



Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 2023

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

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General overview and business update

This Investor Report is updated for the period ended 30 September 2023. 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.

Significant events during the period ended 30 September 2023

A key event for Southern this year has been the development of a revised business plan for the current regulatory period, which is designed to significantly improve our operational performance, deliver on our regulatory obligations, meet additional cost pressures, increase resilience and deliver better outcomes for customers, communities and the environment. This Turnaround Plan (details on our website) includes significant additional expenditure, over that agreed in our final determination for 1 April 2020 to 31 March 2025 and represents a major milestone in our turnaround journey.

To maintain momentum on our turnaround plan we engaged with shareholders to seek an additional £550 million of new equity funds for the group. This process concluded in October 2023 with £375 million of that new equity being injected into Southern Water

As a result of a credit rating downgrade and ratio breaches thresholds being exceeded, a trigger event has occurred. SWS is in a Trigger Event (under the Common Terms Agreement which restrict) occurred in July 2023. This Trigger Event restricts the payment of dividends and require requires the preparation of a remedial plan for lenders.

Following an amendment in 2020, SWS is permitted to continue to incur certain permitted financial indebtedness whilst a credit rating downgrade and ratio Triger Event is continuing and is in the process of modifying this. This permission further was extended with a STID Proposal launched on 19 July 2023, which was subsequently approved in August 2023.

General levels of service

Customer

We are working hard to improve customer satisfaction by making the experience of dealing with us easier and more efficient for our customers. We are also focused on better engagement with our communities, while demonstrating environmental leadership. It is, therefore, disappointing that we have not improved our customer satisfaction (C-MeX) score from last year, remaining in 16th place in the rankings out of 17 water companies

A recent report by CCW (the voice for water consumers) gave us poor ratings for customer complaints in the previous year. We want to make sure our customer service is 'trusted and easy' – a cornerstone of our Turnaround Plan. Since putting our plan in place, we have already made progress in first-contact resolution and service. Alongside a number of other measures, we have introduced a system of video triage, allowing our skilled technicians to visually inspect an issue over a mobile device, allowing in many cases an instant remote solution, and where a visit is required, targeting a rapid fix. In addition, a new website will be up-and-running before the end of this financial year, to enable customers to have better access to information and ways to self-serve. We continue to seek to improve our overall Customer Experience (C-MeX) score of 16th place and to improve our Developer Services (D-MeX).

Part of our commitment to high quality customer service is how we support customers in vulnerable situations during these challenging economic times. Some 13% of our customers are registered on the Priority Services Register (PSR), with an increase for patients requiring dialysis (up by 28%), since partnering with Kidney Care in April. We have also been working with Age UK, focusing on better tariff allocation for customers of pensionable age and from April to September 2023, our Hardship Fund has provided 235 customers in need with £122,292.42 of support covering debt write-off, food vouchers and white goods.

	31-Mar 2020	31-Mar 2021	31-Mar 2022	31-Mar 2023
<i>Position</i>	16	16	16	16
<i>D-Mex position</i>	14	15	15	15

Operational performance

Progress can already be seen across many areas, including total pollutions and water quality. Our work to drive down pollutions continues. While we have made good progress in reducing the total number during the first half of this year, our serious pollutions have increased. We are committed to a zero-compromise approach to all pollutions. Through our Pollution Incident Reduction Plan we are improving network resilience, using digitalisation and other technologies to make improvements in our control room. We can now spot blockages early using 24,000 sewer level monitors, leading to c. 15,000 preventative call-outs over the period. We are already almost half-way towards one of our Turnaround Plan objectives of investing over £40 million improving our pumping stations to avoid pollutions and protect the environment

Water quality compliance is another area where we are making good progress following new processes being put in place. To improve reliability and quality of supply, we are making progress towards our Turnaround Plan target to deliver 103 projects at our four largest water supply works through an investment of £150 million. This investment will continue over the coming years

We continue to develop our leakage reduction plans and encourage water saving by our customers. We are now finding 20% more leaks thanks to the work we have done using innovative approaches such as using tubagel, acoustic logging and spotting leaks with satellites. The average amount of water used daily by customers in our region is also reducing in line with our Turnaround Plan target.

In our continuing drive to minimise the use of storm overflows, our Clean Rivers and Seas Task Force is successfully driving work forwards using nature-based sustainable drainage solutions through our six Pathfinder projects, such as the installation of smart water butts in Havenstreet, in the Isle of Wight, reducing storm overflows by up to 70% in the area. We published our Clean Rivers and Seas Plan in November 2023, with a planned investment of nearly £700 million between 2025-2030

We continue work to improve bathing water quality and in Hastings, recent work to identify and put right misconnections has led to an improved rating of the local bathing water quality from 'sufficient' to 'good'

Please see the Financial Statement and Report for the 6 months to 30 September 2023 for more information. This can be found on the [southernwater.co.uk](https://www.southernwater.co.uk) website.

Financial performance for the 6mths ended 30 September 2023

Accounts are prepared under IFRS (FRS101).

Period ended 31 March	2022	2023	Change
	£m	£m	%
Revenue	418.0	441.8	5.4
Operating costs	-225.1	-275.6	-18.3
EBITDA	192.9	166.2	-16.1
Depreciation & amortisation	-167.5	-174.7	
Non-operating income	2.2	0.3	
Net finance costs	-113.3	-119.5	
Fair value movement	754.0	186.1	
Profit before tax	668.3	58.4	
Tax	-164.9	-17.3	
Profit after tax	503.4	41.1	

CHP income treated as revenue and includes other operating income and incl regulatory settlement

Revenue for the period (including regulatory settlement and other operating income) increased to £441.8m (period to 30 September 2022: £418 million). This increase principally arises from the higher levels of billing due to the application of inflation to customer bills, although actual consumption over the summer period was slightly lower than expected, however, this can be recovered in future years as part of allowed regulatory true ups. Operating costs rose in line with our forecasts in order to deliver the turnaround plan although there was inflationary pressure and some incidents which involved increased tankering and waste disposal costs that put pressure on the cost line, details below.

Over the period to September 2023 the principal drivers of additional operating costs were as follows:

- Pollution management, including a Clean Rivers and Seas Task Force to identify solutions to the management of surface water and improvements to our sewers and pumping stations to reduce the risk of pollution events totalling £9.5 million
- Additional wastewater tankering and sludge haulage costs linked to the resolution of repairs and maintenance activities at wastewater treatment works, £6.3 million
- Compliance tankering at our Testwood Water Supply Works where we have enhanced water quality performance through capital investment to replace all the chemical dosing equipment on site. Consequently, and in order to maintain compliance, this increased the amount of tankering and treatment required for the waste produced, so that it can be safely returned to the environment. This increased costs significantly by £4.3 million in the year and we are working hard to identify an alternative solution to mitigate and reduce these exceptional costs for the future
- Increased leakage identification and repair activity £1.1 million
- Transformation activities to drive future cost savings and efficiencies, £2.0 million
- Inflation which has increased prices for all our operational costs by £24.5 million. The main increases were in power which we had previously fixed and our contractor and employee related costs

Full interim financial statements are published on the [southernwater.co.uk](https://www.southernwater.co.uk) website

Financing

A fund 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 as at 30 September 2023 comprises £55.7 million of cash reserves in the capex reserve and operating accounts plus £80 million undrawn RCF. In addition is £190 million of standstill facilities and standstill cash reserves.

We secured consent on 26 November 2021 for a STID proposal to replace our Cayman incorporated 'Issuer' (Southern Water Services (Finance) Ltd) with new UK incorporated 'Issuers'. This concludes the consent and clearance processes and the entity was officially dissolved as of 29th June 2023.

During the year we also secured a term loan facility of £400m with a number of our Banks and which has been fully utilised as of March 2023. The revolving credit facility (RCF) and the standstill liquidity facilities were renewed for a further 5 years on 31 October 2022. There was strong support from banks, and we were able to increase the size of the RCF from £330 million to £350 million and to also increase the size of the standstill facilities to £190 million. The maturity date of the RCF is October 2027, and the liquidity facilities are perpetual.

In October and throughout November 2023 we have been engaged in some risk management activity with a number of inflation linked derivatives entered into which mitigates inflation risk and better aligns our liabilities to inflation linked cashflows.

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.

The credit rating for Moody's has a Stable Outlook. Fitch published their updated rating in July 2023 which has a Negative Outlook. S&P published their latest rating in November 2023 which has a Stable Outlook.

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 indebtedness 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 2023

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)

Mike Putnam (Independent Non-executive Director)

Stephen Fraser (Non-executive Director)

Mark Mathieson (Non-executive Director) retired in October 2023

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

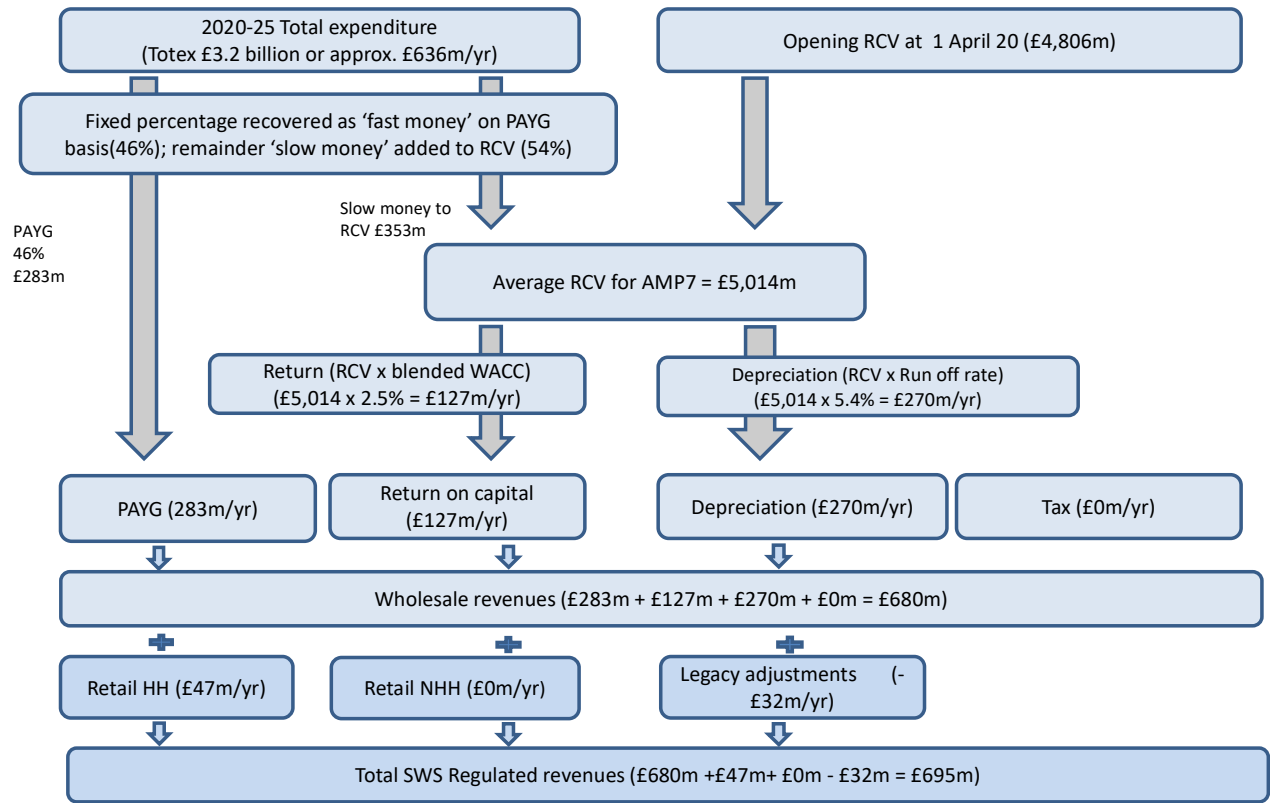
New interest cover ratios have been included (page 17) as a result of regulatory and accounting changes from the PR14 / AMP6 period. A total expenditure assessment was also introduced ('Totex'), with a recovery of 'fast money' through revenues, and 'slow money' added to the RCV.

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 short term bank forecasts and HMT published forecasts. RPI at March 2023 was 13.50% and CPIH 8.9%. Inflation forecasts used are for 2023-24, RPI 9.2% and CPIH 7.4%; 2024-25, RPI 4.4% and CPIH 3.1%.

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

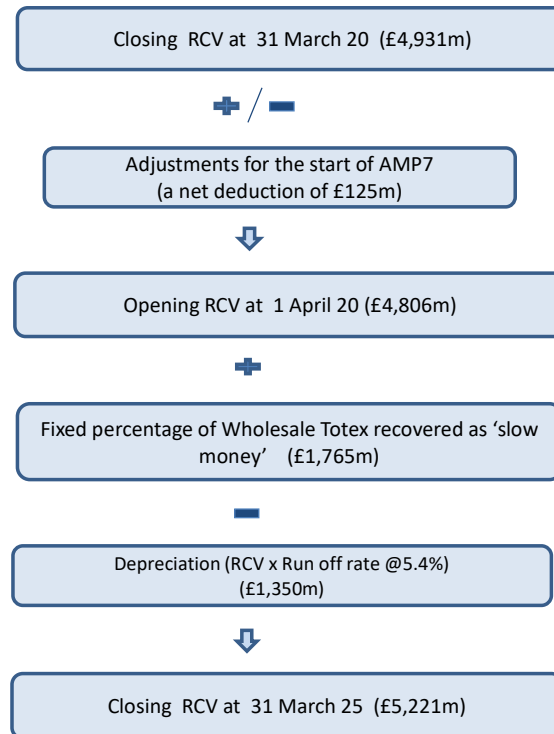
RCV reported used in this report is based upon the PR19 determined RCV inflated by the relevant RPI and CPIH indices. The value for the RCV for 2021-22 and of 2022-23 is different to that reported by Ofwat. Southern Water, and other companies, have queried the calculation of the RCV published by Ofwat.

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
	Revenue						
1	Appointed *	874.6	778.8	813.8	759.5	854.5	922.7
2	Non Appointed	10.5	9.9	10.4	10.4	8.3	10.2
	Operating Costs						
3	Appointed	400.4	395.1	428.5	412.2	540.8	488.7
4	Non Appointed	7.9	7.5	8.4	7.9	9.7	9.0
	Exceptional item **	0.0	0.0	152.1	0.0	0.0	0.0
5	Net Capital Expenditure (inc Disposals of Assets)	472.9	381.2	511.3	678.2	692.8	642.0
	Annual Finance Charge	115.2	68.3	65.3	75.2	88.5	109.0
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	17.5	0.0	0.0
	Net cash flow before financing	-170.5	-63.5	-341.4	-421.2	-469.0	-315.7
	*** Proceeds from new equity for SWS	0.0	0.0	529.9	0.0	375.0	0.0
	Proceeds from new financing	138.5	1107.2	0.0	399.9	825.0	0.0
	Drawings from RCF	160.0	-330.0	0.0	0.0	0.0	0.0
	Debt repayments	-311.4	-360.0	-20.1	-310.2	-423.0	-24.3
	Swap accretion payments	0.0	-194.5	-46.9	0.0	-49.9	-18.9
	Movement on DSPA	-4.6	12.8	-0.9	0.0	0.1	0.0
	Net cash reserves movement after financing	-188.0	172.0	120.6	-331.5	258.2	-358.9

* Appointed revenues for 2023, 2024, and 2025 include a forecast net ODI penalty of £131m (2017/18 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.

*** 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
	113.7	69.2	65.1	77.0	87.8	121.4
	0.0	0.0	0.0	0.0	0.0	0.0
	0.9	1.9	0.8	6.2	5.8	14.1
	2.4	1.0	1.0	1.4	1.6	1.7
7	115.2	68.3	65.3	72.2	83.6	109.0
8	115.2	68.3	65.3	72.2	83.6	109.0
	115.2	68.3	65.3	75.2	88.5	109.0
	10.0	5.9	5.5	6.5	7.5	10.3

* 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.

The increase in forecast Class A debt interest reflects the forecast impact of future financing and risk management activity

Class A Debt Interest is the sum of interest paid, interest income and commitment 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
	SWS O&M Reserve account						
	Opening balance	0.0	0.0	27.5	27.5	5.8	0.0
	Cash transferred	0.0	27.5	0.0	-21.7	-5.8	0.0
	Closing balance	0.0	27.5	27.5	5.8	0.0	0.0
	Capex Reserve account						
	Opening balance	49.1	0.9	232.8	268.8	50.1	50.1
	Cash transferred	-48.2	231.9	36.0	-218.7	0.0	-50.0
	Closing balance	0.9	232.8	268.8	50.1	50.1	0.1
	Debt Service Payment account						
	Opening balance	15.5	10.9	23.7	35.0	30.1	30.1
	Cash transferred	-4.6	12.8	11.3	-4.9	0.0	0.0
	Closing balance	10.9	23.7	35.0	30.1	30.1	30.1
	SWS Operating accounts						
	Opening balance	307.8	172.6	72.4	146.6	59.5	323.5
	Cash transferred	-135.2	-100.2	74.2	-87.1	264.0	-308.9
	Closing balance	172.6	72.4	146.6	59.5	323.5	14.6
	Total Cash Balances						
	Opening balance	372.4	184.4	356.4	477.9	145.5	403.7
	Cash transferred	-188.0	172.0	121.5	-332.4	258.2	-358.9
9	Closing balance	184.4	356.4	477.9	145.5	403.7	44.8

Bonds, Authorised Loan Facilities and Leases

Ref.	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar
	2020	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£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	257.2	288.9	315.0	334.7
* £35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	59.9	63.0	66.2	69.5
£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	257.2	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	119.2	392.7	443.9	557.4
* £165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.6	283.0	317.9	346.5	368.2
* £156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.2	261.9	294.3	320.7	340.8
£100m EIB Index Linked loan due 2025	92.0	79.8	68.1	57.1	35.5	15.5
£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	0.0	0.0	825.0	825.0
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 (FRS16)	0.0	0.0	31.7	30.4	29.1	27.8
Bridge Facility	0.0	0.0	0.0	400.0	0.0	0.0
Class A Indebtedness	3,635.2	3,913.5	4,063.2	4,569.3	5,106.9	5,263.9
Senior Indebtedness	3,635.2	3,913.5	4,063.2	4,569.3	5,106.9	5,263.9
10 Class A Net Indebtedness	3,450.8	3,557.1	3,585.3	4,423.8	4,703.2	5,219.1
11 Senior Net Indebtedness	3,450.8	3,557.1	3,585.3	4,423.8	4,703.2	5,219.1
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

* 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	385.3	347.3	313.8	434.0	
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.3	349.7	312.3	435.3	
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	65.3	72.2	83.6	109.0	
E	Senior Debt interest (8)			115.2	68.3	65.3	72.2	83.6	109.0	
F	Period end VAT debtor			10.2	11.0	13.0	21.0	14.0	15.0	
G	Capital Maintenance (MNI & IRE)			244.5	193.5	283.1	235.5	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	3.9	4.1
Class A Average ICR										
			1.4	N/A	5.4	6.0	5.9	4.1	4.0	4.1
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	3.9	4.1
Senior Average Adjusted ICR										
			1.2	N/A	5.4	6.0	5.9	4.1	4.0	4.1
Class A ICR										
	Historic: (B+F)/D	Projected: (A+F)/D	N/A	1.6	4.2	5.8	6.1	5.1	3.9	4.1
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D		N/A	1.0	2.1	3.0	1.8	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.

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	30-Sep 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m	
A			474.1	383.6	385.3	347.3	290.7	313.8	434.0	
B			476.7	386.0	387.3	349.7	293.1	312.3	435.3	
C										
	Depreciation of the RCV:									
			0.0	0.0	0.0	0.0		0.0	0.0	
			282.7	269.2	286.1	325.8		356.3	371.7	
D			115.2	68.3	65.3	72.2	63.5	83.6	109.0	
E			115.2	68.3	65.3	72.2	63.5	83.6	109.0	
F			10.2	11.0	13.0	21.0	15.3	14.0	15.0	
G			244.5	193.5	283.1	235.5	230.0	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	-0.3	0.7
Class A Average ICR										
			1.4	N/A	1.8	1.7	1.6	0.4	0.2	0.7
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	-0.3	0.7
Senior Average Adjusted ICR										
			1.2	N/A	1.8	1.7	1.6	0.4	0.2	0.7
Class A ICR										
	Historic: (B+F)/D	Projected: (A+F)/D	N/A	1.6	4.2	5.8	6.1	5.1	3.9	4.1
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D		N/A	1.0	2.1	3.0	1.8	1.9	1.2	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

<u>PR14 & PR19 Final Determinations:</u>		AMP 6 Period to 2020	AMP 7 Period to 2025	
Totex funding	Real £m	<u>2,639.4</u>	<u>3,371.9</u>	Wholesale operating costs and capital expenditure for the regulatory period (excluding pension deficit contributions outside of the Totex assessment)
Totex funding	Outturn £m	<u>2,957.0</u>	<u>3,942.5</u>	
Fast money	Outturn £m	1,403.4	1,654.3	Wholesale Totex recovered via revenues plus Retail opex
Slow money	Outturn £m	1,553.7	2,288.2	Wholesale Totex added to the RCV
Retail costs	FD £m	<u>294.9</u>	<u>261.7</u>	Costs for the Retail price control per Final Determination
Total		<u>3,251.9</u>	<u>4,204.2</u>	
Total Appointed expenditure (treating Retail as Fast money)				
Fast money		52.2%	45.6%	
Slow money		47.8%	54.4%	
<u>Actual costs</u>		AMP 6 Period to 2020	AMP 7 Period to 2025	
Operating costs per accounts	Outturn £m	1,632.9	2,253.9	Wholesale and retail operating costs
Capital expenditure per accounts	Outturn £m	<u>1,733.4</u>	<u>2,975.2</u>	
Total Appointed expenditure	Outturn £m	<u>3,366.3</u>	<u>5,229.1</u>	
Operating costs / Fast money		48.5%	43.1%	
Capital expenditure / Slow money		51.5%	56.9%	
<u>Variance between determined fast/slow money to actual costs</u>				
Operating costs / Fast money		3.7%	2.5%	
Capital expenditure / Slow money		-3.7%	-2.5%	

Reconciliation to Net Appointed Income

	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar	31 Mar
	2020	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m
Operating costs per Accounts	403.1	391.3	409.2	485.3	525.0	485.6
Non-appointed expenditure	-7.9	-7.5	-8.4	-7.9	-9.7	-9.0
Movement in operating cost working capital	-13.0	-8.1	10.0	-65.2	25.5	7.7
Difference between pension charge and cash contributions	16.7	17.3	17.7	0.0	0.0	4.3
IFRS16 Lease costs	1.5	2.1	0.0	0.0	0.0	0.0
Appointed operating cost cash flow (ref 3. page 10)	400.4	395.1	428.5	412.2	540.8	488.7

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	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m
Class A net interest received on financial derivatives	32.4	98.8	92.3	87.1	98.9	99.2

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 £ 88.5 million for 2023-24 equating to a Monthly Payment Amount for this period of £ 7.50 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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