232.8	182.4	83.2	-45.0
	Cash transferred	-48.2	231.9	-50.4	-99.2	-128.2	467.0
	Closing balance	0.9	232.8	182.4	83.2	-45.0	422.0
	Debt Service Payment account						
	Opening balance	15.5	10.9	23.7	23.7	23.7	23.7
	Cash transferred	-4.6	12.8	0.0	0.0	0.0	0.0
	Closing balance	10.9	23.7	23.7	23.7	23.7	23.7
	SWS Operating accounts						
	Opening balance	307.8	172.6	72.4	12.4	12.4	12.4
	Cash transferred	-135.2	-100.2	-60.0	0.0	0.0	0.0
	Closing balance	172.6	72.4	12.4	12.4	12.4	12.4
	Total Cash Balances						
	Opening balance	372.4	184.4	356.4	246.0	146.8	18.6
	Cash transferred	-188.0	172.0	-110.4	-99.2	-128.2	467.0
9	Closing balance	184.4	356.4	246.0	146.8	18.6	485.6

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
	*	Senior £350m A1 6.192% Fixed Rate Bonds due 2029	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	254.1	260.0	267.6	275.3
	*	£35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	59.3	60.7	62.4	64.2
		£350m A4 6.64% Fixed Rate Bonds due 2026	350.0	350.0	350.0	350.0	350.0	350.0
		£150m A5 3.816% Index-linked Bonds due 2023	243.7	247.7	254.1	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
	*	£150m A8 5.0% Fixed Rate Bonds due 2041	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
	*	£300m A10 5.125% Fixed Rate Bonds due 2056	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
		£450m A13 3.0% Fixed Rate Bonds due 2037	0.0	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
		RPI accretion on Index-Linked swaps	202.6	30.7	50.7	97.3	147.8	205.8
	*	£165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.6	279.5	286.0	294.3	302.9
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.2	258.7	264.7	272.4	280.3
		£100m EIB Index Linked loan due 2025	92.0	79.8	62.3	46.5	30.1	12.8
		£250m USPP Fixed Rate Loan due 2031 / 2036	250.0	250.0	250.0	250.0	250.0	250.0
	**	New cash required	0.0	0.0	250.0	550.0	550.0	950.0
		Drawings under the Revolving Credit Facility	330.0	0.0	0.0	0.0	0.0	0.0
		Drawings under the DSR Liquidity Facility	0.0	0.0	0.0	0.0	0.0	0.0
		Finance Leases	0.0	0.0	0.0	0.0	0.0	0.0
		Class A Indebtedness	3,635.2	3,913.5	4,193.7	4,290.2	4,349.6	4,816.3
		Senior Indebtedness	3,635.2	3,913.5	4,193.7	4,290.2	4,349.6	4,816.3
10		Class A Net Indebtedness	3,450.8	3,557.1	3,947.7	4,143.4	4,331.0	4,330.7
11		Senior Net Indebtedness	3,450.8	3,557.1	3,947.7	4,143.4	4,331.0	4,330.7
		Nominal value of fixed rate debt swapped to Index-linked	1,318.0	1,318.0	1,318.0	1,318.0	1,318.0	1,318.0

* 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
A	Net Appointed Income (1+3+6)			474.1	383.6	385.8	445.7	468.3	490.1
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.4	447.3	469.9	491.8
C	Depreciation (CCD & IRC)			0.0	0.0	0.0	0.0	0.0	0.0
D	Class A Debt interest (7)			115.2	68.3	66.3	75.1	76.5	77.6
E	Senior Debt interest (8)			115.2	68.3	66.3	75.1	76.5	77.6
F	Period end VAT debtor			10.2	11.0	9.8	8.5	8.3	8.3
G	Capital Maintenance (MNI & IRE)			244.5	231.9	N/A	N/A	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	6.0	6.1	6.2	6.4
Class A Average ICR		1.4	N/A	5.5	6.0	6.2	6.2	6.3	6.4
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	4.2	5.8	6.0	6.1	6.2	6.4
Senior Average Adjusted ICR		1.2	N/A	5.3	5.9	6.1	6.2	6.3	6.4
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.8	6.0	6.1	6.2	6.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	2.4	N/A	N/A	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.

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
A	Net Appointed Income (1+3+6)			474.1	383.6	385.8	445.7	468.3	490.1
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.4	447.3	469.9	491.8
C	Depreciation of the RCV:								
	Depreciation (CCD & IRC)			0.0	0.0	0.0	0.0	0.0	0.0
	RCV run down			282.7	269.2	280.4	295.3	308.8	317.0
D	Class A Debt interest (7)			115.2	68.3	66.3	75.1	76.5	77.6
E	Senior Debt interest (8)			115.2	68.3	66.3	75.1	76.5	77.6
F	Period end VAT debtor			10.2	11.0	9.8	8.5	8.3	8.3
G	Capital Maintenance (MNI & IRE)			244.5	231.9	N/A	N/A	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	1.7	2.1	2.2	2.3
Class A Average ICR		1.4	N/A	1.9	2.0	2.1	2.2	2.3	2.3
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.8	1.9	1.7	2.1	2.2	2.3
Senior Average Adjusted ICR		1.2	N/A	1.8	1.9	2.0	2.2	2.3	2.3
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.8	6.0	6.1	6.2	6.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	2.4	N/A	N/A	N/A	N/A

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

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	3,674.4	(excluding pension deficit contributions outside of the Totex assessment)
Fast money	Outturn £m	1,403.4	1,541.9	Wholesale Totex recovered via revenues plus Retail opex
Slow money	Outturn £m	1,553.7	2,132.6	Wholesale Totex added to the RCV
Retail costs	FD £m	294.9	261.7	Costs for the Retail price control per Final Determination
Total		3,251.9	3,936.1	
Total Appointed expenditure (treating Retail as Fast money)				
Fast money		52.2%	45.8%	
Slow money		47.8%	54.2%	

Actual costs		**AMP 6 Period to 2020**	**AMP 7 Period to 2025**	
Operating costs per accounts	Outturn £m	1,632.9	1,759.4	Wholesale and retail operating costs
Capital expenditure per accounts	Outturn £m	1,733.4	2,181.6	
Total Appointed expenditure	Outturn £m	3,366.3	3,941.0	
Operating costs / Fast money		48.5%	44.6%	
Capital expenditure / Slow money		51.5%	55.4%	

Variance between determined fast/slow money to actual costs

Operating costs / Fast money	3.7%	1.2%	The variance over the regulatory period between FD and actual forecast apportionment of costs between operating costs / capital expenditure and fast / slow money
Capital expenditure / Slow money	-3.7%	-1.2%	

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	375.7	352.6	341.0	338.4
Non-appointed expenditure	-7.9	-7.5	-7.9	-8.0	-8.1	-8.1
Movement in operating cost working capital	-13.0	-8.1	15.1	0.7	0.3	-0.8
Difference between pension charge and cash contributions	16.7	17.3	18.1	18.6	19.1	19.7
IFRS16 Lease costs	1.5	2.1	2.1	2.1	2.1	2.1
Appointed operating cost cash flow (ref 3. page 10)	400.4	395.1	403.1	366.0	354.4	351.3

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
G	Class A Net Indebtedness (10)				3,450.8	3,557.1	3,947.7	4,143.4	4,331.0	4,330.7
H	Senior Net Indebtedness (11)				3,450.8	3,557.1	3,947.7	4,143.4	4,331.0	4,330.7
I	RCV				5,141.9	5,110.9	5,405.5	5,723.0	5,920.5	6,070.0
Class A RAR										
	Historic / Projected: G/I		0.750	0.950	0.671	0.696	0.730	0.724	0.732	0.713
Senior RAR										
	Historic / Projected: H/I	0.850	0.900	0.950	0.671	0.696	0.730	0.724	0.732	0.713

Control of Repayments (maturity buckets)						
Percentage of refinancing - consecutive two years: no more than:	20%	16.9%	11.5%	6.0%	5.2%	0.7%
Percentage of refinancing - within a regulatory period: no more than:	40%	<<<<<<<<<<<<<<<<<		16.5%	>>>>>>>>>>>>>>>	

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 has not breached the Trigger Event Ratio Levels and 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 £66.3 million for 2021-22 equating to a Monthly Payment Amount for this period of £5.6 million.

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

Sebastiaan Boelen
Chief Financial Officer
For and on behalf of
Southern Water Services Ltd

Sebastiaan Boelen
For and on behalf of
Southern Water Services (Finance) Ltd

Richard Manning
For and on behalf of
Southern Water Services Ltd

S. Collins

Steven Collins
For and on behalf of
Southern Water Services (Finance) Ltd

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