Southern Water

Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 31 March 2017

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 year ended 31 March 2017. 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 PR14 / AMP6 period from April 2015 to March 2020, and include additional interest cover ratios to maintain the effectiveness of financial ratios following regulatory building block changes for AMP6. Actual financial ratios for March 2015 continue to be based upon the AMP5 regulatory building blocks methodology.

General levels of service

Customer

The Service Incentive Mechanism (SIM), comprises two measures, a quantitative measure reflecting the number and type of "unwanted" contact from customers and a qualitative measure of customer satisfaction. These measures are combined into a score out of 100.

The method of calculating the SIM score changed during the 2014-15 financial year, from a measure comprising 50% quantitative and 50% qualitative, to a measure comprising 25% quantitative and 75% qualitative. The qualitative assessment also changed from a customer satisfaction assessment of resolved queries to a customer satisfaction assessment of both resolved and unresolved queries.

The SIM score for the financial year 2016-17 was 78 (out of 100). Our position has improved to 16th out of the 18 water companies, and we have also reduced customer written complains by 47% and escalated complaints by 71%. We were also the 9th most improved company in terms of customer satisfaction out of 244 organisations according to the Institute of Customer Services.

	31 Mar 2015	31 Mar 2016	31 Mar 2017
SIM score	72	73	78

Health & Safety

We continued to lead the industry with our excellent health and safety performance and for the 18th consecutive year, we achieved the Royal Society for the Prevention of Accidents (RoSPA) gold level award.

Operational performance

	2016–17		2015–16
	Target	Achieved	Achieved
Overall drinking water quality	*99.95%*	**99.96%**	99.98%
Water restrictions	*0*	**0**	0
Leakage (million litres of water per day)	*87*	**88**	84
Water Asset Health	*Stable*	**Stable**	Stable
Wastewater Asset Health	*Stable*	**Stable**	Stable
Wastewater treatement works compliance	*100%*	**99.32%**	99.32%
All pollution incidents (wastewater), Category 1-3	*227*	**146**	167
Serious pollution incidents (wastewater), Category 1-2	*6*	**3**	7

We continued to supply drinking water of the highest quality to 2.5 million people, and we are pleased that our performance of 99.96% exceeds our target of 99.95% compliance against the Drinking Water Inspectorate's (DWI) qualitity measures for the year. The DWI has, however, raised concerns regarding our monitoring and reporting processes so we are working closely with them to overhaul our practices.

Our universal metering programme completed in 2016, and close to 90 per cent of our customers now have water meters. This programme has been effective in reducing water consumption, and is providing us a better understanding of where water is being used.

We continue to lead the UK water sector on leakage control, working around the clock to find and repair leaks on our 14,000 kilometre network of water mains.

For 2016-17 we continued to achieve a Stable Asset Health assessment across our services.

We continue to improve performance in looking after the environment. For wastewater treatment works, we achieved 99.3 per cent compliance with environmental standards, which continues to be our best ever performance. We have also continued to improve pollution performance.

Financial performance for year end 31 March 2017

Accounts are prepared under IFRS (FRS101).

Years ended 31 March	2017 £m	2016 £m	*Change* *%*
Revenue	809.7	803.7	*0.7*
Operating costs	-306.9	-286.3	*-7.2*
Other income	1.3	1.7	
EBITDA	**504.1**	**519.1**	***-2.9***
Depreciation & disposals	-245.2	-234.6	
Profit on disposals	0.4	0.4	
Net interest & fair value	-519.9	-156.6	
Profit before tax	**-260.6**	**128.3**	***-303.1***
Tax	84.9	-8.4	
Profit after tax	**-175.7**	**119.9**	***-246.5***

Revenue increased to £809.7 million (2015–16: £803.7 million) principally due to an increase in customers from new connections and higher levels of consumption billed in the year partly offset by an overall reduction in tariff.

Operating costs increased by £20.6 million to £306.9 million (2015–16: £286.3 million). This movement is largely due to a reversal of a one-off benefit in 2015-16 from a rates refund of £13.3 million, plus net increases in costs arising from investment in business improvement, inflation, and an increase in the bad debt provision charge.

Net cash inflow from operating activities increased to £512.9 million (2015-16: £466.9m), as a result of an improvement in working capital and the effecto on 2015-16 of one-off items which included the £30.6 million pension deficit payment in 2015-16.

As a result of the transition to IFRS we are no longer permitted to account for our infrastructure maintenance and repairs using renewals accounting. Certain infrastructure expenditure is now treated as an operating cost, which may have the effect of making operating expenditure more volatile.

Net capital expenditure in the year resulted in a net cash outflow of £274.7 million (2015-16: £232.7 million). This increase in expenditure reflects the profile of our capital investment programme where there is a siginificant increase in the number of investment projects in construction.

As a result of adopting FRS 101, fair value movements on our financial instruments are now recorded through our income statement. For 2016–17 the Mark to Market value of our financial instruments increased by £416.8 million (2015–16: £70.4 million). This value is not expected to be realised and does not affect the debt covenant ratios.

Financing

We are in a strong position of liquidity with closing cash as at 31 March 2017 of £281.8 million plus £350 million of undrawn revolving credit facility

In September 2016 we received the proceeds from a £250 million US Private Placement.

In May 2016 we drew the remaining £40 million of a £100 million index-linked loan facility with the European Investment Bank, and repaid a £50 million drawdown of the revolving credit facility at March 2016.

Our Account Bank, and Standstill Cash Manager, is the National Westminster Bank which no longer meets the minimum credit rating requirement specified in the CTA. We are working with a replacement bank for the Account Bank and Standstill Cash Manager.

Credit rating	
Standard & Poor’s	Class A debt: A- Class B debt: BBB
Fitch	Class A debt: A- Class B debt: BBB
Moody’s	Class A debt: Baa1 Class B debt: Ba1

The credit ratings for Standard & Poor's and Fitch have a Stable outlook. Moody's changed the outlook to negative in September 2016.

Dividend and Financing Policy

Southern Water aims to deliver a sustainable long-term financial strategy, taking into account the interests of all stakeholders. Our shareholders are long-term investors and fully support the strategy adopted.

We do not plan any significant deviation from the current level of around 80% senior gearing in AMP6.

Southern Water's dividend policy is to propose dividends having given due consideration to the following financial and performance criteria.

1. Assessment of headroom under debt covenants
2. Assessment of the impact on the company's credit rating
3. Assessment of the liquidity position and ability to fulfil licence conditions
4. Assessment of key areas of business risk
5. Assessment of current year and cumulative distributable reserves
6. Directors' duties under law and Ofwat administered regulatory arrangements

Southern Water's dividend policy and the associated financial and performance criteria are intended to support the credit ratings of the business and ensure continued access to diversified sources of finance.

We do not intend to access future index-linked debt through derivatives but will instead seek such debt from "natural" sources such as public and private bond markets.

From a treasury management perspective, we will include accretion on PAYG swaps in our maturity buckets for CTA testing.

An interim dividend was paid to shareholders during 2016-17. A final dividend to shareholders was approved March 2017 and paid April 2017.

Board membership (of Southern Water Services Ltd)

Bill Tame (appointed Chairman March 2017, previously an Independent Non-executive Director)
Robert Jennings (resigned Februarey 2017)
Ian McAulay (Chief Executive Officer, appointed February 2017)
Matthew Wright (resigned December 2016)
William Lambe (Chief Financial Officer). Appointed May 2016
Mark Walters (Non-executive Director)
Paul Sheffield (Independent Non-executive Director)
Rosemary Boot (Independent Non-executive Director)
Lisa Harrington (Independent Non-executive Director)
Bronte Somes (resigned May 2016)

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. In all cases, financial ratios are within the 'trigger levels' as defined in the CTA. 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 for the PR14 / AMP6 period, for financial years 2016 to 2020. The change to the form of the new ratios is to replace CCD/IRC with RCV run down, and to define both measures as 'depreciation'. Analysis has also been included to further explain the changes.

Regulatory changes for the PR14 period include the removal of CCD (Current Cost Depreciation) and IRC (Infrastructure Renewals Charge) as regulatory building blocks used to determine prices for the next regulatory period. These measures of the depreciation of RCV are included within the original covenanted financial ratios. A total expenditure assessment has also been introduced ('Totex'), with a recovery of 'fast money' through revenues, and 'slow money' added to the RCV.

We have introduced additional interest cover ratios to ensure the effectiveness of the original intended purpose of the covenanted financial ratios:

- CCD will be replaced with the RCV run-down rate. This is a directly comparable measure for the depreciation of the RCV.
- We adopted IFRS from 2015-16, and infrastructure renewals accounting is not permissible under IFRS. As a consequence, IRC will no longer exist for accounting purposes and has been removed as a regulatory building block for PR14 / AMP6. Infrastructure renewals expenditure will form an integral part of our operating and capital expenditure, and no longer 'smoothed' as IRC.
- For the AMP6 regulatory period, 'fast money' is recovered through customer charges, rather than operating costs. We have maintained a strong correlation between fast money and the previous ratio measure of operating costs. The balance of slow money is added to the RCV in line with the previous measure of capital expenditure being added to the RCV. A reconciliation between these measures has been included on page18 of this report, and will continue to form part the investor report and compliance certificate.

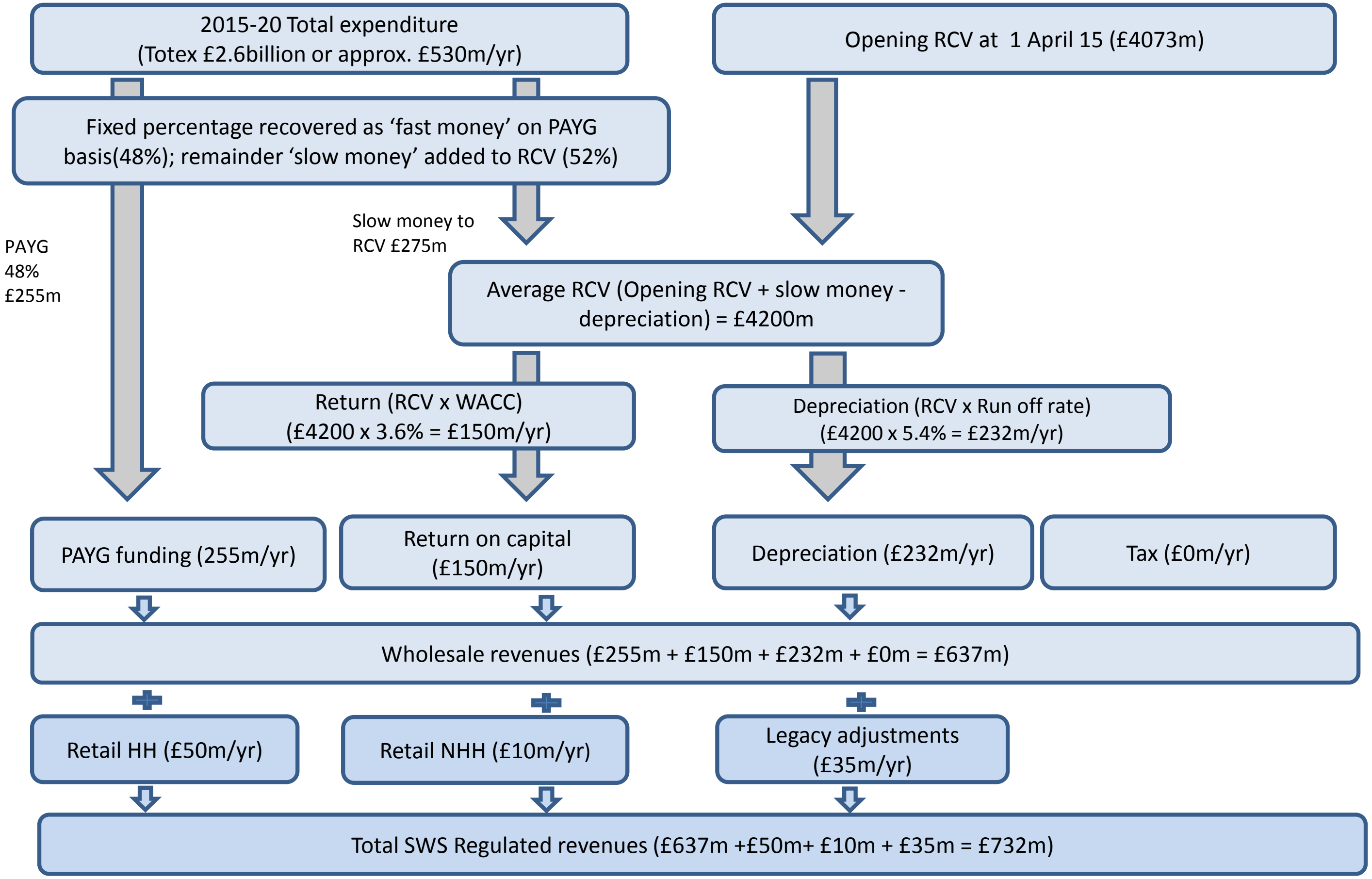
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR14, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR14 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 2017 was 3.1%, the forecast RPI used for March 2018 is 3.5%, and 2.90% has been used for each subsequent year to March 2020.

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

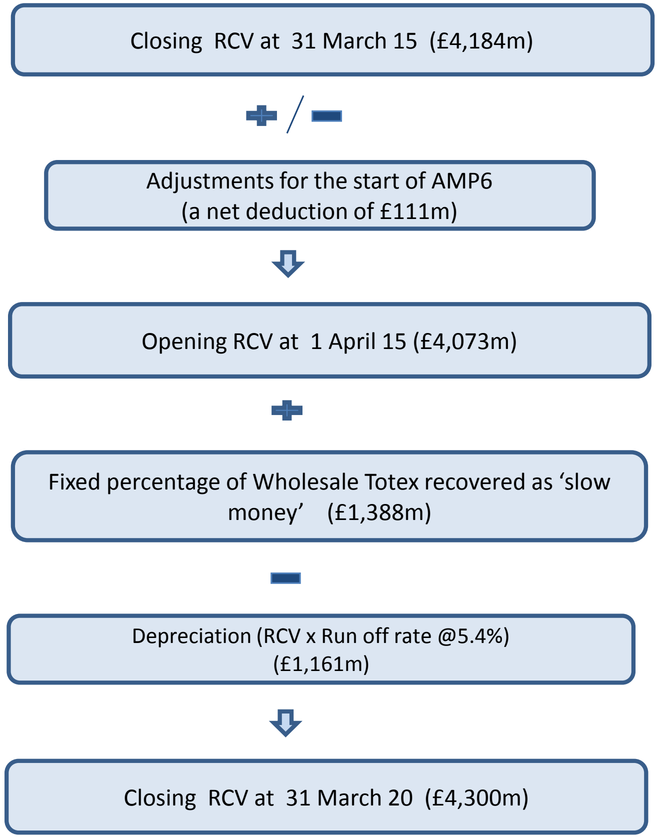
Projected payments on subordinated debt and distributions comprise ordinary dividends, preference share dividends, and group relief tax payments.

An illustration of the Totex approach to cost recovery for AMP6 (the 'revenue building blocks'). 2012/13 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 AMP6. 2012/13 prices



Consolidated cashflow

Ref.		31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
	Revenue						
1	Appointed	806.1	800.5	820.9	794.6	852.4	875.8
2	Non Appointed	7.1	11.1	11.8	11.1	11.3	11.5
	Operating Costs						
3	Appointed	255.1	296.5	301.1	303.4	297.3	311.3
4	Non Appointed	2.1	6.9	7.3	8.2	8.4	8.4
	Exceptional item *	11.6	30.6	0.0	0.0	0.0	0.0
5	Net Capital Expenditure (inc Disposals of Assets)	336.0	232.7	274.7	347.1	404.8	368.6
	Annual Finance Charge	128.3	131.1	137.9	142.4	147.0	149.3
6	Taxation	0.1	0.1	0.1	0.1	0.1	0.1
	Payments on Subordinated Debt and Distributions	36.1	94.4	75.0	132.1	90.9	165.3
	Net cash reserves movement	43.9	19.4	36.6	-127.6	-84.8	-115.7
	Proceeds from new finance	0.0	109.4	288.0	0.0	346.5	396.0
	Debt and swap accretion payments	4.3	298.4	52.5	5.1	324.0	16.2
	Net cash reserves movement after financing	39.6	-169.6	272.1	-132.7	-62.3	264.1

This table illustrates cash flows over the six year period to March 2020. The profile of Appointed revenue cash flows for 2016-17 and 2017-18 is affected by a short term timing variance from the disposal of the Retail Non-household business on 31 March 2017 (to Business Stream).

* The exceptional cash flow item in 2015-16 relates to a prepayment of pension deficit contributions
The exceptional cash flow relates to payments in 2014-15 relating to the wet weather of winter 2013-14

The forecast value of payments on subordinated debt and distributions to March 2020 do not represent a forecast of distribution from Southern Water Services Ltd for the remainder of this regulatory. These values have been calculated to illustrate the level available to mainitan debt/RCV in line with our stated gearing target for the current regulatory period of around 80%.

Annual Finance Charge

Ref.		31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
	Class A debt interest	101.2	112.4	117.6	123.0	126.5	128.8
	Class B debt interest	20.2	19.1	18.3	18.4	18.4	18.4
	Interest income	1.3	2.4	0.0	1.0	1.1	1.1
	Class A Facilities commitment fees	8.2	2.0	2.0	2.0	3.2	3.2
7	Class A Debt Interest	108.1	112.0	119.6	124.0	128.6	130.9
8	Senior Debt Interest	128.3	131.1	137.9	142.4	147.0	149.3
	Annual Finance Charge	128.3	131.1	137.9	142.4	147.0	149.3
	Monthly Payment Amount *	11.0	11.1	11.5	11.9	12.3	12.5

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

Cash accounts and reserves

Ref.		31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
	SWS O&M Reserve account						
	Opening balance	46.3	46.3	0.0	0.0	0.0	0.0
	Cash transferred	0.0	-46.3	0.0	0.0	0.0	0.0
	Closing balance	46.3	0.0	0.0	0.0	0.0	0.0
	Capex Reserve account						
	Opening balance	52.4	52.7	0.00	272.1	139.4	77.1
	Cash transferred	0.3	-52.7	272.1	-132.7	-62.3	252.1
	Closing balance	52.7	0.0	272.1	139.4	77.1	329.2
	Debt Service Payment account						
	Opening balance	3.7	6.0	0.8	0.8	0.8	0.8
	Cash transferred	2.3	-5.2	0.0	0.0	0.0	0.0
	Closing balance	6.0	0.8	0.8	0.8	0.8	0.8
	SWS Operating accounts						
	Opening balance	37.3	74.3	8.9	8.9	8.9	8.9
	Cash transferred	37.0	-65.4	0.0	0.0	0.0	0.0
	Closing balance	74.3	8.9	8.9	8.9	8.9	8.9
	Total Cash Balances						
	Opening balance	139.7	179.3	9.7	281.8	149.1	86.8
	Cash transferred	39.6	-169.6	272.1	-132.7	-62.3	252.1
9	Closing balance	179.3	9.7	281.8	149.1	86.8	338.9

From 2015, a £45.0m O&MF (Operating & Maintenance Facility) replaces cash previously held in the SWS O&M reserve account

Bonds, Authorised Loan Facilities and Leases

Ref.		31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £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	215.5	217.7	221.7	229.3	237.0	243.9
	* £35m A2b 3.706% Limited Index Bonds due 2034	49.6	50.1	51.7	53.5	55.3	56.9
	£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	215.5	217.7	221.7	229.3	237.0	243.9
	* £350m A7 5.0% Fixed Rate Bonds due 2021	350.0	350.0	350.0	350.0	350.0	350.0
	* £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
	£300m A11 6.125% Fixed Rate Bonds due 2019	300.0	300.0	300.0	300.0	0.0	0.0
	RPI accretion on Index-linked swaps	283.4	4.4	42.1	96.5	131.6	183.2
	£250m B2 4.5% Fixed/Floating rate Bonds due 2038	250.0	250.0	250.0	250.0	250.0	250.0
	£150m Class B loan facility due 2021	150.0	150.0	150.0	150.0	150.0	225.0
	* £165m Artesian 4.076% Index-linked Bonds due 2033	237.1	239.5	244.0	252.2	260.7	268.3
	* £156m Artesian 3.635% Index-linked Bonds due 2032	219.4	221.7	225.8	233.4	241.3	248.3
	£100m EIB Index Linked loan due 2025	0.0	60.5	103.1	106.3	105.2	92.1
	£250m USPP Fixed Rate Loan due 2031 / 2036	0.0	0.0	250.0	250.0	250.0	250.0
	** New cash required	0.0	0.0	0.0	0.0	350.0	675.0
	Drawings under the Revolving Credit Facility	0.0	50.0	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	0.0	0.0	0.0	0.0	0.0	0.0
	Class A Indebtedness	3,220.5	3,061.6	3,360.1	3,450.5	3,568.1	3,961.6
	Senior Indebtedness	3,620.5	3,461.6	3,760.1	3,850.5	3,968.1	4,436.6
10	Class A Net Indebtedness	3,041.2	3,051.9	3,078.3	3,301.4	3,481.3	3,622.7
11	Senior Net Indebtedness	3,441.2	3,451.9	3,478.3	3,701.4	3,881.3	4,097.7
	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 MBIA or 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 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
A	Net Appointed Income (1+3+6)			550.9	504.0	519.7	491.1	555.0	564.4
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	494.0	557.9	567.5
C	Depreciation (CCD & IRC)			346.5	0.0	0.0	0.0	0.0	0.0
D	Class A Debt interest (7)			108.1	112.0	119.6	124.0	128.6	130.9
E	Senior Debt interest (8)			128.3	131.1	137.9	142.4	147.0	149.3
F	Period end VAT debtor			5.4	6.0	8.5	6.4	7.1	6.2
G	Capital Maintenance (MNI & IRE)			218.3	164.0	186.7	N/A	N/A	N/A
Class A Adjusted ICR									
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	2.0	4.6	4.5	4.0	4.4	4.4
Class A Average ICR		1.4	N/A	3.8	4.4	4.3	4.2	4.4	4.4
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.7	3.9	3.9	3.5	3.8	3.8
Senior Average Adjusted ICR		1.2	N/A	3.2	3.8	3.8	3.7	3.8	3.8
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	4.0	4.4	4.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	3.2	3.1	2.9	N/A	N/A	N/A

CCD (Current Cost Depreciation) and IRC (Infrastructure Renewals Charge) have been removed as regulatory building blocks for the regulatory period 2016 to 2020. 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 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
A	Net Appointed Income (1+3+6)			550.9	504.0	519.7	491.1	555.0	564.4
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	494.0	557.9	567.5
C	Depreciation of the RCV:								
	Depreciation (CCD & IRC)			346.5	0.0	0.0	0.0	0.0	0.0
	RCV run down			0.0	242.4	245.7	259.4	273.2	283.5
D	Class A Debt interest (7)			108.1	112.0	119.6	124.0	128.6	130.9
E	Senior Debt interest (8)			128.3	131.1	137.9	142.4	147.0	149.3
F	Period end VAT debtor			5.4	6.0	8.5	6.4	7.1	6.2
G	Capital Maintenance (MNI & IRE)			218.3	164.0	186.7	N/A	N/A	N/A
Class A Adjusted ICR									
	Historic: (B-C+F)/D Projected: (A-C+F)/D	1.3	N/A	2.0	2.4	2.4	1.9	2.3	2.2
Class A Average ICR		1.4	N/A	2.2	2.3	2.2	2.1	2.2	2.2
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.7	2.1	2.1	1.7	2.0	1.9
Senior Average Adjusted ICR		1.2	N/A	1.9	1.9	1.9	1.9	1.9	1.9
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	4.0	4.4	4.4
Class A Post Maintenance ICR									
	Historic: (B-G+F)/D	N/A	1.0	3.2	3.1	2.9	N/A	N/A	N/A

These new interest cover ratios include both, CCD & IRC (2015), and RCV run down rate (2016 to 2020), as depreciation of the RCV .

The effect of the reclassification of Infrastructure Renewals expenditure is illustrated by, amongst other changes from 2015 to 2016, a reduction in net income from expenditure included in operating costs and a reduction in RCV depreciation from the expenditure no longer added to the RCV.

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

PR14 Final Determination:		**Period from 2016 to 2020 £m**	
Totex funding	2012/13 prices	2,639.4	Wholesale operating costs and capital expenditure for the regulatory period (excluding pension deficit contributions outside of the Totex assessment)
Totex funding	Outturn	2,957.3	
PAYG fast money	Outturn	1,403.6	The value of Wholesale Totex recovered via revenues
Slow money	Outturn	1,553.7	The value of Wholesale Totex added to the RCV
Retail operating costs	FD	294.9	Operating costs for the Retail price control per Final Determination
Total		3,252.2	
Total Appointed expenditure (treating Retail Opex as Fast money)			
Fast money		52.2%	
Slow money		47.8%	

Comparison to actual operating costs		**Period from 2016 to 2020 £m**
Operating costs per accounts	Outturn	1,539.8
Capital expenditure per accounts	Outturn	1,574.2
Total Appointed expenditure	Outturn	3,113.9

Comparison of FD with actual costs		**Actual**	**FD**	
Total Appointed expenditure	Outturn	3,113.9	3,252.2	Actual expenditure is forecast to be £138.3m less than the FD
		Actual (%)	**FD (%)**	
Operating costs / Fast money		49.4%	52.2%	There is a 2.8% (£87m) 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		50.6%	47.8%	

PAYG funding and actual costs

The PR14 Final Determination has determined the proportion of AMP6 Totex Wholesale expenditure recovered via revenues and the proportion of AMP6 Totex Wholesale expenditure added to the RCV.

The PR14 Final Determination has also determined how any variance between actual Totex Wholesale expenditure and PR14 Totex Wholesale expenditure is 'trued' for the next AMP7 regulatory period, with around 50% of any variance shared with customers:

Variance to Retail expenditure is not shared for AMP7.

As a guide, our current calculation for the effect of forecast Wholesale Totex out-performance for AMP6 is a reduction in value to the opening RCV in AMP7 of £108.5m and a reduction in AMP7 revenues of £3.3m (2012/13 prices). In addition, we forecast a further reduction to the opening RCV for AMP7, of £69.1m (2012/13 prices), as a result of the AMP5 CIS reconciliation.

Reconciliation to Net Appointed Income

	31 Mar 2016 £m	31 Mar 2017 £m
Operating costs per Accounts	286.3	306.9
Non-appointed expenditure	-6.9	-7.3
Movement in operating cash flows	47.7	1.5
Prepayment of future pension deficit payments	-30.6	0.0
Appointed operating cost cash flow (ref 3. page 10)	296.5	301.1

Regulatory Asset Ratios

		Trigger	Default	31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m	31 Mar 2019 £m	31 Mar 2020 £m
G	Class A Net Indebtedness (10)			3,041.2	3,051.9	3,078.3	3,301.4	3,481.3	3,622.7
H	Senior Net Indebtedness (11)			3,441.2	3,451.9	3,478.3	3,701.4	3,881.3	4,097.7
I	RCV			4,397.1	4,385.2	4,619.7	4,873.4	5,066.1	5,187.7
Class A RAR									
	Historic / Projected: G/I	0.750	N/A	0.692	0.696	0.666	0.677	0.687	0.698
Senior RAR									
	Historic / Projected: H/I	0.900	0.950	0.783	0.787	0.753	0.760	0.766	0.790

Control of Repayments (maturity buckets)							
Percentage of refinancing - consecutive two years: no more than:	20%		6.9%	7.8%	1.2%	6.6%	6.6%
Percentage of refinancing - within a regulatory period: no more than:	40%		<<<<<<<<<<<<<<<<<<		14.4%	>>>>>>>>>>>>>>>	

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 £142.4 million for 2017/18 equating to a Monthly Payment Amount for this period of £11.9 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.

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