Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 2022

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 30 September 2022. 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 2022

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 fine was paid March 2022 out of new equity proceeds received September 2021

In September 2021 an agreement was reached between our shareholders and a fund managed by Macquarie Asset Management (MAM), to invest £1 billion into the group, of which £529.9 million was invested into Southern Water. It gives us the funding we need to accelerate improvements in both our operational and financial performance. It also reinforces our ability to tackle the challenges of climate change and population growth.

General levels of service

Customer

Our performance against Ofwat's Customer Measure of Experience (C-MeX) for the year to 31 March 2022 saw us finish 16th out of 17 companies, incurring a penalty of £4.5 million. We continue to invest in digital services as an enabler, and we are constantly improving self-serve options for customers to contact us

As a result of several incidents and the introduction of Temporary Use Bans in Hampshire and the Isle of Wight, the past six months has been busy for our customer facing teams, with our inbound call centre reaching a peak of contact at one point in August of 300% above forecast call volumes in one day. We remain in 16th place in the industry league tables for C-MeX out of 17. Our focus remains improving our customer journeys and reducing the number of times our customers need to contact us.

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

Operational performance

We are investing an additional £230 million, from the proceeds of the £529.9 million of new equity injection in September 2021, to upgrade Southern Water's infrastructure, and to accelerate our plans to make the necessary improvements to our operational performance.

A long hot summer in 2022 has seen a significant increase in demand, and leakage levels have also risen. We will not meet our Ofwat target of a three-year rolling average of 90.9 Ml/d. Despite these challenging circumstances, we have renewed our efforts to drive down leakage and have reduced our year end forecast from 97.5Ml/d, to 95.2Ml/d. This has been achieved as a result of increased find and fix resource and activity, further capital investment in pressure management, and network digitisation.

Water Quality: In our Annual Report published in July 2022, we reported that our water quality measure CRI score had risen to 6.69 (2020–21: 4.53). Although we are not meeting our Ofwat target of 0, we are predicting a small reduction to our CRI score for 2022 to 6.53.

Per Capital water consumption: COVID-19 continues to have a significant impact of customer consumption given the change to working patterns. We experienced a fall in consumption from 139.0 in 2020–21 to 133.6 in 2021–22, and despite the hot dry summer, we are expecting to see a year- on-year reduction in customer usage for 2022– 23, with the forecast for the end of the year being 129.6.

Treatment works compliance: We made a positive start to 2022 with no failed works in the first five months of the year. We expect to end 2022 with a total of five failed works compared to seven failed works in 2021. Five failed works will give a compliance score of 98.53% for this year (2021: 97.94%), bringing us closer to our target of 100%.

Pollution incidents: We are currently forecasting a total for the year of 250, a reduction of nearly 122 incidents compared to 2021. Although extreme weather and drought impacted the sewer network during this time, we are making significant improvements to our performance. We publish a detailed Pollution Incident Reduction Plan alongside our annual pollution figures on our website.

Our target for monitoring of Combined Sewer Overflows (CSOs) is to reach 99% of CSOs with effective spill monitoring. We currently have a monitor installed at 978 of our storm overflows, which represents 99% coverage versus 98% in 2021–22 and are maintaining fully effective monitoring for 88%.

Our target for renewable generation in this financial year is to generate 24% of our company's total electricity consumption. We are expecting to generate 18.1% this year, falling short of our Ofwat target, but in line with our plan for this year and improving on the 2021–22 score of 15.85%.

An Environment Agency investigation into our wastewater sampling compliance for the period 2013–2017 is ongoing, and we continue to provide all possible assistance. As announced in the media in November 2021, all water and wastewater companies in England and Wales are subject to a separate investigation into flow at sewage treatment works and enforcement cases have been opened into six water companies so far,but not us. We have provided a significant amount of information to our regulator and will continue to assist with any investigations.

Please see the Interim Financial Statement and Report for the six months to 30 September 2022 for more information. This can be found on the southernwater.co.uk website.

Financial performance for the period ended 30 September 2022

Accounts are prepared under IFRS (FRS101).

Period ended 30 September	**2021 £m**	**2022 £m**	***Change %***
Revenue	413.6	406.8	*-1.7*
Operating costs	-198.4	-225.1	*-11.9*
EBITDA	**215.2**	**181.7**	***-18.4***
EA fine	-91.5	-	
Depreciation & amortisation	-138.3	-156.3	
Non-operating income	0.9	2.2	
Net finance costs	-73.1	-113.3	
Fair value movement	-346.9	754.0	
Profit before tax	**-433.7**	**668.3**	
Tax	2.4	-164.9	
Profit after tax	**-431.3**	**503.4**	

Revenue for the period, excluding the amortisation of regulatory settlement, decreased to £406.8 million (period to 30 September 2021: £413.6 million). This decrease principally arises from higher levels of billing raised, than had been anticipated, during the period to September 2021 for the preceding financial year and the application of Outcome Delivery Incentive penalties to our wastewater tariff for 2022–23.

Over the period to September 2022 the principal drivers of additional operating costs were as follows:

- Catchment management activities to improve the quality and quantity of drinking water supplies as part of the Water Industry National Environment Plan
- Pollution management, including a Clean Rivers and Seas Task Force to identify solutions to the management of surface water
- A large water main burst on the Isle of Sheppey in July that unfortunately left 24,000 of our customers without water
- The impact of a revision to the accounting for Cloud Computing Arrangements (Software as a Service) which resulted in an additional £1.3 million being recorded as operating costs in the current financial year
- Inflation which has increased prices for all our operational costs, most notably our power, chemicals and materials

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 fine was paid March 2022 out of new equity proceeds received September 2021.

Full interim financial statements are published on the 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.

Liquidity as at 30 September 2022 comprises £179 million of cash reserves in the capex reserve and operating accounts plus £330 million undrawn RCF. In addition is £143 million of standstill facilities and standstill cash reserves.

The credit facilities were renewed on 31 March 2022. The RCF was increased to £350 million and standstill facilities were increased to £190 million which is expected to release £44 million of 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.

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 Standatd & Poor's and Fitch has a negative outlook.

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 restrict the payment of dividend (a STID approval was secured in February 2021 to waive the requirement for creditor consents to the raising of new debt for the current regulatory period to March 2025). 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 2022

Keith Lough (Chairman)

Lawrence Gosden (Chief Executive Officer, appointed 01 July 2022)

Nadim Ahmad (Interim Chief Financial Offcer, appointed 31 July 2022)

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)

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.

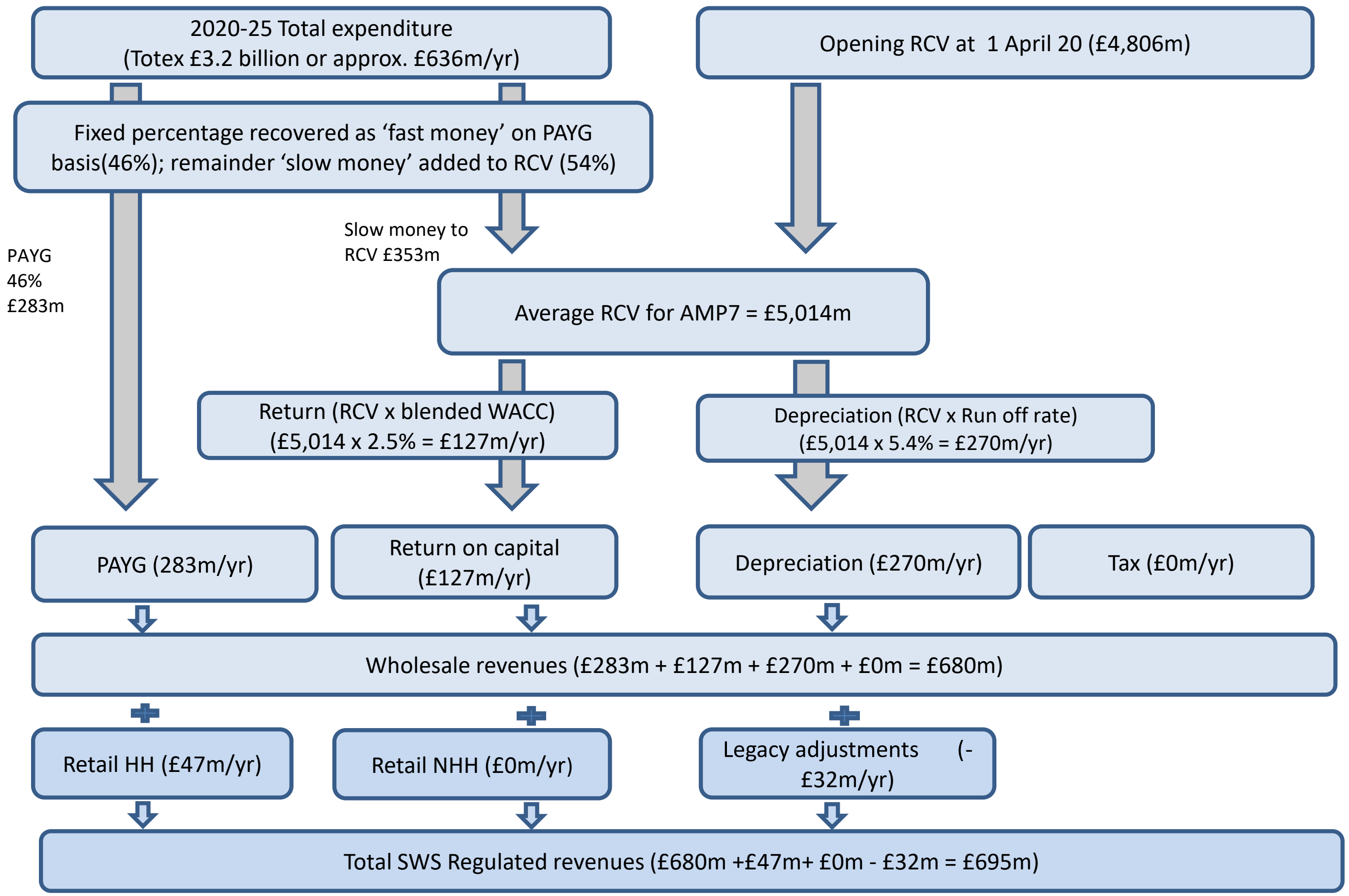
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR19, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR19 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 2022 was 9.0% and CPIH 6.2%. Inflation forecasts used are for2022-23, RPI 12.0% and CPIH 8.3%; 2023-24, RPI 5.7% and CPIH 3.5%; 2024-25, RPI 3.7% and CPIH 2.4%.

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

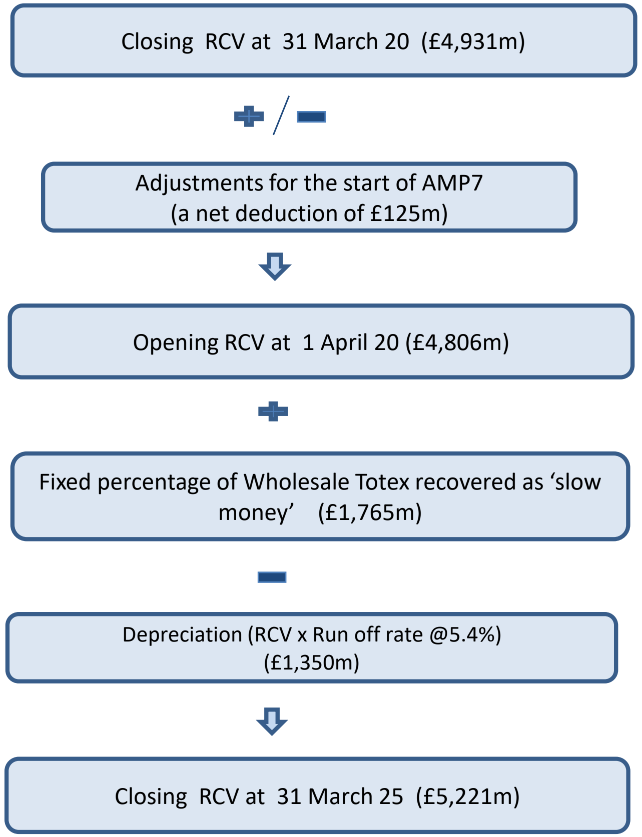
RCV reported used in this report is based upon the PR19 determined RCV inflated by the relevant RPI and CPIH indices. The value for the RCV for 2020-21 and of 2021-22 is different to that reported by Ofwat. Southern Water, and other companies, have queried the calculation of the RCV published by Ofwat.

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	784.5	857.3	898.0
2	Non Appointed	10.5	9.9	10.4	10.9	11.1	11.1
	Operating Costs						
3	Appointed	400.4	395.1	428.5	365.1	361.0	372.6
4	Non Appointed	7.9	7.5	8.4	8.9	7.8	7.8
	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	652.6	559.9	390.7
	Annual Finance Charge	115.2	68.3	65.3	71.9	86.8	98.2
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	35.0	35.0	35.0
	Net cash flow before financing	-170.5	-63.5	-341.4	-338.1	-182.1	4.8
	Proceeds from new equity for SWS	0.0	0.0	529.9	0.0	0.0	0.0
	Proceeds from new financing	138.5	1107.2	0.0	474.6	0.0	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	-22.6	-23.3
	Swap accretion payments	0.0	-194.5	-46.9	0.0	-17.1	0.0
	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	121.5	-173.7	-221.8	-18.5

* Appointed revenues for 2023, 2024, and 2025 include a forecast net ODI penalty of £104m (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 fund managed by Macquarie Asset Management acquired a majority stake in our ultimate parent company, Greensands Holdings Limited, on 8 September 2021. Equity in excess of £1 billion was invested into the group, of which £529.9 million was invested in Southern Water Services. The purpose of the new equity is to pay for the EA prosecution fine and to finance additional capital investment of £230 million in order to improve operational resilience. Forecast dividends have accordingly been included from 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	76.8	97.5	99.9
	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	12.3	3.3
	Class A Facilities commitment fees	2.4	1.0	1.0	1.3	1.6	1.6
7	Class A Debt Interest	115.2	68.3	65.3	71.9	86.8	98.2
8	Senior Debt Interest	115.2	68.3	65.3	71.9	86.8	98.2
	Annual Finance Charge	115.2	68.3	65.3	71.9	86.8	98.2
	Monthly Payment Amount *	10.0	5.9	5.5	6.5	8.3	8.5

* 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. £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	0.0	0.0
	Cash transferred	0.0	27.5	0.0	-27.5	0.0	0.0
	Closing balance	0.0	27.5	27.5	0.0	0.0	0.0
	Capex Reserve account						
	Opening balance	49.1	0.9	232.8	268.8	256.6	34.8
	Cash transferred	-48.2	231.9	36.0	-12.2	-221.8	-16.4
	Closing balance	0.9	232.8	268.8	256.6	34.8	18.4
	Debt Service Payment account						
	Opening balance	15.5	10.9	23.7	35.0	26.0	26.0
	Cash transferred	-4.6	12.8	11.3	-9.0	0.0	0.0
	Closing balance	10.9	23.7	35.0	26.0	26.0	26.0
	SWS Operating accounts						
	Opening balance	307.8	172.6	72.4	146.6	21.6	21.6
	Cash transferred	-135.2	-100.2	74.2	-125.0	0.0	-2.1
	Closing balance	172.6	72.4	146.6	21.6	21.6	19.5
	Total Cash Balances						
	Opening balance	372.4	184.4	356.4	477.9	304.2	82.4
	Cash transferred	-188.0	172.0	121.5	-173.7	-221.8	-18.5
9	Closing balance	184.4	356.4	477.9	304.2	82.4	63.9

The reduction to the forecast cash balance in the O&M Reserve Account reflects a forecast that the O&M Reserve Facility will be increased on renewal of facilities during 2022-23 and the increase will be sufficient to release the cash reserve.

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	308.8	319.9
	*	£35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	59.9	63.0	66.2	68.5
		£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	370.1	454.8	525.9
	*	£165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.6	283.0	317.8	339.7	351.9
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.2	261.9	294.1	314.3	325.7
		£100m EIB Index Linked loan due 2025	92.0	79.8	68.1	51.7	34.8	14.8
		£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	0.0	480.0	485.2	491.8
		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
		Class A Indebtedness	3,635.2	3,913.5	4,063.2	4,621.0	4,757.9	4,851.3
		Senior Indebtedness	3,635.2	3,913.5	4,063.2	4,621.0	4,757.9	4,851.3
10		Class A Net Indebtedness	3,450.8	3,557.1	3,585.3	4,316.8	4,675.5	4,787.4
11		Senior Net Indebtedness	3,450.8	3,557.1	3,585.3	4,316.8	4,675.5	4,787.4
		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	419.4	496.3	525.4
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.3	421.4	499.6	528.7
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	71.9	86.8	98.2
E	Senior Debt interest (8)			115.2	68.3	65.3	71.9	86.8	98.2
F	Period end VAT debtor			10.2	11.0	13.0	12.6	11.1	8.4
G	Capital Maintenance (MNI & IRE)			244.5	193.5	283.1	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	6.1	6.0	5.9	5.4
Class A Average ICR		1.4	N/A	5.4	6.0	5.9	5.8	5.6	5.4
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	4.2	5.8	6.1	6.0	5.9	5.4
Senior Average Adjusted ICR		1.2	N/A	5.4	6.0	5.9	5.8	5.6	5.4
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.8	6.1	6.0	5.9	5.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	3.0	1.8	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	385.3	419.4	496.3	525.4
B	Net Total Income (1+2+3+4+6)			476.7	386.0	387.3	421.4	499.6	528.7
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	323.9	344.9	355.3
D	Class A Debt interest (7)			115.2	68.3	65.3	71.9	86.8	98.2
E	Senior Debt interest (8)			115.2	68.3	65.3	71.9	86.8	98.2
F	Period end VAT debtor			10.2	11.0	13.0	12.6	11.1	8.4
G	Capital Maintenance (MNI & IRE)			244.5	193.5	283.1	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	1.8	1.5	1.9	1.8
Class A Average ICR		1.4	N/A	1.8	1.7	1.6	1.7	1.8	1.8
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.8	1.9	1.8	1.5	1.9	1.8
Senior Average Adjusted ICR		1.2	N/A	1.8	1.7	1.6	1.7	1.8	1.8
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.8	6.1	6.0	5.9	5.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	3.0	1.8	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	3,884.2	(excluding pension deficit contributions outside of the Totex assessment)
Fast money	Outturn £m	1,403.4	1,629.0	Wholesale Totex recovered via revenues plus Retail opex
Slow money	Outturn £m	1,553.7	2,255.2	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	4,145.9	
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	1,894.4	Wholesale and retail operating costs
Capital expenditure per accounts	Outturn £m	1,733.4	2,487.1	
Total Appointed expenditure	Outturn £m	3,366.3	4,381.5	
Operating costs / Fast money		48.5%	43.2%	
Capital expenditure / Slow money		51.5%	56.8%	

Variance between determined fast/slow money to actual costs				
Operating costs / Fast money		3.7%	2.4%	The AMP7 variance is affected by the additional £230m capital investment financed by the new equity injection in 2021. This accounts for 2.4% of the variance of AMP7 fast/slow money.
Capital expenditure / Slow money		-3.7%	-2.4%	

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	388.1	374.2	372.0
Non-appointed expenditure	-7.9	-7.5	-8.4	-8.9	-7.8	-7.8
Movement in operating cost working capital	-13.0	-8.1	10.0	-14.1	-5.4	8.4
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	365.1	361.0	372.6

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	87.4	78.4	77.5

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	4,316.8	4,675.5	4,787.4
H	Senior Net Indebtedness (11)				3,450.8	3,557.1	3,585.3	4,316.8	4,675.5	4,787.4
I	RCV				5,141.9	5,120.2	5,658.5	6,361.8	6,618.8	6,857.6
Class A RAR										
	Historic / Projected: G/I		0.750	0.950	0.671	0.695	0.634	0.679	0.706	0.698
Senior RAR										
	Historic / Projected: H/I	0.850	0.900	0.950	0.671	0.695	0.634	0.679	0.706	0.698
Control of Repayments (maturity buckets)										
Percentage of refinancing - consecutive two years: no more than:				20%		16.9%	11.5%	6.3%	5.4%	0.9%
Percentage of refinancing - within a regulatory period: no more than:				40%		<<<<<<<<<<<<<<<<<		16.2%	>>>>>>>>>>>>>>>	

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 £71.9 million for 2022-23 equating to a Monthly Payment Amount for this period of £6.5 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.

Nadim Ahmad
Chief Financial Officer
For and on behalf of
Southern Water Services Ltd

Richard Manning
For and on behalf of
Southern Water Services Ltd

Nadim Ahmad
For and on behalf of
SW (Finance) I plc
SW (Finance) II Ltd

Steven Collins
For and on behalf of
SW (Finance) I plc
SW (Finance) II Ltd

Contact:

Steve Collins
Group Treasurer
Mobile 07748 320956
Email: SteveM.Collins@southernwater.co.uk