Southern Water

Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 2020

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 2020. The Investor Report is a requirement of the Common Terms Agreement (CTA), which governs the company's obligations to its lenders and investors.

Projected financial ratios are published for the current PR19 / AMP7 period from April 2020 to March 2025, and include additional interest cover ratios to maintain the effectiveness of financial ratios following regulatory building block changes from the previous PR14 (AMP6) price determination.

General levels of service

Customer

The Service Incentive Mechanism (SIM) ended for the financial year 2018-19 and will be replaced for the next period to March 2025 by C-Mex, plus a new measure, D-Mex relating to developer services. 2019-20 was a transition year for the new measures and does not count towards rewards/penalties.

The SIM score comprised two measures, a quantitative measure reflecting the number and type of "unwanted" contact from customers and a qualitative measure of customer satisfaction, and the new measures are based upon customer satisfaction only.

Southern Water’s overall C-MeX score for the 2019–20 transition year was 68.85, against an industry average of 76.33. This places us 16th out of 17 companies.

	31 Mar 2016	31 Mar 2017	31-Mar 2018	31-Mar 2019		31-Mar 2020
SIM score	73	78	79	80	*C-Mex*	*76*
Position	17	17	15	13	*Position*	*16*
					D-Mex position	*14*

Customer - Covid-19:

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

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

We took a number of immediate steps to help our customers, introducing payment breaks and streamlining the application process for our support tariffs. Given the financial impact of the pandemic, we took the position that it would be inappropriate to follow our usual debt collection processes, so we temporarily stopped many of our activities. We also made donations to food banks and community foundations across our region and focused our attention on increasing the number of customers in vulnerable circumstances on our Priority Register so we could make sure they had access to the services they need in an emergency. From February to September 2020, the number of customers on our register has increased by 52%.

Operational performance

The water reaching customers' taps continues to meet the Drinking Water Inspectorate's stringent water quality tests, with 99.97% of samples meeting all the necessary standards. Our predicted Compliance Risk Index (CRI) score year to date is 5.39. The largest factor effecting the score is bacteriological detections at Water Treatment Works. The CRI scoring of some compliance breaches is uncertain due to sampling changes made to accommodate social distancing due to COVID-19. We predict that our CRI score for year-end will see us towards the bottom of the industry league tables.

Despite a number of major incidents over the prolonged dry period and exceptional temperatures of the summer months, the number of minutes that customers' properties were interrupted for have stayed within target at five minutes and 31 seconds for the first six months of 2020-21.

During the high temperatures we experienced from the end of May, into both July and August we saw an exceptional increase in water demand, largely as a combined effect of the hot weather and COVID-19 restrictions causing more people to be at home and observing Government hygiene guidance on washing hands. The impact of this and the reconfiguration of the network to maintain consistent supplies of water to our customers has impacted the number of properties at risk of experiencing low pressure, increasing the number of properties at risk on our register to 1,672 against our year-end target of 242. We continue to review our data to assess how many properties remain affected by poor pressure but we are confident we will be able to start removing properties from the risk register now that the hot summer months have passed.

Current total average leakage level for the company is 99.58 Ml/d. This increase is expected and follows historical seasonal trends, however, higher than expected household consumption due to COVID-19 measures and the exceptionally hot weather this summer has also impacted estimated leakage levels. The validation of allowances applied to leakage continues and should have a positive impact.We are continuing to invest in improvements in the teams and technology used to detect leaks. We have installed 7,400 acoustic loggers on our network, increased the number of find-and-fix teams on the ground and we are aiming to complete 20,000 leak repairs by April 2021.

We had 374 pollutions as of September (pre verification), above our target for this point in the year. Post verification our year end forecast is 394. We know this performance is unacceptable and we have now published a detailed Pollution Incident Reduction Plan (PIRP), which we have shared with the Environment Agency.The start of 2020 was very challenging as we experienced the fifth wettest winter and the wettest February on record. Our primary focus in the drafting of our PIRP has been on wastewater pumping stations and wastewater treatment works, which is where we have seen the largest increase in pollutions since 2018, mostly driven by improvements in self-reporting culture.

The financial statements for 2018–19 recognised a provision of £138.5 million in respect of a settlement agreed with Ofwat into an investigation into the management, operation and performance of the company's wastewater treatment works. This provision reflects an agreement by the compsny to make direct customer rebates totalling £135.5 million in outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25, plus a fine of £3 million already paid in 2019-20. The company has also given a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

During 2019-20 a provision of £1.0 million was recognised in relation to the charges presented by the Environment Agency to the court regarding historic wastewater performance. This provision represents a minimum amount as indicated by the Sentencing Guidelines and an allowance for legal costs. The court has a very broad discretion to assess the level of the fine and the provision is not intended to indicate or predict any particular level.

Financial performance for the period ended 30 September 2020 (unaudited)

Accounts are prepared under IFRS (FRS101).

6 months ended 30 September	**2020** **£m**	**2019** **£m**	***Change*** ***%***
Revenue	398.9	441.3	*-9.6*
Operating costs	-195.5	-189.4	*-3.2*
EBITDA	**203.4**	**251.9**	***-19.3***
Depreciation & amortisation	-140.1	-131.4	
Profit on disposals	0.3	0.5	
Net finance costs	-33.4	-70.8	
Fair value movement	-200.7	-123.9	
Profit before tax	**-170.5**	**-73.7**	
Tax	35.8	11.2	
Profit after tax	**-134.7**	**-62.5**	

Revenue for the period decreased to £398.9 million (period to 30 September 2019: £441.3 million). This decrease is in line with expectations and principally results from reductions to our water and wastewater tariffs which were agreed as part of our Business Plan 2020–25. We experienced a record rise in our household consumption during the first six months of the year a result of the good weather in the summer and the increase in demand during the lockdown. The increased revenue associated with this was largely offset by a fall in our non-household income, reflecting the impact the pandemic had on our business customers.

Operating costs for the first half of the year of £195.5 million increased by 3.2% (period to 30 September 2019: £189.4 million). This increase, described in more detail below,was largely driven by the effect of COVID-19 on our bad debt charge, operational and weather related incidents, and inflation. These costs increases were offset by efficiencies delivered as a result of our transformation programme.

Over the past six months we have had to adapt to new ways of working in the wake of the COVID-19 pandemic. We know that many of our household customers are facing uncertain futures and will find it difficult to pay their bills. We have taken a number of immediate steps to help our customers, for example, introducing payment breaks, providing additional support to vulnerable customers, and we have also paused our debt collection processes. As a result we have reviewed the recoverability of our outstanding debt at 30 September and recognised a bad debt charge for the period of £17.5 million (period to 30 September 2019: £7.0 million) this increase of £10.5 million in the bad debt charge for the period is partly offset by a reduction in our debt collection costs of £5.3 million.

During the period to 30 September we have experienced an increase in water demand as a result of two spells of very hot weather over the summer, as well as from customers spending more time at home due to the pandemic. We have also responded to a number of bursts on both our water and wastewater network. These operational incidents have resulted in increased operating costs of £5.0 million.

Net finance costs, excluding fair value movements on financial derivatives, decreased to £33.4 million (period to 30 September 2019: £70.8 million). This was largely due to a reduction in bond interest payable, net of swap receipts, following a restructure of our debt portfolio of £29.2 million and higher interest capitalised following the continued investment in our capital programme of £2.6 million.

Financing

We are in a strong position of liquidity. As at 30 September 2020 there was £499 million of cash plus £330 million undrawn RCF in addition to £147.5 million standstill facilities.

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

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

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

The credit rating for Moody' has a Stable Outlook. The credit ratings for Standard & Poor's and Fitch are on 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 require creditor consents to the raising of new debt and restrictions on the payment of dividends. A cash lock-up under our Licence of Appointment would occur where the credit rating outlook assigned the lowest investment grade credit rating has been changed from stable or positive to negative.

Dividend and Financing Policy

Our dividend policy is formulated to ensure a fair balance of reward between customers and investors. To deliver on our vision for the successful delivery of our Business Plan for 2020–25, all stakeholders must share in success: customers benefitting through enhanced service and lower bills, and shareholders earning a fair return on the near £2 billion of equity invested.

When proposing payment of a dividend the Directors of Southern Water Services Limited, acting independently in accordance with their directors' duties and in accordance with the Company's Licence, will apply the following principles:

1. Determination of a base level of dividend, based on an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, we will take into account our financial and non-financial performance. This would reflect our overall financial performance as compared to the final Business Plan for 2020–25 as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.
3. We will consider our financial resilience ahead of any dividend decision, and whether any financial outperformance should be re-invested to benefit our customers. This consideration will also include taking into account the interests of our employees, other stakeholders, and our pension schemes.

Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of step three we carry out an assessment of:

a) headroom under debt covenants
b) the impact on the company's credit rating
c) the liquidity position and ability to fulfil licence conditions
d) key areas of business risk.

4. We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
5. We will publish our Dividend Policy annually (as part of the Annual Report), and highlight any changes.

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

Board membership (of Southern Water Services Ltd)

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

Ultimate parent company

The ultimate parent company is Greensands Holdings Ltd.

Financial ratios

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

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

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

Short term forecast RPI used for this Investor Report are calculated as the average of inflation forecasts published by a number of UK banks. RPI at March 2020 was 2.6%, the forecast RPI used for March 2021 is 1.7% (CPIH 1.4%), and the long term forecast used for RPI is 2.9% (CPIH 2.1%)

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

During 2019-20 a provision of £1.0 million was recognised in relation to the charges presented by the Environment Agency to the court regarding historic wastewater performance. This provision represents a minimum amount as indicated by the Sentencing Guidelines and an allowance for legal costs. The court has a very broad discretion to assess the level of the fine and the provision is not intended to indicate or predict any particular level.

Covid-19

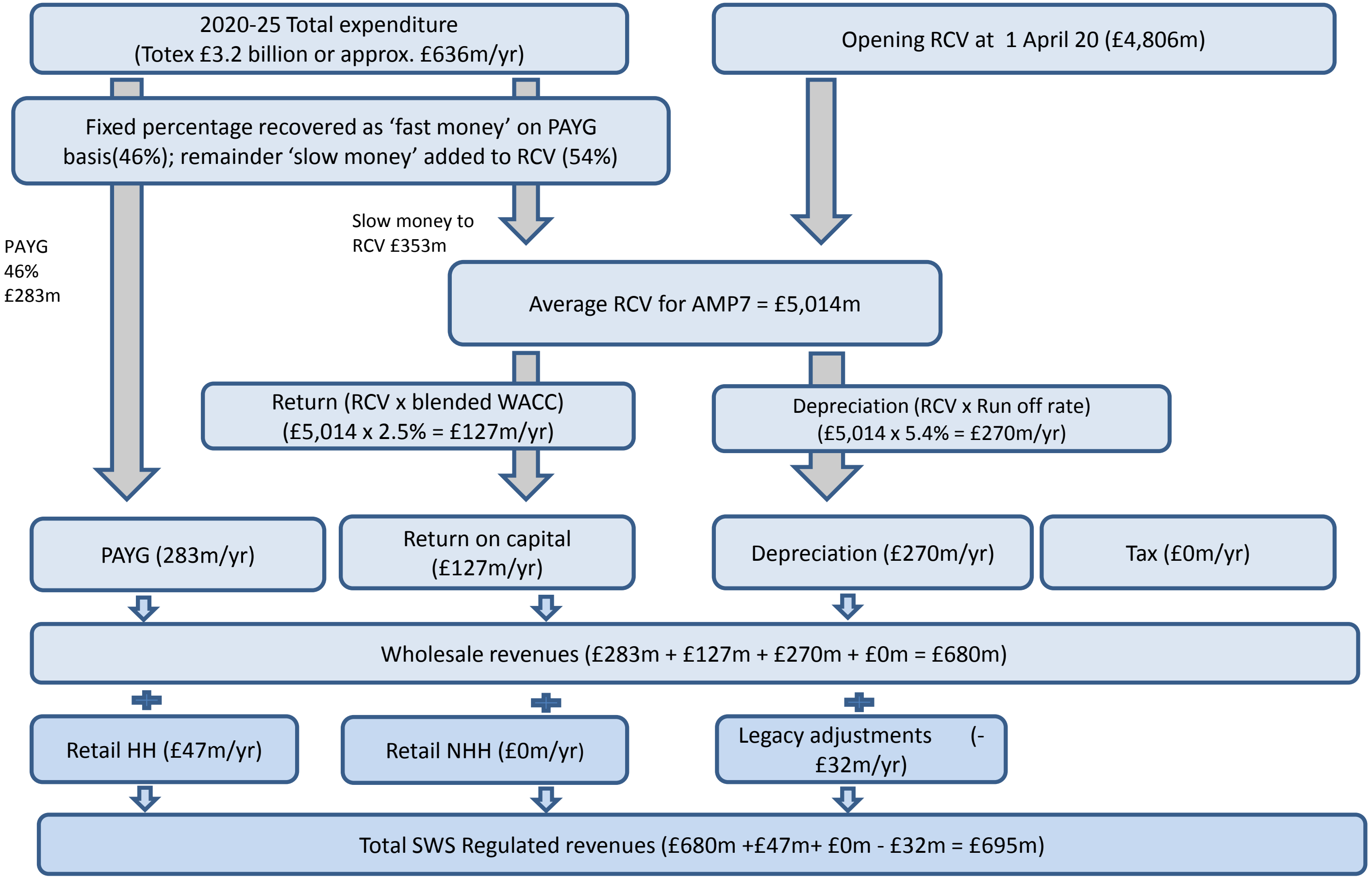
Forecast financial ratios include the forecast financial impact of Covid-19 but there remains some uncertainty regarding the potential effect on fulll financial year, and longer term, cash flows.

Non-Household revenues are lower than budget/forecast in 2020-21 as a result of the lockdown affecting trading of our commerical customers and also from short term credit support extended to the retail market. This shortfall in revenues in 2020-21 is a result of reduced consumption and is fully recoverable in future periods. Bad debt risk resides with the retail companies but SWS is exposed to bad debt risk from the failure of a retail company. The short term credit support extended to retailers has, to date, prevented any failure of a retail company.

Water into-supply has been higher than average with household cash received offsetting the reduction in non-household consumption. There has also been a reduction in revenues from deveoper activity and additional operating costs relating to maintaining supplies whilst managing a change in consumption patterns during the year from customers working from home. Furthermore, we have forecast an increase in household bad debt as a result of support extended to household customers and the possible economic impact from Covid-19.

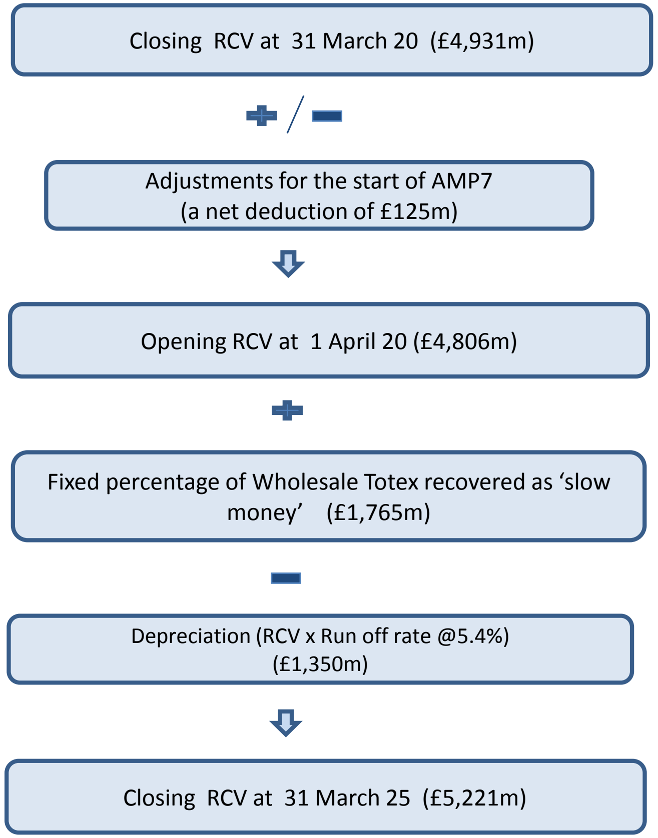
Ofwat has acknowledged that companies should prioritise the provision of a reliable water and wastewater service and SWS has an expectation that allowance will be made for additional costs or impact on performance commitments through post-Covid19 regulatory adjustments.

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	766.1	791.8	801.9	796.4	811.6
2	Non Appointed	10.5	10.8	11.0	11.2	11.4	11.7
	Operating Costs						
3	Appointed	400.4	397.9	371.2	353.3	357.0	363.3
4	Non Appointed	7.9	8.9	9.2	9.5	9.7	10.0
	Exceptional item	0.0	0.0	0.0	0.0	0.0	0.0
5	Net Capital Expenditure (inc Disposals of Assets)	472.9	395.4	461.5	488.4	498.6	368.5
	Annual Finance Charge	115.2	74.4	67.6	72.7	73.2	76.0
6	Taxation	0.1	0.1	0.1	0.1	0.1	0.1
	Payments on Subordinated Debt and Distributions **	59.1	0.0	0.0	0.0	0.0	0.0
	Net cash flow before financing	-170.5	-99.8	-106.8	-110.9	-130.8	5.4
	Proceeds from new equity for SWS	0.0	0.0	0.0	0.0	0.0	0.0
	Proceeds from new financing	138.5	1232.6	0.0	198.0	0.0	594.0
	Drawings from RCF	160.0	-330.0	0.0	0.0	100.0	-100.0
	Debt and swap accretion payments	-311.4	-556.7	-50.7	-277	-24.0	-21.2
	Movement on DSPA	-4.6	0.0	0.0	0.0	0.0	0.0
	Net cash reserves movement after financing	-188.0	246.1	-157.5	-189.9	-54.8	478.2

Financial forecasts are based upon the SWS Board approved Execution Plan to deliver the PR19 Final Determination to 31 March 2025. SWS is in the process of a large transformation of the operations, culture and governance of the business in order to ensure a renewed focus on regulatory compliance. This improvement provides a strong foundation for the delivery of the Execution Plan which aims to meet the stretching commitments of the PR19 Final Determination, improve operational performance, and improve financial efficiency, over the period to 2025.

* The Execution Plan meets the total cost allowance of the PR19 Final Determination and appointed revenues for 2023, 2024, and 2025 include a forecast net ODI penalty of £61m relating to 2021, 2022, and 2023.

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

Annual Finance Charge

Ref.		31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
	Class A debt interest	113.7	71.5	67.9	72.6	71.8	74.9
	Class B debt interest	0.0	0.0	0.0	0.0	0.0	0.0
	Interest income	0.9	0.3	1.4	1.0	0.2	0.0
	Class A Facilities commitment fees	2.4	3.2	1.1	1.1	1.6	1.1
7	Class A Debt Interest	115.2	74.4	67.6	72.7	73.2	76.0
8	Senior Debt Interest	115.2	74.4	67.6	72.7	73.2	76.0
	Annual Finance Charge	115.2	74.4	67.6	72.7	73.2	76.0
	Monthly Payment Amount *	10.0	6.2	5.8	6.1	6.1	6.3

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

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	0.0	0.0	0.0	0.0
	Cash transferred	0.0	0.0	0.0	0.0	0.0	0.0
	Closing balance	0.0	0.0	0.0	0.0	0.0	0.0
	Capex Reserve account						
	Opening balance	49.1	0.9	407.0	249.5	59.6	4.8
	Cash transferred	-48.2	406.1	-157.5	-189.9	-54.8	478.2
	Closing balance	0.9	407.0	249.5	59.6	4.8	483
	Debt Service Payment account						
	Opening balance	15.5	10.9	10.9	10.9	10.9	10.9
	Cash transferred	-4.6	0.0	0.0	0.0	0.0	0.0
	Closing balance	10.9	10.9	10.9	10.9	10.9	10.9
	SWS Operating accounts						
	Opening balance	307.8	172.6	12.6	12.6	12.6	12.6
	Cash transferred	-135.2	-160.0	0.0	0.0	0.0	0.0
	Closing balance	172.6	12.6	12.6	12.6	12.6	12.6
	Total Cash Balances						
	Opening balance	372.4	184.4	430.5	273.0	83.1	28.3
	Cash transferred	-188.0	246.1	-157.5	-189.9	-54.8	478.2
9	Closing balance	184.4	430.5	273.0	83.1	28.3	506.5

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	252.5	259.8	267.3	275.1
	*	£35m A2b 3.706% Limited Index Bonds due 2034	56.8	57.8	58.9	60.6	62.4	64.2
		£350m A4 6.64% Fixed Rate Bonds due 2026	350.0	350.0	350.0	350.0	350.0	350.0
		£150m A5 3.816% Index-linked Bonds due 2023	243.7	247.7	252.5	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
		RPI accretion on Index-Linked swaps	202.6	28.0	40.9	95.8	146.1	204.3
	*	£165m Artesian 4.076% Index-linked Bonds due 2033	268.2	272.4	277.7	285.8	294.1	302.6
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	248.2	252.1	257.0	264.5	272.2	280.0
		£100m EIB Index Linked loan due 2025	92.0	77.1	61.9	46.5	30.1	12.8
		£250m USPP Fixed Rate Loan due 2031 / 2036	250.0	250.0	250.0	250.0	250.0	250.0
	**	New cash required	0.0	425.0	425.0	625.0	625.0	1225.0
		Drawings under the Revolving Credit Facility	330.0	0.0	0.0	0.0	100.0	0.0
		Drawings under the DSR Liquidity Facility	0.0	0.0	0.0	0.0	0.0	0.0
		Finance Leases	0.0	0.0	0.0	0.0	0.0	0.0
		Class A Indebtedness	3,635.2	4,032.8	4,051.4	4,063.0	4,222.2	4,789.0
		Senior Indebtedness	3,635.2	4,032.8	4,051.4	4,063.0	4,222.2	4,789.0
10		Class A Net Indebtedness	3,450.8	3,602.3	3,778.4	3,979.9	4,193.9	4,282.5
11		Senior Net Indebtedness	3,450.8	3,602.3	3,778.4	3,979.9	4,193.9	4,282.5
		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	368.1	420.5	448.5	439.3	448.2
B	Net Total Income (1+2+3+4+6)			476.7	370.0	422.3	450.2	441.0	449.9
C	Depreciation (CCD & IRC)			0.0	0.0	0.0	0.0	0.0	0.0
D	Class A Debt interest (7)			115.2	74.4	67.6	72.7	73.2	76.0
E	Senior Debt interest (8)			115.2	74.4	67.6	72.7	73.2	76.0
F	Period end VAT debtor			10.2	7.5	8.4	8.3	8.3	8.3
G	Capital Maintenance (MNI & IRE)			244.5	N/A	N/A	N/A	N/A	N/A
Class A Adjusted ICR									
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	4.2	5.1	6.3	6.3	6.1	6.0
Class A Average ICR		1.4	N/A	5.5	5.9	6.2	6.1	6.1	6.0
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	4.2	5.1	6.3	6.3	6.1	6.0
Senior Average Adjusted ICR		1.2	N/A	5.2	5.9	6.2	6.1	6.1	6.0
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.1	6.3	6.3	6.1	6.0
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	N/A	N/A	N/A	N/A	N/A

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

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

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

Interest Cover Ratios - New (Post PR14) format

		Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
A	Net Appointed Income (1+3+6)			474.1	368.1	420.5	448.5	439.3	448.2
B	Net Total Income (1+2+3+4+6)			476.7	370.0	422.3	450.2	441.0	449.9
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	279.4	295.1	308.6	316.7
D	Class A Debt interest (7)			115.2	74.4	67.6	72.7	73.2	76.0
E	Senior Debt interest (8)			115.2	74.4	67.6	72.7	73.2	76.0
F	Period end VAT debtor			10.2	7.5	8.4	8.3	8.3	8.3
G	Capital Maintenance (MNI & IRE)			244.5	N/A	N/A	N/A	N/A	N/A
Class A Adjusted ICR									
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	1.8	1.4	2.2	2.2	1.9	1.8
Class A Average ICR		1.4	N/A	1.9	1.9	2.0	2.0	1.9	1.8
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.8	1.4	2.2	2.2	1.9	1.8
Senior Average Adjusted ICR		1.2	N/A	1.8	2.0	2.1	2.0	1.9	1.8
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	4.2	5.1	6.3	6.3	6.1	6.0
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	2.1	N/A	N/A	N/A	N/A	N/A

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

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

PR14 & PR19 Final Determinations:		**AMP 6 Period to 2020**	**AMP 7 Period to 2025**	
Totex funding	Real £m	2,639.4	3,179.5	Wholesale operating costs and capital expenditure for the regulatory period
Totex funding	Outturn £m	2,957.0	3,462.1	(excluding pension deficit contributions outside of the Totex assessment)
PAYG fast money	Outturn £m	1,403.4	1,540.8	The value of Wholesale Totex recovered via revenues
Slow money	Outturn £m	1,553.7	1,921.3	The value of Wholesale Totex added to the RCV
Retail operating costs	FD £m	294.9	255.1	Operating costs for the Retail price control per Final Determination
Total		3,251.9	3,717.2	
Total Appointed expenditure (treating Retail Opex as Fast money)				
Fast money		52.2%	48.3%	
Slow money		47.8%	51.7%	

Actual costs		**AMP 6 Period to 2020**	**AMP 7 Period to 2025**	
Operating costs per accounts	Outturn £m	1,632.9	1,764.1	Wholesale and retail operating costs
Capital expenditure per accounts	Outturn £m	1,733.4	2,048.8	
Total Appointed expenditure	Outturn £m	3,366.3	3,812.9	
Operating costs / Fast money		48.5%	46.3%	
Capital expenditure / Slow money		51.5%	53.7%	

Variance between determined fast/slow money to actual costs

Operating costs / Fast money	3.7%	2.0%	The variance over the regulatory period between FD and actual forecast apportionment of costs between operating costs / capital expenditure and fast / slow money
Capital expenditure / Slow money	-3.7%	-2.0%	

Reconciliation to Net Appointed Income

	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
Operating costs per Accounts	403.1	391.1	348.9	341.9	346.7	352.8
Non-appointed expenditure	-7.9	-8.9	-9.2	-9.5	-9.7	-10.0
Movement in operating cost working capital	-13.0	-3.9	11.3	0.2	-1.2	-1.3
Difference between pension charge and cash contributions	16.7	17.5	18.1	18.6	19.1	19.7
IFRS16 Lease costs	1.5	2.1	2.1	2.1	2.1	2.1
Appointed operating cost cash flow (ref 3. page 10)	400.4	397.9	371.2	353.3	357.0	363.3

Regulatory Asset Ratios

		Lock-up	Trigger	Default	31 Mar 2020 £m	31 Mar 2021 £m	31 Mar 2022 £m	31 Mar 2023 £m	31 Mar 2024 £m	31 Mar 2025 £m
G	Class A Net Indebtedness (10)				3,450.8	3,602.3	3,778.4	3,979.9	4,193.9	4,282.5
H	Senior Net Indebtedness (11)				3,450.8	3,602.3	3,778.4	3,979.9	4,193.9	4,282.5
I	RCV				5,141.9	5,135.2	5,414.0	5,732.4	5,930.5	6,080.4
Class A RAR										
	Historic / Projected: G/I	0.850	0.750	0.950	0.671	0.701	0.698	0.694	0.707	0.704
Senior RAR										
	Historic / Projected: H/I	0.850	0.900	0.950	0.671	0.701	0.698	0.694	0.707	0.704
Control of Repayments (maturity buckets)										
Percentage of refinancing - consecutive two years: no more than:				20%		16.9%	11.5%	5.9%	5.2%	0.8%
Percentage of refinancing - within a regulatory period: no more than:				40%		<<<<<<<<<<<<<<<<<		16.4%	>>>>>>>>>>>>>>>	

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 £77.6 million for 2020/21 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.

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

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

Richard Manning
For and on behalf of
Southern Water Services Ltd

S. Collins

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

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