# Investor Report and Compliance Certificate

## For the SWS Financing Group

## For the period ended 31 March 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 31 March 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 year ended 31 March 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 have engaged with shareholders to seek an additional £550 million of new equity funds for the group. We expect this process to conclude by the end of 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 the payment of dividends and require the preparation of a remedial plan for lenders. Following 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 permission further with a STID Proposal launched on 19 July 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

We continue to make improvements across our customer experience by increasing our self-serve options and enhancing the quality of our customer data. This, in turn, has allowed us to send our customers more personalised communications, at the right time. We have also spent considerable time getting out into our communities to find out what customers really want from us. This has resulted in some significant improvements to our operational signage and has led to us hosting more face-to face drop ins to provide information about the work we are carrying out locally. Following water incidents over the past year, particularly the July 2022 incident in Sheppey, we increased our use of text messaging and changed the way we manage our bottled water stations, to improve access for customers. Insight surveys we have carried out since have told us that these measures were positively received by customers. We have also made improvements to the way we work with customers who have been impacted by internal and external sewer flooding

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

## Operational performance

As a result of performance to date we have moved our Environmental Performance Assessment forward up from a 1 star rating to a 2 star rating. The Environment Agency report noted a significant reduction in serious pollutions (down 58%), amongst other signs of progress, in the face of a regulatory framework which progressively revises metrics and tightens thresholds.Southern Water has ambitions to go further, as repeated and reinforced in the recent Turnaround Plan. With regards to performance on specfic areas for 22-23 please see below :-

Leakage : For leakage, we recorded 108.5 Ml/d (2021–22: 94.9 Ml/d) against a three-year rolling average target of 90.9 Ml/d, resulting in a regulatory penalty of £2.332million. Ensuring a supply of high-quality water for the future continued. Unprecedented weather conditions over the drought in the summer and rapid changes in temperatures during the winter resulted in high leakage levels.

Water Quality : Any risk to water quality is measured by the Compliance Risk Index (CRI), with any failures being assessed by the Drinking Water Inspectorate (DWI). Our CRI score for 2022 was marginally better than the previous year, at 6.38 (2021: 6.69). The scores from treatment works and supply points remained fairly static, whereas service reservoirs dropped and breaches at customer taps rose.

Per Capita Consumption : We continue to work with our customers year-round to help them save water. Our three-year rolling average for per capita consumption is 133.7 litres per person, per day (2021–22: 133.6 litres per person, per day) against our target of 119.5 litres per person, per day. Although water use is now decreasing, the three-year rolling average fully reflects increases that we saw during the pandemic. Since a peak in consumption of 139 litres per person, per day in 2021, the in-year average has now reduced to 128.4 litres per person, per day.

Treatment works compliance : We achieved 98.22% (2021–22: 97.94%) in terms of our treatment works compliance, with a total of six failed works, one less than last year. The six failures were due to process failures recorded at these works. This performance equated to an ‘amber’ classification for the Environment Agency’s annual Environmental Performance Assessment (EPA) as our target for treatment works compliance with discharge permits is 100%.

Pollution incidents and Sewer Flooding : We want to protect the environment from any harm caused by sewer flooding. In 2022–23, the number of external sewer flooding incidents fell to 3,748 incidents (2021–22: 3,944), exceeding our Ofwat target of 3,887 and earning us a reward of £0.7 million. The number of internal sewer flooding incidents also fell to 456 (2020–21: 614), although we did not meet our Ofwat target of 321 and incurred a penalty of £3.7 million. We are reporting a provisional figure of 358 pollution incidents in categories 1-3 (this figure is under review by the Environment Agency). This represents a slight improvement on our performance (2021–22: 372), but still falling outside our Ofwat target of no more than 91 incidents. Following guidance provided by the EA on 21 February 2023, we also tracked five pollutions associated with spills on a dry day in 2022, reported as a shadow metric to test the use of this type of spill reporting.

Rivers and Beaches : Part of our WINEP delivery is the improvement programme for the water quality in 537 kilometres of rivers in our region by 2030. We met our 2022–23 target for this programme for river water quality by improving 102.7 kilometres of rivers.As well as river water quality, we monitor bathing water quality. We have over 700 miles of coastline with a total of 84 bathing waters. We met our target for bathing water standards with 57 out of the 84 bathing waters being classified as ‘Excellent’, compared to 60 last year. There is no obvious reason for this decline from Excellent to Good, except possible increased beach use in this country, during the very hot summer and when the pandemic made foreign travel difficult.

CSO Monitoring : We currently have effective monitoring at 88% of our Combined Sewer Overflows (CSOs). The coverage for CSO monitoring is at 98.6%, however, a number of our monitors have not been transmitting correctly. In some instances it is possible to use non EDM telemetry signals to provide us with an alternative method to spot and react to operational alerts. While our target for effective CSO monitoring is 99%, we are on track to install them on 100% of our CSOs by the end of 2023.

Renewable Energy : We are committed to using renewable sources of energy where we can. We generated 13.03% (2021–22: 15.85%) of the energy we use from renewable sources this year, falling below our target of 24%. The percentage of energy produced is affected by the amount of Combined Heat and Power (CHP) generation as well as the amount of overall electricity we use, which varies according to different weather conditions. Our CHP generation reduced due to a number of CHP failures, making the equipment unavailable, and we had to import more electricity than normal due to an increased use of pumps during the wet weather between November and January.

As has been reported previously, we continue to assist the EA in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. This investigation is ongoing and there have not been any significant developments during the year. We do not know when the investigation stage will be concluded, and we do not know if or when any charges against the company are likely, nor how many charges may be brought, nor how any specific charges might be framed. As the investigation is ongoing, and as the EA has not stated what its intentions are so far as the next steps in the investigation are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, nor its timing (which could be several months or years), but will keep the situation under review.

*Please see the Financial Statement and Report for the 12 months to 31 March 2023 for more information. This can be found on the southernwater.co.uk website.*

## Financial performance for the period ended 31 March 2023

Accounts are prepared under IFRS (FRS101).

| Period ended 31 March | 2022 £m | 2023 £m | *Change %* |
|---|---|---|---|
| Revenue | 846.3 | 817.5 | *-3.5* |
| Operating costs | -414.6 | -488.8 | *-15.2* |
| **EBITDA** | **431.7** | **328.7** | ***-31.3*** |
| EA fine | -91.5 | - | |
| Depreciation & amortisation | -324.1 | -347.1 | |
| Non-operating income | 1.5 | 6.5 | |
| Net finance costs | -196.2 | -278.6 | |
| Fair value movement | -669.0 | 659.1 | |
| **Profit before tax** | **-847.6** | **368.6** | |
| Tax | 86.1 | -83.7 | |
| **Profit after tax** | **-761.5** | **284.9** | |

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

Revenue decreased to £817.5 million (2022: £846.3 million). This is principally due to £63.6 million of net penalties for Outcome Delivery Incentives (ODI), £6.6 million reduced consumption by households during the drought and £3.3 million of generally lower consumption.
Partially offset by £17.0 million increased business consumption and £36.7 million inflationary increases in line with the allowances set by Ofwat.

Operating costs including the charge for bad and doubtful debts for the year increased by £74.2 million from £414.6 million to £488.8 million.Over the course of the year the most significant cost increases were:-
• Inflation and hyper-inflation – general inflation added a significant amount to our underlying costs, £22.2 million, with average inflation rates across most of our cost base lying between 4% and 7%. This included power costs, for which we had previously fixed prices. However, for certain chemicals and fuel we experienced inflation rates ranging from 14% to 200%, and these increased our operating costs by £8.2 million.
• Debt collection and bad debt charge – cash collection performance has been maintained as debt collection activities resumed post COVID–19, and with the support initiatives we have put in place to help customers facing financial difficulties in the current economic climate. As a result, our bad debt charge, which included an additional charge of £10.3 million in the prior year, for the potential impact of the economic pressure on customers, reduced by £17.9 million to £12.0 million (2022: £29.9 million). This reduction was offset by a small increase in our overall debt collection costs, resulting in a net reduction in operating costs of £16.6 million.
• Weather/incidents – As described in our strategic report, in 2022–23 we experienced loss of supply events in Kent and Hampshire which affected large numbers of customers. We would consider these events to be atypical due to the scale of the events which added £12.8 million to our operating costs. Since October 2022 we have experienced a prolonged period of extremely wet weather, with our region receiving 181% of the long-term average rainfall. Dealing with the high-ground water levels and infiltration cost a further £10.8 million. These increases were reduced in part by the costs incurred in the prior year for Storm Eunice which were not incurred in 2022–23 of £1.5 million.
• Testwood compliance tankering – at our Testwood Water Supply Works 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 £10.3 million in the year and we are working hard to identify an alternative solution to mitigate and reduce these exceptional costs for the future.

## 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 have engaged with shareholders to seek an additional £550 million of new equity funds for the group. We expect this process to conclude by the end of October 2023 with £375 million of that new equity being injected into Southern Water.

Liquidity as at 31 March 2023 comprises £145 million of cash reserves in the capex reserve and operating accounts plus £350 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.

| **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. The credit ratings for Standard & Poor's and Fitch have a negative outlook, Fitch published their updated rating in July 2023.

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 waive provide the requirement for creditor consents ability to raise certain permitted financial indebtendess during a credit rating downgrade Trigger Event and we are in the raising process of new debt for the current regulatory period to March 2025 extending this through a further STID Proposal launched on 19 July 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 31 March 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)
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.

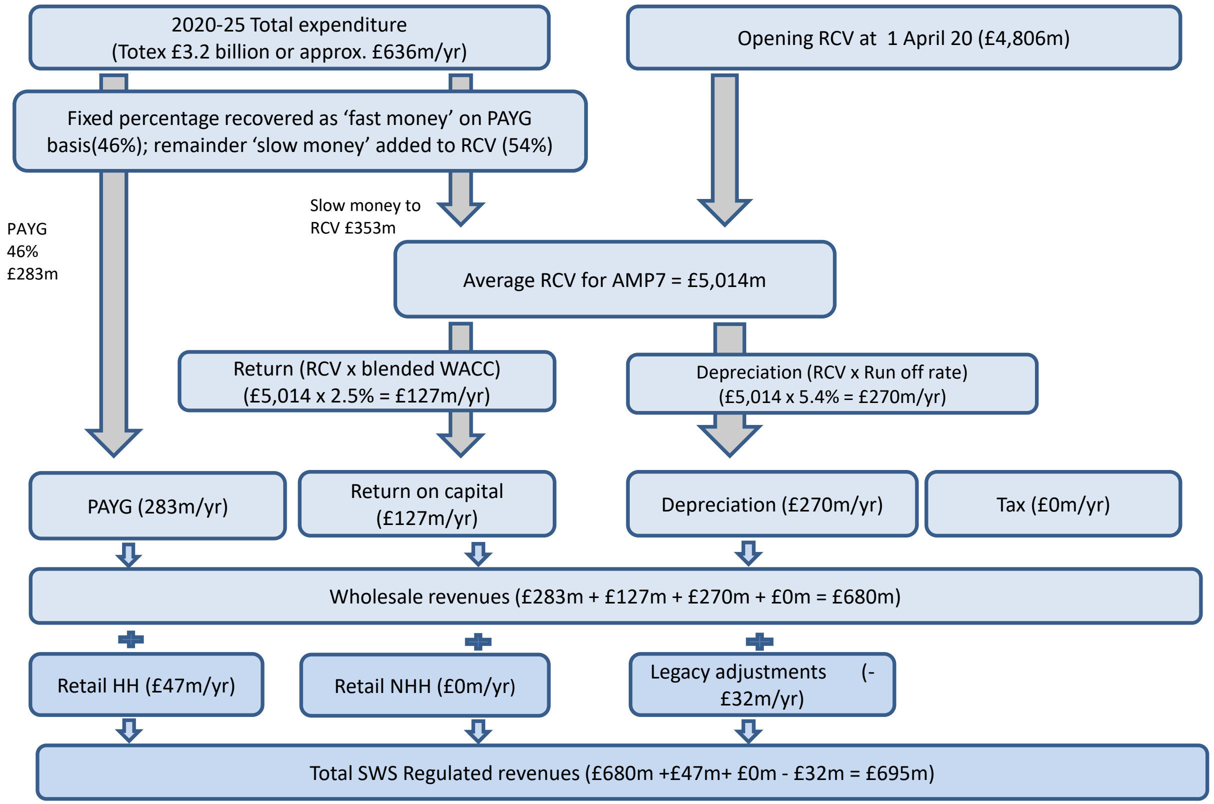
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR19, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR19 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 11.30% and CPIH 9.0%. Inflation forecasts used are for 2023-24, RPI 9.1% and CPIH 6.0%; 2024-25, RPI 3.9% and CPIH 2.9%.

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

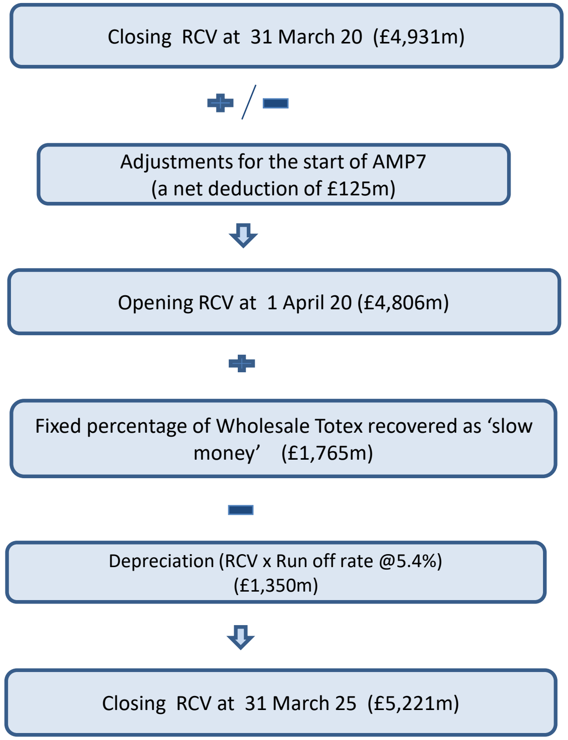
RCV reported used in this report is based upon the PR19 determined RCV inflated by the relevant RPI and CPIH indices. The value for the RCV for 2021-22 and of 2022-23 is different to that reported by Ofwat. Southern Water, and other companies, have queried the calculation of the RCV published by Ofwat.

**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 | 868.5 | 908.8 |
| 2 | Non Appointed | 10.5 | 9.9 | 10.4 | 10.4 | 10.2 | 10.2 |
| | Operating Costs | | | | | | |
| 3 | Appointed | 400.4 | 395.1 | 428.5 | 412.2 | 532.1 | 480.0 |
| 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 | 10.8 | 0.0 |
| 5 | Net Capital Expenditure (inc Disposals of Assets) | 472.9 | 381.2 | 511.3 | 678.2 | 692.8 | 606.0 |
| | Annual Finance Charge | 115.2 | 68.3 | 65.3 | 75.2 | 106.1 | 120.0 |
| 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 | -472.8 | -295.9 |
| | *** 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 | -423.3 | -24.4 |
| | Swap accretion payments | 0.0 | -194.5 | -46.9 | 0.0 | -19.4 | 0.0 |
| | Movement on DSPA | -4.6 | 12.8 | -0.9 | 0.0 | 0.2 | -0.1 |
| | Net cash reserves movement after financing | -188.0 | 172.0 | 120.6 | -331.5 | 284.7 | -320.4 |

* 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.

** 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.

*** A process to secure equity of £375m shown in 2023-24 is underway and forecast to complete by end of 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 |
|---|---|---|---|---|---|---|---|
| | Class A debt interest paid | 113.7 | 69.2 | 65.1 | 77.0 | 105.4 | 133.4 |
| | Class B debt interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Interest income | 0.9 | 1.9 | 0.8 | 6.2 | 5.8 | 15.1 |
| | Class A Facilities commitment fees | 2.4 | 1.0 | 1.0 | 1.4 | 1.6 | 1.7 |
| 7 | Class A Debt Interest | 115.2 | 68.3 | 65.3 | 72.2 | 101.2 | 120.0 |
| 8 | Senior Debt Interest | 115.2 | 68.3 | 65.3 | 72.2 | 101.2 | 120.0 |
| | Annual Finance Charge | 115.2 | 68.3 | 65.3 | 75.2 | 106.1 | 120.0 |
| | Monthly Payment Amount * | 10.0 | 5.9 | 5.5 | 6.5 | 8.9 | 11.3 |

* 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

## 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 | 340.6 |
| | Cash transferred | -48.2 | 231.9 | 36.0 | -218.7 | 290.5 | -318.3 |
| | Closing balance | 0.9 | 232.8 | 268.8 | 50.1 | 340.6 | 22.3 |
| | 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 | 59.5 |
| | Cash transferred | -135.2 | -100.2 | 74.2 | -87.1 | 0.0 | -2.1 |
| | Closing balance | 172.6 | 72.4 | 146.6 | 59.5 | 59.5 | 57.4 |
| | Total Cash Balances | | | | | | |
| | Opening balance | 372.4 | 184.4 | 356.4 | 477.9 | 145.5 | 430.2 |
| | Cash transferred | -188.0 | 172.0 | 121.5 | -332.4 | 284.7 | -320.4 |
| 9 | Closing balance | 184.4 | 356.4 | 477.9 | 145.5 | 430.2 | 109.8 |

## 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 | 257.2 | 288.9 | 318.4 | 337.4 |
| | * £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 | 567.2 | 665.5 |
| | * £165m Artesian 4.076% Index-linked Bonds due 2033 | 268.2 | 272.6 | 283.0 | 317.9 | 350.2 | 371.1 |
| | * £156m Artesian 3.635% Index-linked Bonds due 2032 | 248.2 | 252.2 | 261.9 | 294.3 | 324.1 | 343.4 |
| | £100m EIB Index Linked loan due 2025 | 92.0 | 79.8 | 68.1 | 57.1 | 35.9 | 15.6 |
| | £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 | 5,240.9 | 5,380.3 |
| | Senior Indebtedness | 3,635.2 | 3,913.5 | 4,063.2 | 4,569.3 | 5,240.9 | 5,380.3 |
| 10 | Class A Net Indebtedness | 3,450.8 | 3,557.1 | 3,585.3 | 4,423.8 | 4,810.7 | 5,270.5 |
| 11 | Senior Net Indebtedness | 3,450.8 | 3,557.1 | 3,585.3 | 4,423.8 | 4,810.7 | 5,270.5 |
| | 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 | 385.3 | 347.3 | 336.5 | 428.9 |
| B | Net Total Income (1+2+3+4+6) | | | 476.7 | 386.0 | 387.3 | 349.7 | 336.9 | 430.1 |
| 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 | 101.2 | 120.0 |
| E | Senior Debt interest (8) | | | 115.2 | 68.3 | 65.3 | 72.2 | 101.2 | 120.0 |
| F | Period end VAT debtor | | | 10.2 | 11.0 | 13.0 | 21.0 | 14.0 | 13.0 |
| 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 | 3.5 | 3.7 |
| Class A Average ICR | | 1.4 | N/A | 5.4 | 6.0 | 5.9 | 4.1 | 3.6 | 3.7 |
| 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 | 3.5 | 3.7 |
| Senior Average Adjusted ICR | | 1.2 | N/A | 5.4 | 6.0 | 5.9 | 4.1 | 3.6 | 3.7 |
| Class A ICR | | | | | | | | | |
| | Historic: (B+F)/D Projected: (A+F)/D | N/A | 1.6 | 4.2 | 5.8 | 6.1 | 5.1 | 3.5 | 3.7 |
| 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 | 31 Mar 2024 £m | 31 Mar 2025 £m |
|---|---|---|---|---|---|---|---|---|---|
| A | Net Appointed Income (1+3+6) | | | 474.1 | 383.6 | 385.3 | 347.3 | 336.5 | 428.9 |
| B | Net Total Income (1+2+3+4+6) | | | 476.7 | 386.0 | 387.3 | 349.7 | 336.9 | 430.1 |
| 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 | 286.1 | 325.8 | 357.1 | 372.3 |
| D | Class A Debt interest (7) | | | 115.2 | 68.3 | 65.3 | 72.2 | 101.2 | 120.0 |
| E | Senior Debt interest (8) | | | 115.2 | 68.3 | 65.3 | 72.2 | 101.2 | 120.0 |
| F | Period end VAT debtor | | | 10.2 | 11.0 | 13.0 | 21.0 | 14.0 | 13.0 |
| 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 | 1.8 | 1.9 | 1.8 | 0.6 | -0.1 | 0.6 |
| Class A Average ICR | | 1.4 | N/A | 1.8 | 1.7 | 1.6 | 0.4 | 0.3 | 0.6 |
| 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 | -0.1 | 0.6 |
| Senior Average Adjusted ICR | | 1.2 | N/A | 1.8 | 1.7 | 1.6 | 0.4 | 0.3 | 0.6 |
| Class A ICR | | | | | | | | | |
| | Historic: (B+F)/D Projected: (A+F)/D | N/A | 1.6 | 4.2 | 5.8 | 6.1 | 5.1 | 3.5 | 3.7 |
| 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 |

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 | 3,942.5 | (excluding pension deficit contributions outside of the Totex assessment) |
| 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 | 294.9 | 261.7 | Costs for the Retail price control per Final Determination |
| Total | | 3,251.9 | 4,204.2 | |
| 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 | 2,250.6 | Wholesale and retail operating costs |
| Capital expenditure per accounts | Outturn £m | 1,733.4 | 2,992.0 | |
| Total Appointed expenditure | Outturn £m | 3,366.3 | 5,242.6 | |
| Operating costs / Fast money | | 48.5% | 42.9% | |
| Capital expenditure / Slow money | | 51.5% | 57.1% | |

**Variance between determined fast/slow money to actual costs**

| | | |
|---|---|---|
| Operating costs / Fast money | 3.7% | 2.6% |
| Capital expenditure / Slow money | -3.7% | -2.6% |

## 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 | 409.2 | 485.3 | 521.7 | 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 | 30.8 | 3.3 |
| Difference between pension charge and cash contributions | 16.7 | 17.3 | 17.7 | 0.0 | 0.0 | 0.0 |
| 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 | 542.8 | 480.0 |

## 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 |
|---|---|---|---|---|---|---|
| Class A net interest received on financial derivatives | 32.4 | 98.8 | 92.3 | 87.1 | 74.5 | 73.5 |

## 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| G | Class A Net Indebtedness (10) | | | | 3,450.8 | 3,557.1 | 3,585.3 | 4,423.8 | 4,810.7 | 5,270.5 |
| H | Senior Net Indebtedness (11) | | | | 3,450.8 | 3,557.1 | 3,585.3 | 4,423.8 | 4,810.7 | 5,270.5 |
| I | RCV | | | | 5,141.9 | 5,120.2 | 5,658.5 | 6,472.6 | 6,934.8 | 7,140.7 |
| Class A RAR | | | | | | | | | | |
| | Historic / Projected: G/I | | 0.750 | 0.950 | 0.671 | 0.695 | 0.634 | 0.683 | 0.694 | 0.738 |
| Senior RAR | | | | | | | | | | |
| | Historic / Projected: H/I | 0.850 | 0.900 | 0.950 | 0.671 | 0.695 | 0.634 | 0.683 | 0.694 | 0.738 |

| | Default | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Control of Repayments (maturity buckets) | | | | | | | |
| Percentage of refinancing - consecutive two years: no more than: | 20% | | 16.9% | 11.5% | 6.2% | 11.2% | 6.6% |
| Percentage of refinancing - within a regulatory period: no more than: | 40% | | <<<<<<<<<<<<<<<< | | 22.3% | >>>>>>>>>>>>>>> | |

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 £101.2m million for 2023-24 equating to a Monthly Payment Amount for this period of £8.9 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

Richard Manning
For and on behalf of
Southern Water Services Ltd

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

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

**Contact:**

James Gillard
Group Treasurer
Mobile 07840 718062
Email: James.Gillard@southernwater.co.uk