Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 31 March 2018

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

Contents

General overview and business update

This Investor Report is updated for the year ended 31 March 2018. 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.

Our SIM score for the financial year 2017-18 was 79 (out of 100) which improved our relative industry position to 15th out of the 18 water companies. This is an improvement on the score for 2016-17 and a position of 16th. We recorded our best ever results during 2017-18 but the overall score for the year was held back by the effect of severe winter weather conditions in the fourth quarter.

	31 Mar 2016	**31 Mar 2017**	**31-Mar 2018**
SIM score	73	78	79

Health & Safety

We continued to lead the industry with our excellent health and safety performance and were awarded the Order of Distinction from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of our commitment to maintaining an excellent health and safety record over the past 19 years.

Operational performance

	2017–18			2016–17
	Target	**Achieved**		**Achieved**
Overall drinking water quality	*99.95%*	**99.96%**		99.96%
Water restrictions	*0*	**0**		0
Leakage (million litres of water per day)	*86*	**89**		88
Water Asset Health	*Stable*	**Stable**		Stable
Wastewater Asset Health	*Stable*	**Stable**		Stable
Wastewater treatement works compliance	*100%*	**99.66%**		99.32%
All pollution incidents (wastewater), Category 1-3	*154*	**136**		146
Serious pollution incidents (wastewater), Category 1-2	*4*	**4**		3

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. We continue to address the reliability of our water supplies and levels of leakage from our network, and we have introduced a range of initiatives this year including stricter sampling, reporting procedures and a more holistic approach to water management. These, plus our plans for extensive upgrades to our network, are expected to further improve our performance as well as making our water supply more resilient in the years ahead

We were disappointed to miss our leakage target of restricting water loss from our network to 87 million litres per day. We ultimately recorded a figure of 89 million litres. We are looking at the factors which may have contributed to this water loss, such as pressure on our network from extreme weather, and are also looking ahead with plans to build greater resilience into our network in the long-term.

For 2017-18 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 99.7 per cent compliance with environmental standards and we continue to improve pollution performance.

In 2017–18 we worked hard to build trust with customers, stakeholders and regulators. As part of this, we strengthened our accountability processes and reporting procedures by setting up a Compliance and Asset Resilience directorate to bring greater scrutiny and assurance to this area. We are also assisting the Environment Agency (EA) and Ofwat with ongoing investigations in relation to the historic operation of some of our wastewater treatment works and reporting processes.

Financial performance for the year ended 31 March 2018

Accounts are prepared under IFRS (FRS101).

Years ended 31 March	**2018 £m**	**2017 £m**	***Change %***
Revenue	829.7	809.7	*2.5*
Operating costs	-336.0	-306.9	*-9.5*
Other income	2.4	1.3	
EBITDA	**496.1**	**504.1**	***-1.6***
Depreciation & amortisation	-259.5	-245.2	
Profit on disposals	12.0	0.4	
Net finance costs	-118.7	-103.1	
Net interest & fair value	46.3	-416.8	
Profit before tax	**176.2**	**-260.6**	
Tax	-21.5	84.9	
Profit after tax	**154.7**	**-175.7**	

Revenue increased to £829.7 million (2017: £809.7 million). This increase partly results from changes to our inflation-linked water and wastewater tariffs, in part offset by the loss of income following the sale of our non-household retail business to specialist retailer Business Stream on 1 April 2017.

2017–18 has been a year of change and challenge resulting in an increase in operating costs of £29.1 million to £336.0 million (2017: £306.9 million). This increase includes costs associated with the restructure of our customer services team in order to further improve performance in this area, the establishment of a new Compliance and Asset Resilience directorate, responding to the exceptional weather conditions, IT improvements, preparation costs for PR19 and increased pension costs.

Other income includes the profit of £11.2 million from the sale of our non-household retail business on 1 April 2017.

The net cash used in investing activities increased to £416.2 million (2017: £224.3 million). This increase was mainly due to the profile of our capital investment programme where there was a significant increase in the number of investment projects in construction during 2017–18.

Net cash inflow from operating activities has reduced to £453.1 million (2017: £512.9 million) largely resulting from movements in working capital, including the timing effect of a different billing and collections profile from the transition to the non-household retail market.

Financing

We are in a strong position of liquidity with closing unrestricted cash as at 31 March 2018 of £149.3 million plus £350 million of undrawn revolving credit facility.

We have reviewed our capital structure in preparation for the next PR19 regulatory period in order to mainitain financial resilience into the next period and beyond. Subject to completion of structuring, documentation and the obtaining of necessary approvals, we are proceeding with a number of potential options which may include the restructuring of swap arrangements, injection of new funds and the early redemption of existing Bonds. A further announcement will be made in due course.

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. The credit rating from Moody's is negative outlook.

Dividend and Financing Policy

Our dividend policy takes into account the interests of all stakeholders to ensure that while shareholders are fairly rewarded for their continued investment and confidence in our company, the business can maintain its long-term capital structure and improve the services it offers to its customers.

When determining whether to make a dividend payment the following steps are followed:

1. A holistic view of company performance in the year is considered which forms a ‘gateway’ to the proposal of a dividend. This gateway includes how well we have delivered the promises and performance commitments we made as part of agreeing to the charges Ofwat allows us to make for our services, known as our price determination.
2. If it is agreed that a dividend will be paid, we start with a base level of dividend appropriate to our price determination and our actual level of gearing.
3. We then take into account financial performance during the year. Where we have performed better than would be reflected in the base level of dividend, we consider whether it is appropriate to increase it while also taking into account how an equitable share of our profits can be passed on to customers and other stakeholders.
4. It is important to note that we do not automatically pay the full amount of the calculated level of dividend. We may retain dividend in the business, or defer them to a future period, to maintain financial resilience, a sustainable long-term capital structure, and give due regard to employee and other stakeholder interests.

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

- i. headroom under debt covenants
- ii. the impact on the company’s credit rating
- iii. the liquidity position and ability to fulfil licence conditions
- iv. key areas of business risk.

In light of Ofwat’s recent publications regarding governance in the water sector and its proposals for the next business plan for 2020–25 we will be reviewing our dividend policy to ensure that it strikes the right balance between the interests of customers and investors.

Board membership (of Southern Water Services Ltd)

Bill Tame (Chairman)
Ian McAulay (Chief Executive Officer)
William Lambe (Chief Financial Officer),
Sara Sulaiman (Non-executive Director), appointed September 2017
Wendy Barnes (Non-executive Director), appointed September 2017
Paul Sheffield (Independent Non-executive Director)
Rosemary Boot (Independent Non-executive Director)
Lisa Harrington (Independent Non-executive Director), resigned 31 March 2018
Mike Putnam (Independent Non-executive Director), appointed September 2017
Joanne Statton (Company Secretary)

Ultimate parent company

The ultimate parent company is Greensands Holdings Ltd.

Financial ratios

As required by the CTA, financial ratios are reported up to the end of the current five year regulatory period. 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.

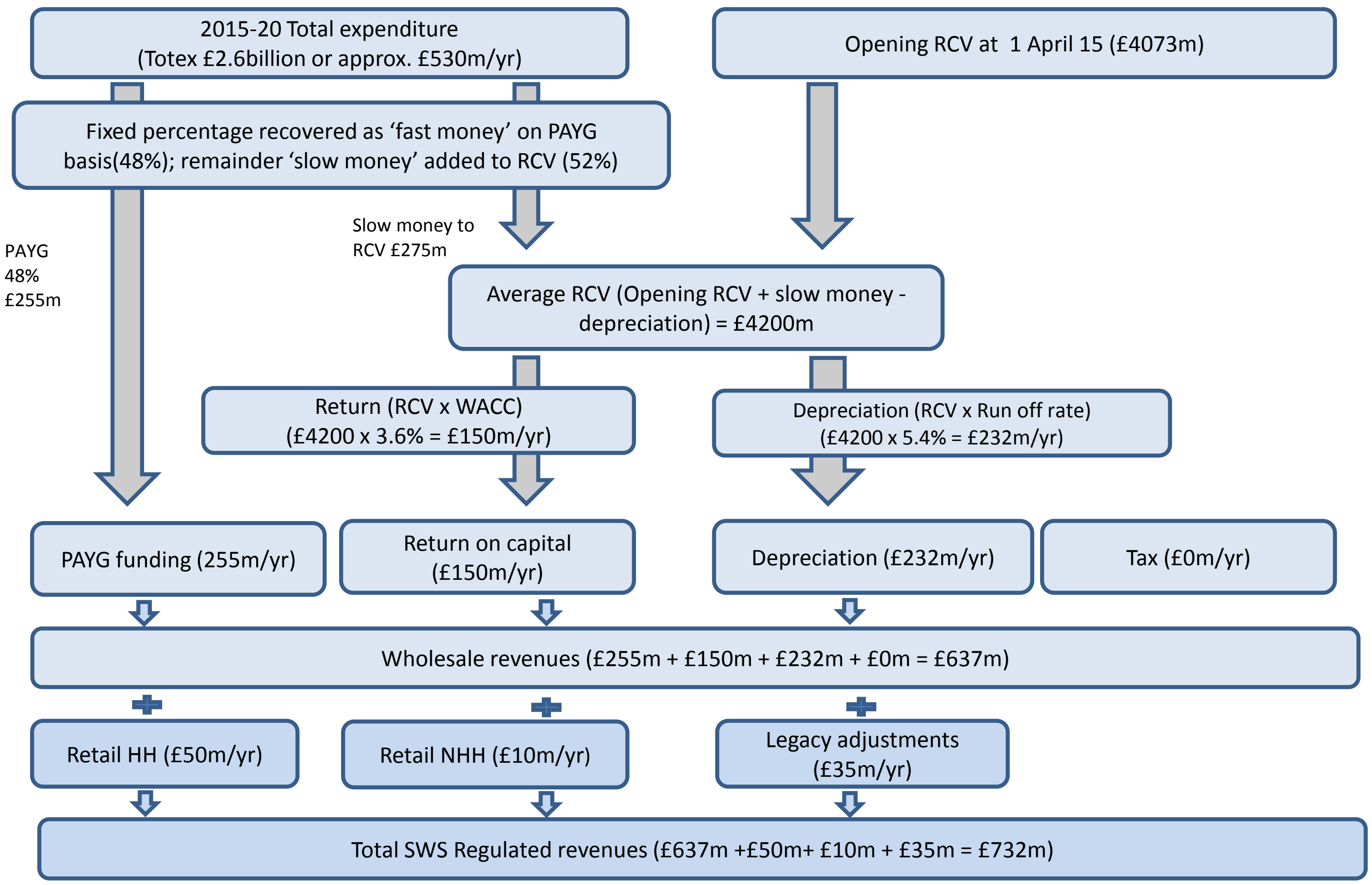
Pages 10 and 11 of this report provide an overview of the regulatory building blocks for PR14, the foundation for the structure of debt covenant ratios. Pages 18 and 19 provide a comparison of the PR14 totex with the forecast level of operating and capital expenditure, and a reconciliation to the net 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 2018 was 3.8%, the forecast RPI used for March 2019 is 3.1%, and 2.90% has been used for March 2020.

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

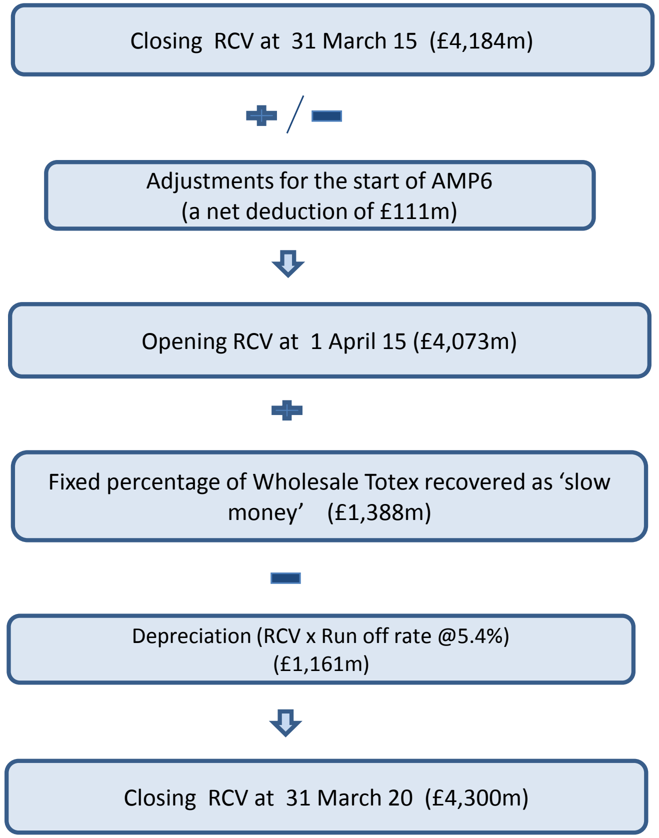
There have been no movement in our financial forecasts since the March 2018 report, and inflation to date has outturned close to our financial forecasts.

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	801.8	797.9	826.4	856.7
2	Non Appointed	7.1	11.1	11.8	10.6	10.7	10.8
	Operating Costs						
3	Appointed	255.1	296.5	282.0	331.2	343.2	308.6
4	Non Appointed	2.1	6.9	7.3	7.5	7.6	7.7
	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	274.7	368.6	451.1	421.3
	Annual Finance Charge	128.3	131.1	137.9	143.1	147.9	150.7
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	84.7	55.9	28.1
	Net cash reserves movement	43.9	19.4	36.6	-126.7	-168.7	-49.0
	Proceeds from new finance	0.0	109.4	288.0	0.0	446.5	99.0
	Debt and swap accretion payments	4.3	298.4	52.5	5.0	304.7	16.1
	Net cash reserves movement after financing	39.6	-169.6	272.1	-131.7	-26.9	33.9

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 period. 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	118.8	123.9	127.5	129.7
	Class B debt interest	20.2	19.1	18.3	18.0	17.9	17.9
	Interest income	1.3	2.4	1.2	0.8	0.7	0.1
	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	125.1	130.0	132.8
8	Senior Debt Interest	128.3	131.1	137.9	143.1	147.9	150.7
	Annual Finance Charge	128.3	131.1	137.9	143.1	147.9	150.7
	Monthly Payment Amount *	11.0	11.1	11.6	12.0	12.4	12.6

* 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	141.2	114.3
	Cash transferred	0.3	-52.7	272.1	-130.9	-26.9	33.9
	Closing balance	52.7	0.0	272.1	141.2	114.3	148.2
	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	8.1	8.1
	Cash transferred	37.0	-65.4	0.0	-0.8	0.0	0.0
	Closing balance	74.3	8.9	8.9	8.1	8.1	8.1
	Total Cash Balances						
	Opening balance	139.7	179.3	9.7	281.8	150.1	123.2
	Cash transferred	39.6	-169.6	272.1	-131.7	-26.9	33.9
9	Closing balance	179.3	9.7	281.8	150.1	123.2	157.1

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	229.7	236.9	243.8
	*	£35m A2b 3.706% Limited Index Bonds due 2034	49.6	50.1	51.7	53.6	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	229.7	236.9	243.8
	*	£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	108.9	163.0	216.1
		£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	244.0	252.7	260.6	268.1
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	219.4	221.7	225.8	233.9	241.2	248.1
		£100m EIB Index Linked loan due 2025	0.0	60.5	103.1	107.1	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	450.0	550.0
		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	3,465.6	3,699.1	3,868.9
		Senior Indebtedness	3,620.5	3,461.6	3,760.1	3,865.6	4,099.1	4,268.9
10		Class A Net Indebtedness	3,041.2	3,051.9	3,078.3	3,315.5	3,575.9	3,711.8
11		Senior Net Indebtedness	3,441.2	3,451.9	3,478.3	3,715.5	3,975.9	4,111.8
		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 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	466.6	483.1	548.0
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	469.7	486.2	551.1
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	125.1	130.0	132.8
E	Senior Debt interest (8)			128.3	131.1	137.9	143.1	147.9	150.7
F	Period end VAT debtor			5.4	6.0	8.5	9.3	9.5	8.5
G	Capital Maintenance (MNI & IRE)			218.3	164.0	186.7	226.2	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	3.8	3.8	4.2
Class A Average ICR		1.4	N/A	3.7	4.2	4.1	3.9	4.0	4.2
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.7	3.9	3.9	3.4	3.3	3.7
Senior Average Adjusted ICR		1.2	N/A	3.2	3.6	3.6	3.5	3.5	3.7
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	3.8	3.8	4.2
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	466.6	483.1	548.0
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	469.7	486.2	551.1
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	260.0	273.6	283.9
D	Class A Debt interest (7)			108.1	112.0	119.6	125.1	130.0	132.8
E	Senior Debt interest (8)			128.3	131.1	137.9	143.1	147.9	150.7
F	Period end VAT debtor			5.4	6.0	8.5	9.3	9.5	8.5
G	Capital Maintenance (MNI & IRE)			218.3	164.0	186.7	226.2	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	1.8	1.7	2.1
Class A Average ICR		1.4	N/A	2.1	2.1	2.0	1.8	1.9	2.1
Senior Adjusted ICR									
	Historic: (B-C+F)/E Projected: (A-C+F)/E	1.1	N/A	1.7	2.1	2.1	1.5	1.5	1.8
Senior Average Adjusted ICR		1.2	N/A	1.8	1.8	1.7	1.6	1.6	1.8
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	3.8	3.8	4.2
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	2,960.3	
PAYG fast money	Outturn	1,405.0	The value of Wholesale Totex recovered via revenues
Slow money	Outturn	1,555.3	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		3,255.2	
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	1,563.4
Capital expenditure per accounts	Outturn	1,713.1
Total Appointed expenditure	Outturn	3,276.4

Comparison of FD with actual costs		**Actual**	**FD**	
Total Appointed expenditure	Outturn	3,276.4	3,255.2	Actual expenditure is forecast to be £20.2m less than the FD
		Actual (%)	**FD (%)**	
Operating costs / Fast money		47.7%	52.2%	There is a 4.5% (£147m) 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		52.3%	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 plus an adjustment for any timing difference regarding the profile of expenditure. Variance to Retail expenditure is not shared for AMP7.

Reconciliation to Net Appointed Income

	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m
Operating costs per Accounts	286.3	307.8	336.0
Non-appointed expenditure	-6.9	-7.3	-7.5
Movement in operating cash flows	47.7	-18.5	2.7
Prepayment of future pension defict payments	-30.6	0.0	0.0
Appointed operating cost cash flow (ref 3. page 10)	296.5	282.0	331.2

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	3,315.5	3,575.9	3,711.8
H	Senior Net Indebtedness (11)			3,441.2	3,451.9	3,478.3	3,715.5	3,975.9	4,111.8
I	RCV			4,397.1	4,385.2	4,619.7	4,885.6	5,088.7	5,210.8
Class A RAR									
	Historic / Projected: G/I	0.750	N/A	0.692	0.696	0.666	0.679	0.703	0.712
Senior RAR									
	Historic / Projected: H/I	0.900	0.950	0.783	0.787	0.753	0.761	0.781	0.789

	Default	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020
Control of Repayments (maturity buckets)							
Percentage of refinancing - consecutive two years: no more than:	20%		6.9%	7.8%	1.2%	6.2%	6.2%
Percentage of refinancing - within a regulatory period: no more than:	40%		<<<<<<<<<<<<<<<<<		14.0%	>>>>>>>>>>>>>>>	

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 £147.9 million for 2018/19 equating to a Monthly Payment Amount for this period of £12.4 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.

William Lambe
Chief Financial Officer
For and on behalf of
Southern Water Services Ltd

William Lambe
For and on behalf of
Southern Water Services (Finance) Ltd

Joanne Statton
For and on behalf of
Southern Water Services Ltd

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

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