



Illustrative Financial Ratios following new equity announcement on 09 August 2021

For the SWS Financing Group

Confidential

Important Notice

This report is being distributed subsequent to the new equity announcement on 09 August 2021. 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.

Illustrate financial ratios

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Announcement of new Equity

Macquarie Asset Management has agreed to acquire a majority stake in Southern Water. This strengthens our balance sheet enabling us to increase investment in our network and accelerate the transformation plans we have put in place. This is good news for our customers, the local environment, and the regional economy. This investment ensures we will be able to spend more than £2 billion in the next four years improving the resilience of our existing network to reduce pollution incidents and leakages.

Consolidated cashflow

| Ref. | | 31 Mar 2020 £m | 31 Mar 2021 £m | 31 Mar 2022 £m | 31 Mar 2023 £m | 31 Mar 2024 £m | 31 Mar 2025 £m |
|------|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Revenue | | | | | | |
| 1 | Appointed * | 874.6 | 778.8 | 778.9 | 816.7 | 827.7 | 840.4 |
| 2 | Non Appointed | 10.5 | 9.9 | 9.5 | 9.6 | 9.7 | 9.8 |
| | Operating Costs | | | | | | |
| 3 | Appointed | 400.4 | 395.1 | 393.1 | 371.0 | 359.4 | 356.3 |
| 4 | Non Appointed | 7.9 | 7.5 | 7.9 | 8.0 | 8.1 | 8.1 |
| | Exceptional item ** | 0.0 | 0.0 | 92.5 | 0.0 | 0.0 | 0.0 |
| 5 | Net Capital Expenditure (inc Disposals of Assets) *** | 472.9 | 381.2 | 611.6 | 538.4 | 527.5 | 396.1 |
| | Annual Finance Charge | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 |
| 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 | 42.9 | 28.6 | 23.6 |
| | Net cash flow before financing | -170.5 | -63.5 | -382.7 | -203.2 | -155.5 | -4.7 |
| | Proceeds from new equity for SWS | 0.0 | 0.0 | 526.5 | 0.0 | 0.0 | 0.0 |
| | Proceeds from new financing | 138.5 | 1107.2 | 0.0 | 198.0 | 0.0 | 495.0 |
| | Drawings from RCF | 160.0 | -330.0 | 0.0 | 0.0 | 85.0 | -85.0 |
| | Debt and swap accretion payments | -311.4 | -554.5 | -52.2 | -280.4 | -23.6 | -18.2 |
| | Movement on DSPA | -4.6 | 12.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Net cash reserves movement after financing | -188.0 | 172.0 | 91.6 | -285.6 | -94.1 | 387.1 |

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

** Southern Water was sentenced and fined £90 million on 9 July 2021 regarding an Environment Agency (EA) prosecution relating to wastewater permit compliance between 2010 and 2015 (inclusive). Southern Water was also ordered to pay £2.5m legal costs of the EA. New equity proceeds will be used to pay this fine.

*** New equity proceeds will also be used to finance an increase in net capital expenditure to improve the resilience of our existing network to reduce pollution incidents and leakages.

Proceeds from new equity is presented net of any costs

Payments on subordinated debt and distributions are illustrative and only included to aid the calculation of forecast financial ratios

Annual Finance Charge

| Ref. | | 31 Mar 2020 £m | 31 Mar 2021 £m | 31 Mar 2022 £m | 31 Mar 2023 £m | 31 Mar 2024 £m | 31 Mar 2025 £m |
|------|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Class A debt interest | 113.7 | 69.2 | 65.3 | 68.4 | 68.3 | 69.7 |
| | Class B debt interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Interest income | 0.9 | 1.9 | 0.3 | 0.2 | 0.0 | 0.0 |
| | Class A Facilities commitment fees | 2.4 | 1.0 | 1.0 | 1.0 | 1.0 | 1.1 |
| 7 | Class A Debt Interest | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 |
| 8 | Senior Debt Interest | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 |
| | Annual Finance Charge | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 |
| | Monthly Payment Amount * | 10.0 | 5.9 | 5.5 | 5.8 | 5.8 | 5.9 |

* 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-couponsing to increase interest receivable from 2020-21 through to 2029-30 plus a further increase as a result of financing the extension of breaks of £175 million on inflation linked swaps to 2025. The result is a reduction in interest payable in 2020-21 to 2024-25 of c. £300 million and a reduction in interest payable from 2025-26 to 2029-30 of c.

Cash accounts and reserves

| Ref. | | 31 Mar 2020 £m | 31 Mar 2021 £m | 31 Mar 2022 £m | 31 Mar 2023 £m | 31 Mar 2024 £m | 31 Mar 2025 £m |
|------|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | SWS O&M Reserve account | | | | | | |
| | Opening balance | 0.0 | 0.0 | 27.5 | 27.5 | 27.5 | 27.5 |
| | Cash transferred | 0.0 | 27.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Closing balance | 0.0 | 27.5 | 27.5 | 27.5 | 27.5 | 27.5 |
| | Capex Reserve account | | | | | | |
| | Opening balance | 49.1 | 0.9 | 232.8 | 384.4 | 98.8 | 4.7 |
| | Cash transferred | -48.2 | 231.9 | 151.6 | -285.6 | -94.1 | 387.1 |
| | Closing balance | 0.9 | 232.8 | 384.4 | 98.8 | 4.7 | 391.8 |
| | Debt Service Payment account | | | | | | |
| | Opening balance | 15.5 | 10.9 | 23.7 | 23.7 | 23.7 | 23.7 |
| | Cash transferred | -4.6 | 12.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Closing balance | 10.9 | 23.7 | 23.7 | 23.7 | 23.7 | 23.7 |
| | SWS Operating accounts | | | | | | |
| | Opening balance | 307.8 | 172.6 | 72.4 | 12.4 | 12.4 | 12.4 |
| | Cash transferred | -135.2 | -100.2 | -60.0 | 0.0 | 0.0 | 0.0 |
| | Closing balance | 172.6 | 72.4 | 12.4 | 12.4 | 12.4 | 12.4 |
| | Total Cash Balances | | | | | | |
| | Opening balance | 372.4 | 184.4 | 356.4 | 448.0 | 162.4 | 68.3 |
| | Cash transferred | -188.0 | 172.0 | 91.6 | -285.6 | -94.1 | 387.1 |
| 9 | Closing balance | 184.4 | 356.4 | 448.0 | 162.4 | 68.3 | 455.4 |

Bonds, Authorised Loan Facilities and Leases

| Ref. | 31 Mar | 31 Mar | 31 Mar | 31 Mar | 31 Mar | 31 Mar |
|--|---------|---------|---------|---------|---------|---------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| | £m | £m | £m | £m | £m | £m |
| * Senior £350m A1 6.192% Fixed Rate Bonds due 2029 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 |
| * £150m A2a 3.706% Index-linked Bonds due 2034 | 243.7 | 247.7 | 254.1 | 260.0 | 267.6 | 275.3 |
| * £35m A2b 3.706% Limited Index Bonds due 2034 | 56.8 | 57.8 | 59.3 | 60.7 | 62.4 | 64.2 |
| £350m A4 6.64% Fixed Rate Bonds due 2026 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 | 350.0 |
| £150m A5 3.816% Index-linked Bonds due 2023 | 243.7 | 247.7 | 254.1 | 0.0 | 0.0 | 0.0 |
| * £350m A7 5.0% Fixed Rate Bonds due 2021 | 350.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| * £150m A8 5.0% Fixed Rate Bonds due 2041 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 | 150.0 |
| * £200m A9 4.5% Fixed Rate Bonds due 2052 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 |
| * £300m A10 5.125% Fixed Rate Bonds due 2056 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 |
| £375m A12 2.375% Fixed Rate Bonds due 2028 | 0.0 | 375.0 | 375.0 | 375.0 | 375.0 | 375.0 |
| £450m A13 3.0% Fixed Rate Bonds due 2037 | 0.0 | 450.0 | 450.0 | 450.0 | 450.0 | 450.0 |
| £300m A14 1.625% Fixed Rate Bonds due 2027 | 0.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 |
| RPI accretion on Index-Linked swaps | 202.6 | 30.7 | 50.7 | 97.3 | 147.8 | 205.8 |
| * £165m Artesian 4.076% Index-linked Bonds due 2033 | 268.2 | 272.6 | 279.5 | 286.0 | 294.3 | 302.9 |
| * £156m Artesian 3.635% Index-linked Bonds due 2032 | 248.2 | 252.2 | 258.7 | 264.7 | 272.4 | 280.3 |
| £100m EIB Index Linked loan due 2025 | 92.0 | 79.8 | 62.3 | 46.5 | 30.1 | 12.8 |
| £250m USPP Fixed Rate Loan due 2031 / 2036 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 | 250.0 |
| ** New cash required | 0.0 | 0.0 | 0.0 | 200.0 | 200.0 | 700.0 |
| Drawings under the Revolving Credit Facility | 330.0 | 0.0 | 0.0 | 0.0 | 85.0 | 0.0 |
| Drawings under the DSR Liquidity Facility | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Finance Leases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Class A Indebtedness | 3,635.2 | 3,913.5 | 3,943.7 | 3,940.2 | 4,084.6 | 4,566.3 |
| Senior Indebtedness | 3,635.2 | 3,913.5 | 3,943.7 | 3,940.2 | 4,084.6 | 4,566.3 |
| 10 Class A Net Indebtedness | 3,450.8 | 3,557.1 | 3,495.7 | 3,777.8 | 4,016.3 | 4,110.9 |
| 11 Senior Net Indebtedness | 3,450.8 | 3,557.1 | 3,495.7 | 3,777.8 | 4,016.3 | 4,110.9 |
| Nominal value of fixed rate debt swapped to Index-linked | 1,318.0 | 1,318.0 | 1,318.0 | 1,318.0 | 1,318.0 | 1,318.0 |

* Wrapped by AG

** 'New cash required' is a notional class of debt included to forecast compliance ratios correctly. This is not an attempt to forecast the actual quantum, mix, cost and timing of future financing.

Interest Cover Ratios - Original format

| | Trigger | Default | 31 Mar 2020 £m | 31 Mar 2021 £m | 31 Mar 2022 £m | 31 Mar 2023 £m | 31 Mar 2024 £m | 31 Mar 2025 £m | | |
|------------------------------|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----|-----|
| A | Net Appointed Income (1+3+6) | | 474.1 | 383.6 | 385.8 | 445.7 | 468.3 | 484.1 | | |
| B | Net Total Income (1+2+3+4+6) | | 476.7 | 386.0 | 387.4 | 447.3 | 469.9 | 485.8 | | |
| C | Depreciation (CCD & IRC) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| D | Class A Debt interest (7) | | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 | | |
| E | Senior Debt interest (8) | | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 | | |
| F | Period end VAT debtor | | 10.2 | 11.0 | 9.8 | 8.5 | 8.3 | 8.3 | | |
| G | Capital Maintenance (MNI & IRE) | | 244.5 | 231.9 | N/A | N/A | N/A | N/A | | |
| Class A Adjusted ICR | | | | | | | | | | |
| | Historic: (B-C+F)/D | Projected: (A-C+F)/D | 1.3 | N/A | 4.2 | 5.8 | 6.0 | 6.6 | 6.9 | 7.0 |
| Class A Average ICR | | | 1.4 | N/A | 5.6 | 6.3 | 6.6 | 6.8 | 6.9 | 7.0 |
| Senior Adjusted ICR | | | | | | | | | | |
| | Historic: (B-C+F)/E | Projected: (A-C+F)/E | 1.1 | N/A | 4.2 | 5.8 | 6.0 | 6.6 | 6.9 | 7.0 |
| Senior Average Adjusted ICR | | | 1.2 | N/A | 5.3 | 6.1 | 6.5 | 6.8 | 6.9 | 7.0 |
| Class A ICR | | | | | | | | | | |
| | Historic: B/D | Projected: A/D | N/A | 1.6 | 4.2 | 5.8 | 6.0 | 6.6 | 6.9 | 7.0 |
| Class A Post Maintenance ICR | | | | | | | | | | |
| | Historic: (B-G+F)/D | | N/A | 1.0 | 2.1 | 2.4 | N/A | N/A | N/A | N/A |

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

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

Interest Cover Ratios - New (Post PR14) format

| | Trigger | Default | 31 Mar 2020 £m | 31 Mar 2021 £m | 31 Mar 2022 £m | 31 Mar 2023 £m | 31 Mar 2024 £m | 31 Mar 2025 £m | | |
|------------------------------|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----|-----|
| A | Net Appointed Income (1+3+6) | | 474.1 | 383.6 | 385.8 | 445.7 | 468.3 | 484.1 | | |
| B | Net Total Income (1+2+3+4+6) | | 476.7 | 386.0 | 387.4 | 447.3 | 469.9 | 485.8 | | |
| C | Depreciation of the RCV: | | | | | | | | | |
| | Depreciation (CCD & IRC) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| | RCV run down | | 282.7 | 269.2 | 280.4 | 295.3 | 308.8 | 317.0 | | |
| D | Class A Debt interest (7) | | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 | | |
| E | Senior Debt interest (8) | | 115.2 | 68.3 | 66.0 | 69.2 | 69.3 | 70.8 | | |
| F | Period end VAT debtor | | 10.2 | 11.0 | 9.8 | 8.5 | 8.3 | 8.3 | | |
| G | Capital Maintenance (MNI & IRE) | | 244.5 | 231.9 | N/A | N/A | N/A | N/A | | |
| Class A Adjusted ICR | | | | | | | | | | |
| | Historic: (B-C+F)/D | Projected: (A-C+F)/D | 1.3 | N/A | 1.8 | 1.9 | 1.8 | 2.3 | 2.4 | 2.5 |
| Class A Average ICR | | | 1.4 | N/A | 1.9 | 2.1 | 2.2 | 2.4 | 2.5 | 2.5 |
| Senior Adjusted ICR | | | | | | | | | | |
| | Historic: (B-C+F)/E | Projected: (A-C+F)/E | 1.1 | N/A | 1.8 | 1.9 | 1.8 | 2.3 | 2.4 | 2.5 |
| Senior Average Adjusted ICR | | | 1.2 | N/A | 1.8 | 2.0 | 2.2 | 2.4 | 2.5 | 2.5 |
| Class A ICR | | | | | | | | | | |
| | Historic: B/D | Projected: A/D | N/A | 1.6 | 4.2 | 5.8 | 6.0 | 6.6 | 6.9 | 7.0 |
| Class A Post Maintenance ICR | | | | | | | | | | |
| | Historic: (B-G+F)/D | | N/A | 1.0 | 2.1 | 2.4 | N/A | N/A | N/A | N/A |

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

