



Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 2016

Confidential

Important Notice

This report is being distributed in fulfilment of a finance document, the Common Terms Agreement. It is directed to, and intended for, existing investors in the company. No other persons should act or rely on it. The company makes no representation as to the accuracy of forecast information. This report should not be relied on as a guide to future performance and should not be relied on in deciding whether to undertake future investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

Investor Report

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General overview and business update

This Investor Report is updated for the period ended 30 September 2016. 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.

We continue to focus on improving performance in this area, and performance has improved strongly in the first six months of this year. We have received approximately half the number of customer complaints than in the same period last year, and our SIM score of 81 has improved our ranking to 14th from 18th (score of 73) at March 2016.

Financial Year	31 Mar 2015	31 Mar 2016
SIM score	72	73

Note: 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.

Health & Safety

Health & Safety continues to be our number one priority. We continued to lead the industry with our excellent health and safety performance and, for the 17th consecutive year, we achieved the Royal Society for the Prevention of Accidents (RoSPA) gold level award. We were also presented with our third Order of Distinction, the first water company to receive such an accolade.

Operational performance

We are among the industry leaders for the quality of our wastewater service and are on track to hit tough targets for tackling blockages, keeping external flooding incidents down, and ensuring customers are not disturbed by smells from our treatment works. There have been no failures against compliance targets at our wastewater treatment works so far this year, and we are consequently on course to achieve a 100 per cent pass rate for the health of these assets by the end of the year.

Pollution incidents continue to improve and are currently around five per cent fewer than last year, which puts us on track to record one of our best performance years ever.

We are recycling 100 per cent of our biosolids (a by-product of the treatment process) which are recycled as fertiliser. Meanwhile, we are proud to announce a 'first' for us this year: we are now recycling 100 per cent of Southern Water's waste. Since July, no waste from our works or offices has been sent to landfill, putting us among the industry leaders in this area.

We promised customers that we would maintain the number of the region's bathing waters which achieve 'excellent' quality status at 54 beaches and bring a further seven up to 'excellent' by 2020. This season, we have achieved 51 - an improvement on 43 last year. We will be keeping up our efforts to better this even further by working with colleagues in local councils and environmental groups to tackle causes of beach pollution together.

We continue to supply our customers with consistently high-quality drinking water, and at the end of September we recorded a good result of 99.97 per cent. We are also upgrading our reporting systems and procedures and putting measures in place to help us achieve our ambitious targets.

For the six months to the end of September, we recorded a leakage figure of 88.2 million litres, which puts us slightly behind where we wanted to be at this point (the target for this year is 87 million litres per day). However, we are working hard to hit our targets and maintain our industry-leading position.

In April 2017, non-household customers will be able to choose which company provides their water and sewerage retail services. These services include handling customer queries and complaints, billing and meter reading. After looking at our options, we decided to sell our non-household retail business to Business Stream, a specialist company in this field, so we can concentrate on our wholesale operation (the water and wastewater networks) and our domestic retail customers. This transfer will take place in April 2017 when the market opens.

Financial performance for the six months to 30 September 2016

We have adopted IFRS (FRS101) for 2015/16. Financial results for 2014/15 have been restated to IFRS.

Six months ended 30 Sep	2016 £m	2015 £m	Change %
Turnover	409.2	400.7	2.1
Operating costs	-277.2	-270.1	-2.6
Operating profit	133.5	132.0	1.1
Gross capital expenditure	128.7	108.0	-19.2
Net cash inflow from operating activities	243.8	225.5	-8.1

Turnover for the period has risen by 2.1 per cent to £409.2 million (period to 30 September 2015: £400.7 million) principally resulting from an increase in our charges linked to RPI as set out in our Business Plan for 2015–20.

Operating costs for the first half of the year of £277.2 million increased by 2.6 per cent (period to 30 September 2015: £270.1 million). This increase mainly resulted from inflation, an increase to our bad debt charge and initiatives to improve our customer services performance. This includes the creation of a proactive outbound calling team and the use of a specialist partner to provide bespoke tariff and payment scheme advice to customers facing genuine financial hardship.

Net capital expenditure in the period was £128.7 million (2015: £108.0 million).

Net cash inflow from operating activities in the period amounted to £243.8 million (period to 30 September 2015: £225.5 million). During the period to 30 September 2015 a lump sum contribution in respect of our pension deficit of £16.0 million was made, which reduced the cash inflow from operating activities last year. Taking this payment into consideration the underlying cash inflow from operating activities has remained consistent with last year.

As a result of adopting FRS 101, fair value movements on our financial derivatives are now recorded through our income statement. The liability increased by £380.5 million, from £923.7 million at 31 March 2016 to £1,304.2 million at 30 September 2016, largely due to the fall in government bond yields.

Financing

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.

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 have assessed our financial resilience for AMP6 and do not plan any significant deviation from the current level of around 80% senior gearing for PR14.

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
5. Assessment of current year and cumulative distributable reserves
6. Directors' duties under law and Ofwat administered regulatory arrangements

Distribution proposals submitted to the Board will also include an assessment of our performance against the Business Plan, including expected performance over the balance of the regulatory period.

Southern Water's dividend policy and the associated financial and performance criteria are intended to support the financial resilience 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 of £54.0 million was paid to shareholders in October 2016.

Board membership (of Southern Water Services Ltd)

Robert Jennings (Chairman)

Matthew Wright (Chief Executive Officer)

William Lambe (Chief Financial Officer). Appointed May 2016

Mark Walters (Non-executive Director)

Paul Sheffield (Independent Non-executive Director)

Bill Tame (Independent Non-executive Director)

Rosemary Boot (Independent Non-executive Director)

Lisa Harrington (Independent Non-executive Director)

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 adopting IFRS (FRS101) 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 be '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 page 18 of this report, and will continue to form part the investor report and compliance certificate.

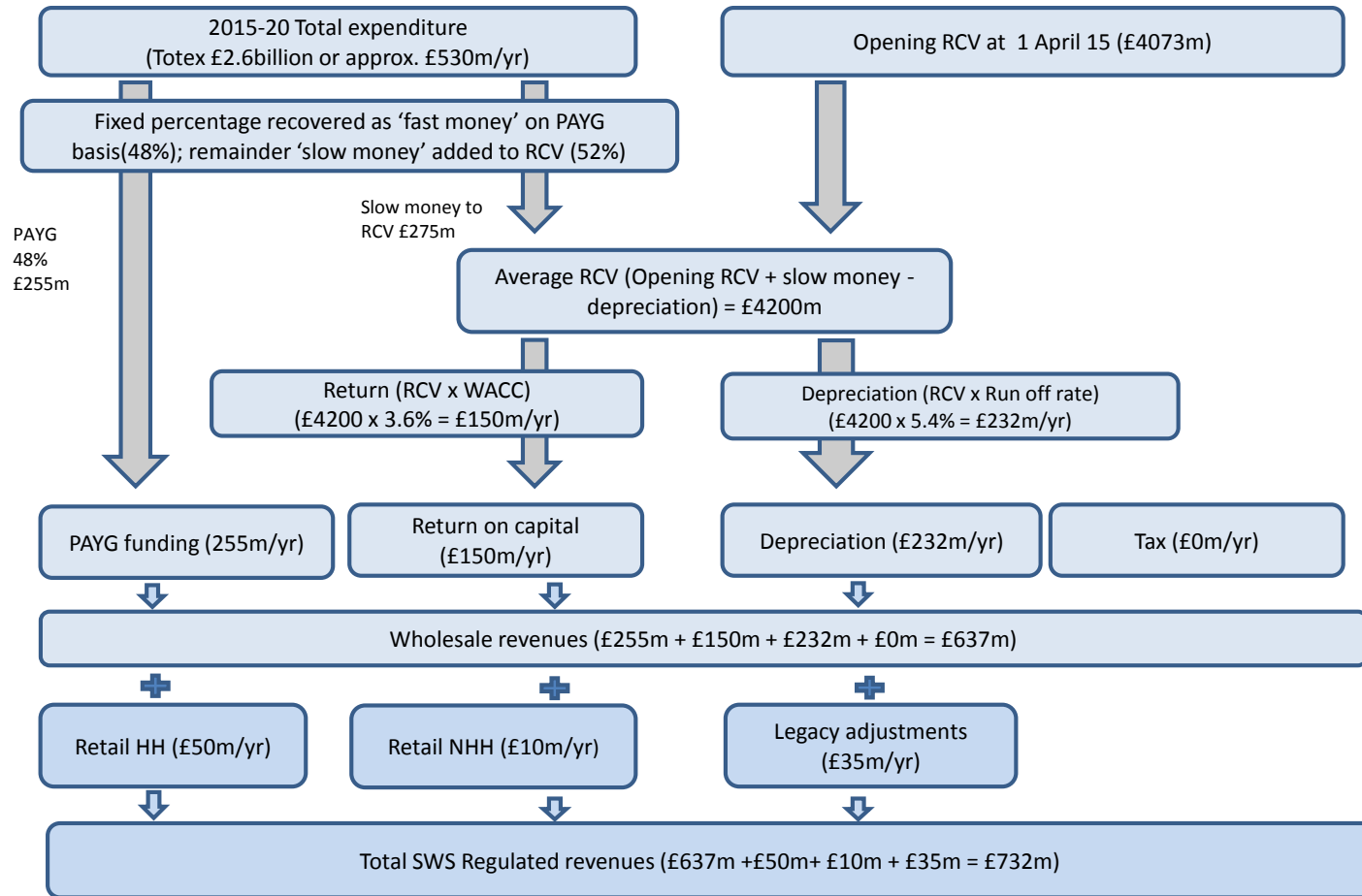
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR14, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR14 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 2016 was 1.56%, the forecast RPI used for March 2017 is 3.01%, 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.

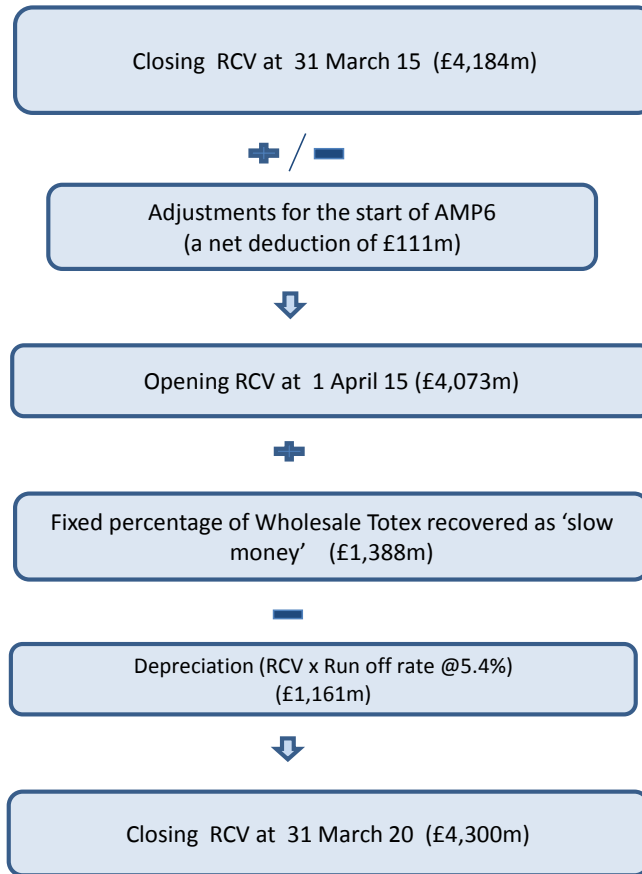
Projected payments on subordinated debt and distributions comprise ordinary dividends, preference share dividends, and group relief tax payments.

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	807.0	818.8	841.6	870.7
2	Non Appointed	7.1	11.1	11.2	11.4	11.5	11.7
	Operating Costs						
3	Appointed	255.1	296.5	299.8	292.4	301.6	311.7
4	Non Appointed	2.1	6.9	7.1	6.8	6.8	6.7
	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	285.8	418.9	445.3	275.8
	Annual Finance Charge	128.3	131.1	139.1	144.1	149.9	151.3
6	Taxation	0.1	0.1	0.1	0.1	0.1	0.1
	Payments on Subordinated Debt and Distributions	36.1	94.4	141.4	69.0	76.0	147.5
	Net cash reserves movement	43.9	19.4	-55.1	-101.1	-126.6	-10.7
	Proceeds from new finance	0.0	109.4	287.1	147.3	297.0	99.0
	Debt and swap accretion payments	4.3	298.4	52.4	4.7	322.3	16.0
	Net cash reserves movement after financing	39.6	-169.6	179.6	41.5	-151.9	72.3

* 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

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	118.6	124.7	130.3	130.0
	Class B debt interest	20.2	19.1	19.0	19.3	19.5	19.7
	Interest income	1.3	2.4	0.5	2.0	3.1	1.6
	Class A Facilities commitment fees	8.2	2.0	2.0	2.1	3.2	3.2
7	Class A Debt Interest	108.1	112.0	120.1	124.8	130.4	131.6
8	Senior Debt Interest	128.3	131.1	139.1	144.1	149.9	151.3
	Annual Finance Charge	128.3	131.1	139.1	144.1	149.9	151.3
	Monthly Payment Amount *	11.0	11.1	11.6	12.2	12.8	12.7

* 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	0.0	179.6	222.1	70.2
	Cash transferred	0.3	-52.7	179.6	42.5	-151.9	72.3
	Closing balance	52.7	0.0	179.6	222.1	70.2	142.5
	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	189.3	231.8	79.9
	Cash transferred	39.6	-169.6	179.6	42.5	-151.9	72.3
9	Closing balance	179.3	9.7	189.3	231.8	79.9	152.2

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	221.8	228.9	235.5	242.3
* £35m A2b 3.706% Limited Index Bonds due 2034	49.6	50.1	51.7	53.4	54.9	56.5
£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	215.5	217.7	221.8	228.9	235.5	242.3
* £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	38.9	87.6	118.9	169.2
£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	150.0
* £165m Artesian 4.076% Index-linked Bonds due 2033	237.1	239.5	243.9	251.7	259.0	266.5
* £156m Artesian 3.635% Index-linked Bonds due 2032	219.4	221.7	225.8	233.0	239.7	246.7
£100m EIB Index Linked loan due 2025	0.0	60.5	102.4	106.1	104.5	91.5
£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	148.7	453.2	553.7
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	3,356.3	3,588.3	3,651.2	3,818.7
Senior Indebtedness	3,620.5	3,461.6	3,756.3	3,988.3	4,051.2	4,218.7
10 Class A Net Indebtedness	3,041.2	3,051.9	3,167.0	3,356.5	3,571.3	3,666.5
11 Senior Net Indebtedness	3,441.2	3,451.9	3,567.0	3,756.5	3,971.3	4,066.5
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 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	507.1	526.3	539.9	558.9	
B	Net Total Income (1+2+3+4+6)			555.9	508.2	511.2	530.9	544.6	563.9	
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	120.1	124.8	130.4	131.6	
E	Senior Debt interest (8)			128.3	131.1	139.1	144.1	149.9	151.3	
F	Period end VAT debtor			5.4	6.0	8.1	10.4	9.4	7.0	
G	Capital Maintenance (MNI & IRE)			218.3	164.0	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	2.0	4.6	4.3	4.3	4.2	4.3
Class A Average ICR										
			1.4	N/A	3.8	4.3	4.3	4.3	4.3	4.3
Senior Adjusted ICR										
	Historic: (B-C+F)/E	Projected: (A-C+F)/E	1.1	N/A	1.7	3.9	3.7	3.7	3.7	3.7
Senior Average Adjusted ICR										
			1.2	N/A	3.3	3.8	3.7	3.7	3.7	3.7
Class A ICR										
	Historic: B/D	Projected: A/D	N/A	1.6	5.2	4.6	4.3	4.3	4.2	4.3
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D		N/A	1.0	3.2	3.1	N/A	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	507.1	526.3	539.9	558.9		
B	Net Total Income (1+2+3+4+6)		555.9	508.2	511.2	530.9	544.6	563.9		
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	245.6	258.4	271.3	281.5		
D	Class A Debt interest (7)		108.1	112.0	120.1	124.8	130.4	131.6		
E	Senior Debt interest (8)		128.3	131.1	139.1	144.1	149.9	151.3		
F	Period end VAT debtor		5.4	6.0	8.1	10.4	9.4	7.0		
G	Capital Maintenance (MNI & IRE)		218.3	164.0	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	2.0	2.4	2.3	2.2	2.1	2.2
Class A Average ICR			1.4	N/A	2.2	2.3	2.2	2.2	2.1	2.2
Senior Adjusted ICR										
	Historic: (B-C+F)/E	Projected: (A-C+F)/E	1.1	N/A	1.7	2.1	1.9	1.9	1.9	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	4.3	4.3	4.2	4.3
Class A Post Maintenance ICR										
	Historic: (B-G+F)/D		N/A	1.0	3.2	3.1	N/A	N/A	N/A	N/A

These new interest cover ratios include both CCD & IRC (2015), and RCV run down (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:

		2016 to 2020 £m
Totex funding	2012/13 prices	<u>2,639.4</u>
Totex funding	Outturn	<u>2,946.5</u>
PAYG fast money	Outturn	1,398.4
Slow money	Outturn	1,548.1
Retail operating costs	FD	<u>294.9</u>
Total		<u>3,241.4</u>
Total Appointed expenditure (treating Retail Opex as fast money)		
Fast money		52.2%
Slow money		47.8%

Wholesale operating costs and capital expenditure for the regulatory period (excluding pension deficit contributions outside of the Totex assessment)

The value of Wholesale Totex recovered via revenues

The value of Wholesale Totex added to the RCV

Operating costs for the Retail price control per Final Determination

Comparison to actual operating costs

		2016 to 2020 £m
Operating costs per accounts	Outturn	1,581.0
Capital expenditure per accounts	Outturn	<u>1,572.2</u>
Total Appointed expenditure	Outturn	<u>3,153.1</u>

Comparison of FD with actual costs

		Actual	FD
Total Appointed expenditure	Outturn	3,153.1	3,241.4

Actual expenditure is forecast to be £88.3m less than the FD

	Actual (%)	FD (%)
Operating costs / Fast money	50.1%	52.2%
Capital expenditure / Slow money	49.9%	47.8%

There is a 2.1% (£66m) variance over the regulatory period between FD and actual forecast apportionment of costs between operating costs / capital expenditure and fast / slow money

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:

We anticipate that 26% of Wholesale Totex variance will be deducted/added to Wholesale revenues in AMP7.

We anticipate that 24% of Wholesale Totex variance will be deducted/added to the RCV for the start of AMP7.

The remaining 50% of Wholesale Totex variance will be retained/borne by the company.

Variance to Retail expenditure is not 'trued' for AMP7.

As a guide, the AMP7 effect of forecast Wholesale Totex out-performance for AMP6, would be a reduction in value to the opening RCV in AMP7 of £32m and a deduction from AMP7 revenues of £34m (2012/13 prices). In addition, we forecast a further reduction to the opening RCV for AMP7, of £69m (2012/13 prices), as a result of the AMP5 CIS reconciliation.

Reconciliation to Net Appointed Income

	31 Mar
	2016
	£m
Operating costs per Accounts	286.3
Non-appointed expenditure	-6.9
Movement in operating cash flows	47.7
Prepayment of future pension deficit payments	-30.6
Appointed operating cost cash flow (ref 3. page 10)	<u>296.5</u>

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 £139.1 million for 2016/17 equating to a Monthly Payment Amount for this period of £11.6 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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Director: Southern Water Services (Finance) Ltd

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CFO: Southern Water Services Ltd
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