Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 31 March 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 year ended 31 March 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.

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 2015-16 was 73 (out of 100).

	31 Mar 2015	31 Mar 2016
SIM score	72	73

Health & Safety

We continued to lead the industry with our excellent health and safety performance and achieved the lowest number of injuries in our history. We recorded 427 days without a reportable injury to a member of staff.

For the 17th consecutive year, we achieved the Royal Society for the Prevention of Accidents (RoSPA) gold level award and were presented with our third Order of Distinction, the first water company to receive such an accolade.

Operational performance

	2015–16		2014–15
	Target	Achieved	Achieved
Overall drinking water quality	*99.95%*	**99.98%**	99.97%
Water restrictions	*0*	**0**	0
Leakage (million litres of water per day)	*88*	**84**	82
Water Asset Health	*Stable*	**Stable**	Stable
Wastewater Asset Health	*Stable*	**Stable**	Stable
Wastewater treatement works compliance	*100%*	**99.32%**	98.98%
All pollution incidents (wastewater), Category 1-3	*291*	**167**	295
Serious pollution incidents (wastewater), Category 1-2	*8*	**7**	12

We continued to supply drinking water of the highest quality to more than two million people. Our drinking water quality performance is among the best levels of compliance in the industry.

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 2015-16 we achieved a Stable Asset Health assessment across our services. For 2014-15 we also assessed all services as Stable.

For wastewater treatment works, we achieved 99.3 per cent compliance with environmental standards. This is our best ever performance, and among the best performers in the industry.

All but one of the 83 bathing waters in our region met the new, tighter minimum standards introduced for 2015-16, the best performance in the sector.

Financial performance for year end 31 March 2016

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

Years ended 31 March	**2016 £m**	**2015 £m**	***Change %***
Revenue	803.7	826.2	*-2.7*
Operating costs	-286.3	-273.1	*-4.8*
Other income	1.7	1.2	
EBITDA	**519.1**	**554.3**	***-6.4***
Depreciation & disposals	-234.6	-222.8	
Profit on disposals	0.4	1.3	
Net interest & fair value	-156.6	-222.2	
Profit before tax	**128.3**	**110.6**	***16.0***
Tax	-8.4	-17	
Profit after tax	**119.9**	**93.6**	***28.1***

Revenue decreased by 2.7 per cent to £803.7 million (2014–15: £826.2 million) principally because of the application of new price controls at the start of the regulatory period.

Operating costs increased by 4.8 per cent to £286.3 million (2014–15: £273.1 million). Cost increases arising from investment in business improvement, inflation, and an increase in the bad debt provision charge, were partly offset by a rates refund.

Net cash inflow from operating activities reduced to £466.9 million (2014-15: £480.2m), as a result of the reduction in customer charges in the first year of this regulatory period.

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 £232.7 million (2014-15: £336.0 million). This decrease in expenditure reflects the profile of capital expenditure as we prepare for delivery of our new five year capital investment programme.

As a result of adopting FRS 101, fair value movements on our financial instruments are now recorded through our income statement. During 2015–16 the underlying liability associated with our financial instruments increased, resulting in a loss of £70.4 million being recorded in the income statement (2014–15: loss £130.3 million). This change in accounting practice does not affect the debt covenant ratios.

Financing

In July 2015 we completed a £100 million Index-linked loan facility with the European Investment Bank. We drew £60 million from this facility in August 2015, and the remaining £40 million in May 2016.

In June 2016 we priced a £250 million US Private Placement. Signing took place in July 2016, and proceeds are expected September 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

All credit ratings have a Stable outlook, following Moody's stabilisation of the outlook, from negative outlook, in February 2015.

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 and final dividend was paid to shareholders in 2015-16.

Board membership (of Southern Water Services Ltd)

Robert Jennings (Chairman)
Matthew Wright (Chief Executive Officer)
Michael Carmedy (Chief Financial Officer). Resigned 31 March 2016
Bronte Somes (Non-executive Director)
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). Appointed April 2015
David Golden (Independent Non-executive Director). Resigned June 2015
William Lambe (Chief Financial Officer). Appointed 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 rate, 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 will be adopting 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.

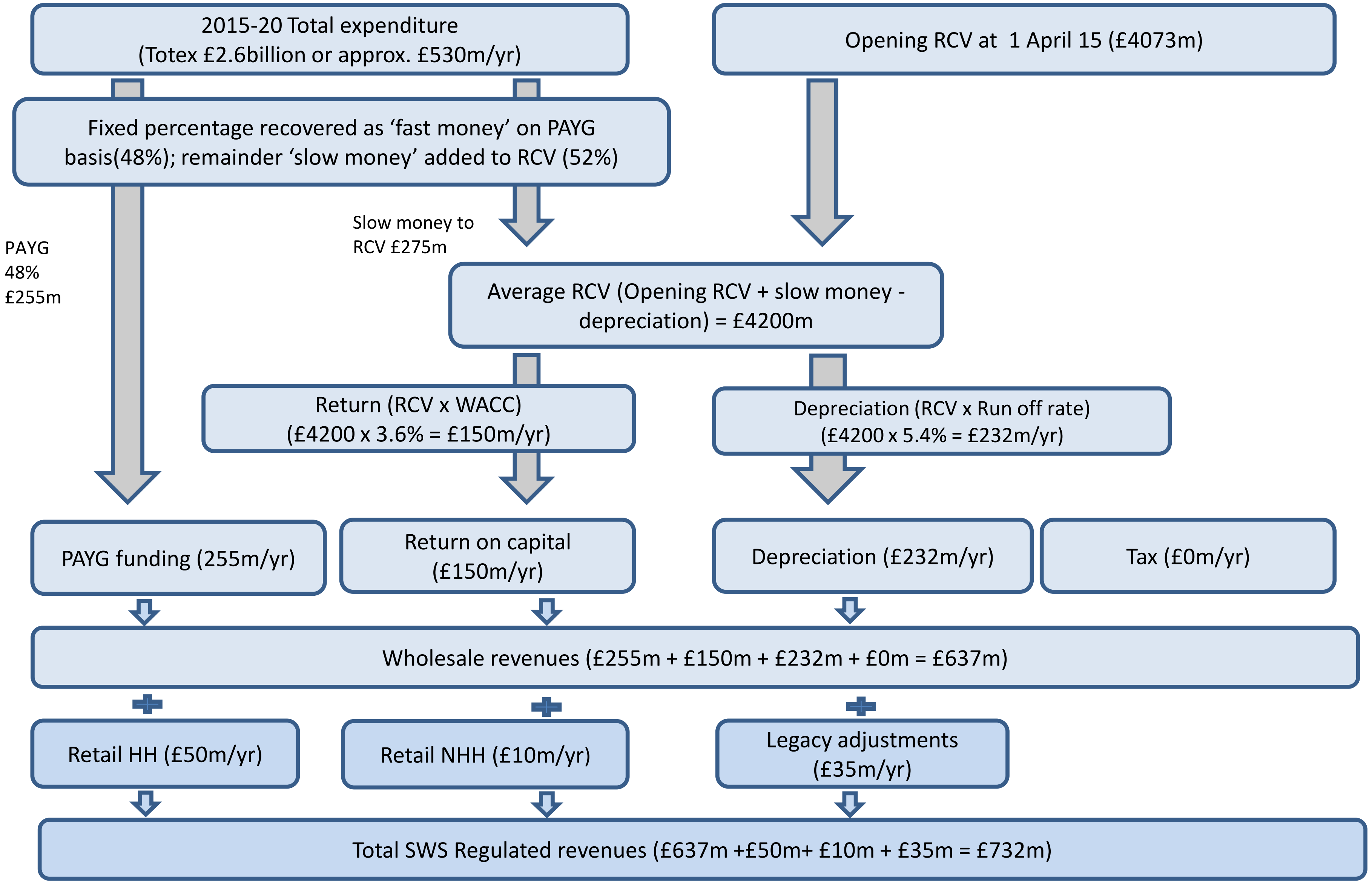
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR14, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR14 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 2016 was 1.56%, the forecast RPI used for March 2017 is 2.68%, 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.

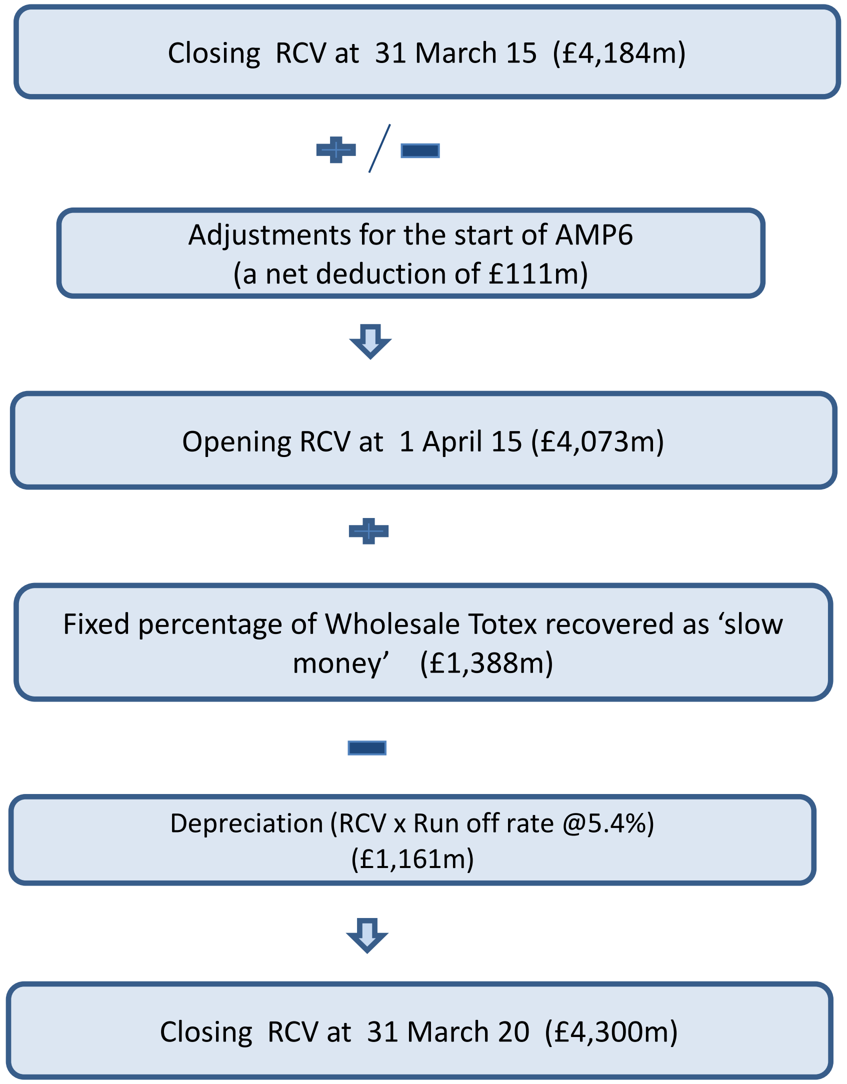
Projected payments on subordinated debt and distributions comprise ordinary dividends, preference share dividends, and group relief tax payments.

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	808.3	826.5	845.3	874.2
2	Non Appointed	7.1	11.1	11.2	11.4	11.5	11.7
	Operating Costs						
3	Appointed	255.1	296.5	295.6	293.0	300.5	310.7
4	Non Appointed	2.1	6.9	6.8	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	354.8	438.1	387.8	261.6
	Annual Finance Charge	128.3	131.1	139.5	143.8	149.7	151.0
6	Taxation	0.1	0.1	0.1	0.1	0.1	0.1
	Payments on Subordinated Debt and Distributions	36.1	94.4	143.8	52.1	74.6	163.1
	Net cash reserves movement	43.9	19.4	-121.1	-96.0	-62.7	-7.3
	Proceeds from new finance	0.0	109.4	287.1	147.4	297.0	99.0
	Debt and swap accretion payments	4.3	298.4	52.3	4.5	321.4	16.0
	Net cash reserves movement after financing	39.6	-169.6	113.7	46.9	-87.1	75.7

* 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	118.5	124.4	130.1	129.7
	Class B debt interest	20.2	19.1	19.0	19.3	19.5	19.7
	Interest income	1.3	2.4	0.0	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	120.5	124.5	130.2	131.3
8	Senior Debt Interest	128.3	131.1	139.5	143.8	149.7	151.0
	Annual Finance Charge	128.3	131.1	139.5	143.8	149.7	151.0
	Monthly Payment Amount *	11.0	11.1	11.6	12.2	12.7	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	113.7	160.6	73.5
	Cash transferred	0.3	-52.7	113.7	46.9	-87.1	75.7
	Closing balance	52.7	0	113.7	160.6	73.5	149.2
	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	123.4	170.3	83.2
	Cash transferred	39.6	-169.6	113.7	46.9	-87.1	75.7
9	Closing balance	179.3	9.7	123.4	170.3	83.2	158.9

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	221.5	227.9	234.5	241.3
	* £35m A2b 3.706% Limited Index Bonds due 2034	49.6	50.1	51.7	53.2	54.7	56.3
	£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	221.5	227.9	234.5	241.3
	* £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	82.9	115.9	167.0
	£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	243.6	250.7	258.0	265.4
	* £156m Artesian 3.635% Index-linked Bonds due 2032	219.4	221.7	225.5	232.0	238.7	245.7
	£100m EIB Index Linked loan due 2025	0.0	60.5	102.3	105.7	104.1	91.1
	£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	148.9	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	3,355.0	3,579.2	3,643.6	3,811.8
	Senior Indebtedness	3,620.5	3,461.6	3,755.0	3,979.2	4,043.6	4,211.8
10	Class A Net Indebtedness	3,041.2	3,051.9	3,231.6	3,408.9	3,560.4	3,652.9
11	Senior Net Indebtedness	3,441.2	3,451.9	3,631.6	3,808.9	3,960.4	4,052.9
	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 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	512.6	533.4	544.7	563.4
B	Net Total Income (1+2+3+4+6)			555.9	508.2	517.0	538.0	549.4	568.4
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	120.5	124.5	130.2	131.3
E	Senior Debt interest (8)			128.3	131.1	139.5	143.8	149.7	151.0
F	Period end VAT debtor			5.4	6.0	8.5	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	4.4	4.3	4.3
Class A Average ICR		1.4	N/A	3.8	4.4	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	3.8	3.7	3.8
Senior Average Adjusted ICR		1.2	N/A	3.3	3.8	3.8	3.8	3.7	3.8
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.3	4.4	4.3	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	512.6	533.4	544.7	563.4
B	Net Total Income (1+2+3+4+6)			555.9	508.2	517.0	538.0	549.4	568.4
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	245.4	257.6	270.4	280.6
D	Class A Debt interest (7)			108.1	112.0	120.5	124.5	130.2	131.3
E	Senior Debt interest (8)			128.3	131.1	139.5	143.8	149.7	151.0
F	Period end VAT debtor			5.4	6.0	8.5	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	2.3	2.2	2.2
Class A Average ICR		1.4	N/A	2.3	2.3	2.2	2.2	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	2.0	2.0	1.9	1.9
Senior Average Adjusted ICR		1.2	N/A	1.9	2.0	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	4.4	4.3	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 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	2,940.6	
PAYG fast money	Outturn	1,395.6	The value of Wholesale Totex recovered via revenues
Slow money	Outturn	1,545.0	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		3,235.5	
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	1,578.2
Capital expenditure per accounts	Outturn	1,564.2
Total Appointed expenditure	Outturn	3,142.4

Comparison of FD with actual costs		**Actual**	**FD**	
Total Appointed expenditure	Outturn	3,142.4	3,235.5	Actual expenditure is forecast to be £93.1m less than the FD
		Actual (%)	**FD (%)**	
Operating costs / Fast money		50.2%	52.2%	There is a 2.0% (£63m) 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		49.8%	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:

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 £31m and a deduction from AMP7 revenues of £33m (2012/13 prices). In addition, we forecast a further reduction to the opening RCV for AMP7, of £76m (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 defict payments	-30.6
Appointed operating cost cash flow (ref 3. page 10)	296.5

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	3,231.6	3,408.9	3,560.4	3,652.9
H	Senior Net Indebtedness (11)			3,441.2	3,451.9	3,631.6	3,808.9	3,960.4	4,052.9
I	RCV			4,397.1	4,385.2	4,599.1	4,822.3	5,012.9	5,133.2
Class A RAR									
	Historic / Projected: G/I	0.750	N/A	0.692	0.696	0.703	0.707	0.71	0.712
Senior RAR									
	Historic / Projected: H/I	0.900	0.950	0.783	0.787	0.790	0.790	0.790	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%	6.7%
Percentage of refinancing - within a regulatory period: no more than:			40%		<<<<<<<<<<<<<<<<<		14.5%	>>>>>>>>>>>>>>>	

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 £139.5 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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