Investor Report and Compliance Certificate

For the SWS Financing Group

For the period ended 30 September 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

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General overview and business update

This Investor Report is updated for the period ended 30 September 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. Our interim position for the first half of 2018-19 has further improved to 13th.

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

Since April 2018, we have seen a further reduction of 32% on written complaints reported at the same point last year and almost 30% of our customers are now transacting with us online.

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

We continue to supply our customers with consistently high-quality drinking water, and at the end of September we recorded a good result of 99.98 per cent. We are also pleased to report strong performance in customer minutes lost to supply, achieving 3.6 minutes at this point in the year, largely due to increased customer awareness around how to report leaks. Unfortunately, we have fallen behind our own target on leakage for the past six months, recording 99.45 million litres per day, above the 87.1 million litres we were aiming for, largely due to the unusual freeze thaw event in March and the hot, dry summer. Over the first three years of the current five year period we are on target and we are investing in more resources and repairing more leaks than we have before in order to reduce leakage further and meet our target by 2020.

We have managed to keep blockages on our network at 0.25 per kilometre of sewer – better than our target for this point in the year of 0.28 - despite an increase in the number of blockages reported by customers as a result of the exceptionally dry weather. We are also on track to further reduce external flooding incidents across our network, recording a figure of 3,566 across our region at this point in the year – significantly lower than our target of keeping external floods to fewer than 4,300.

So far this year we have recorded 123 category three (less serious) pollution incidents, which is an increase on 117 for the same period last year, but we want to do much better. Unfortunately so far this year we have reported five serious, category one and two, pollution incidents, although several of these were still under investigation at the time of publication.

As of November 2018, all 83 of our bathing waters met minimum standards of ‘sufficient’ with 55 at ‘excellent’. An improvement on the 2017 performance of 53 rated at 'excellent'.

In our March 2018 report we stated that we are working 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 historical operation of some of our wastewater treatment works and reporting processes. We have provided two further updates:

Update published 7 November 2018: Having received various requests from investors for an update on Ofwat’s ongoing investigations in relation to the operation of some of our wastewater treatment works and reporting processes we can confirm that the company has largely completed its review of the relevant wastewater data referred to in our annual accounts and has had the data independently verified. The company is engaging in detailed discussions with Ofwat of its findings and the consequences in relation to serviceability and Outcome Delivery Incentive penalties in respect of AMP5 and AMP6. As disclosed in the annual report it is likely that we will be required to make future revenue adjustments and/or pay penalties and fines in relation to any restated figures and this could include a RCV log down in the 2019 Final Determination.

Update published 19 November 2018: In relation to the ongoing investigations by Ofwat, the Environment Agency and the Company itself into the operation of some of our wastewater treatment works and reporting processes the Company has adopted the prudent course of bringing the matter to the attention of the law enforcement authorities.

Please refer to our Annual Report and Interim Report for further information on our operational performance.

Financial performance for the period to 30 September 2018

Accounts are prepared under IFRS (FRS101).

Six months to 30 September	2018 £m	2017 £m	*Change %*
Revenue	440.1	418.7	*5.1*
Operating costs	-171.9	-161.1	*-6.7*
Other income	0.5	0.5	
EBITDA	**268.7**	**258.1**	***4.1***
Depreciation & amortisation	-128.6	-123.6	
Profit on disposals	0.3	15.6	
Net finance costs	-57.5	-62.9	
Net interest & fair value	17.6	44.5	
Profit before tax	**100.5**	**131.7**	
Tax	-18.4	-23.1	
Profit after tax	**82.1**	**108.6**	

Revenue for the period increased to £440.1 million (2017: £418.7 million). The increase principally relates to changes to our inflation-linked water and wastewater tariff.

Operating costs, before depreciation and amortisation, for the first half of the year of £171.9 million increased by 6.7% (period to 30 September 2017: £161.1 million). This increase in costs is largely driven by inflation and the effect of maintaining operations during the extreme hot weather of this summer. We have also incurred further costs on completing our Business Plan for 2020-25 which was submitted to Ofwat in September 2018.

Net finance costs for the period decreased to £57.5 million (period to 30 September 2017: £62.9 million). This decrease was largely due to higher interest capitalised following the continued investment in our capital programme. Please note that interest is not capitalised for the calculation of compliance ratios.

Net cash inflow from operating activities in the period amounted to £237.2 million (period to 30 September 2017: £216.3 million). This increase in cash inflow mainly results from higher operating profits and the impact of the sale of our non-household retail business to Business Stream on the timing of cash receivables in the prior period.

Financing

We are in a strong position of liquidity with closing unrestricted cash as at 30 September 2018 of £130.9 million plus £350.0 million of undrawn revolving credit facility.

We have completed the review of our capital structure in preparation for the next PR19 regulatory period in order to mainitain financial resilience into the next period and beyond. Southern Water is expected to receive sufficient funds to reduce gearing and to restructure some of the index-linked derivative portfolio in order to reduce interest payments for the period from 2020 to 2030. There were £177 million of index-linked derivatives with mandatory breaks at March 2019 and these breaks have now been extended to November 2025. These restructured derivatives have also been transferred to Southern Water Services Ltd, from Southern Water Services (Finance) Limited, in preparation for the removal of the Cayman incorporated Southern Water Services (Finance) Ltd. The expected reduction in gearing at Southern Water will include the early redemption of an existing Class B loan and Bond. Funds received by Southern Water will reduce the value of the inter-company loan to Southern Water Services Group Ltd.

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 rating for Standard & Poor's has a Stable outlook. The credit rating from Fitch is on review for a downgrade and the credit rating for Moody's is negative outlook.

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)

Wendy Barnes (Non-executive Director)

Paul Sheffield (Independent Non-executive Director)

Rosemary Boot (Independent Non-executive Director)

Ian Francis (Independent Non-executive Director), appointed September 2018

Mike Putnam (Independent Non-executive Director)

Richard Manning (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 16) 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:

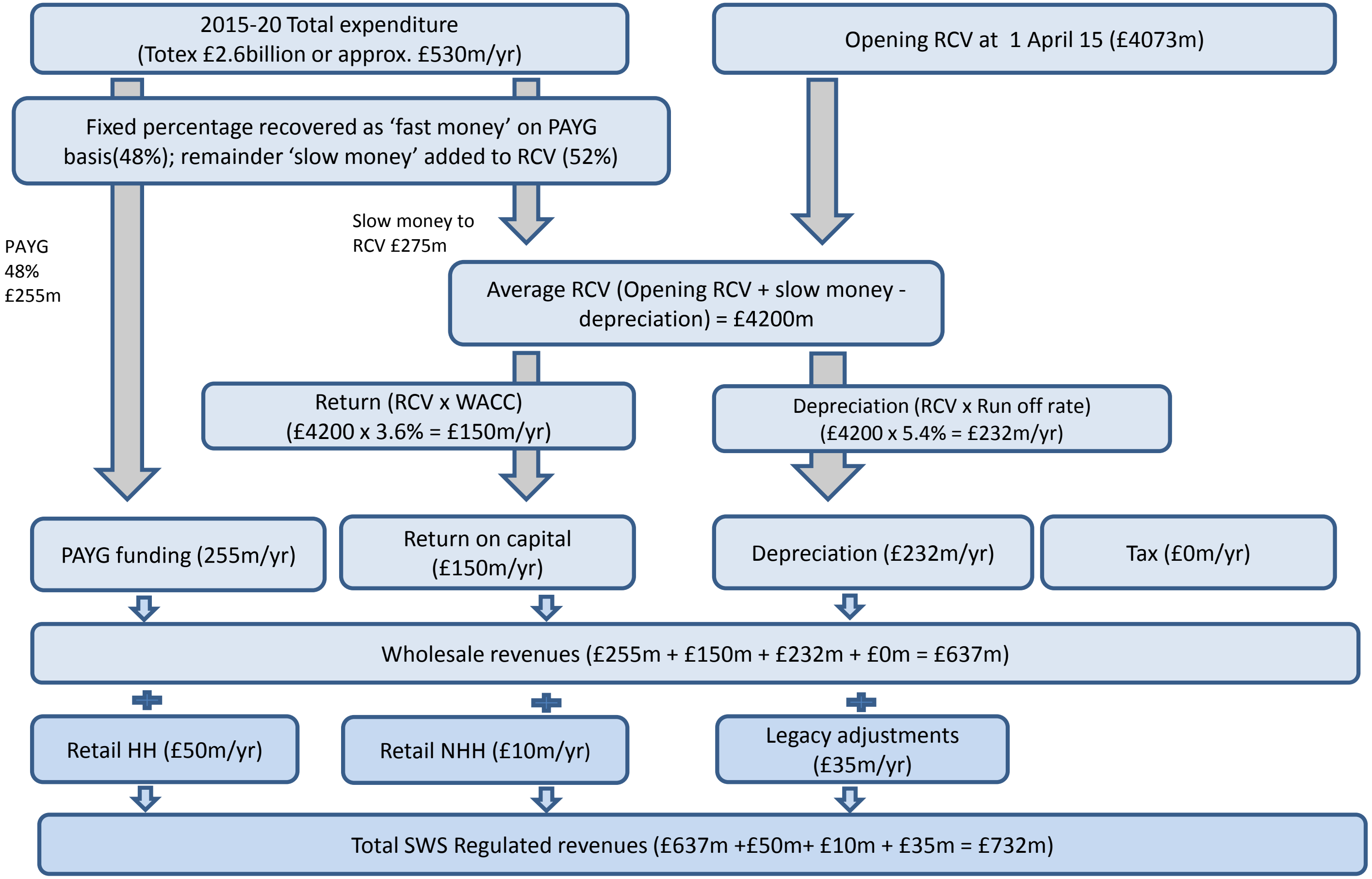
- CCD will be replaced with the RCV run-down rate. This is a directly comparable measure for the depreciation of the RCV.
- We adopted IFRS from 2015-16, and infrastructure renewals accounting is not permissible under IFRS. As a consequence, IRC will no longer exist for accounting purposes and has been 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 page17 of this report, and will continue to form part the investor report and compliance certificate.

Pages 9 and 10 of this report provide an overview of the regulatory building blocks for PR14, the foundation for the structure of debt covenant ratios. Pages 17 and 18 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 3.6%, 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.

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

Closing RCV at 31 March 15 (£4,184m)

+ / −

Adjustments for the start of AMP6
(a net deduction of £111m)

↓

Opening RCV at 1 April 15 (£4,073m)

+

Fixed percentage of Wholesale Totex recovered as ‘slow money’ (£1,388m)

−

Depreciation (RCV x Run off rate @5.4%)
(£1,161m)

↓

Closing RCV at 31 March 20 (£4,300m)

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	344.4	309.8
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	456.1	406.3
	Annual Finance Charge	128.3	131.1	137.9	143.1	146.1	124.6
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	62.0	37.1
	Net cash reserves movement	43.9	19.4	36.6	-126.7	-179.2	-18.1
	Net proceeds from new finance	0.0	109.4	288.0	0.0	787.0	98.5
	Debt and swap accretion payments	4.3	298.4	52.5	5.0	704.7	16.1
	Net cash reserves movement after financing	39.6	-169.6	272.1	-131.7	-96.9	64.3

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 in 2014-15 relates to payments in 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	118.8	123.9	127.5	121.5
	Class B debt interest	20.2	19.1	18.3	18.0	15.8	0.0
	Interest income	1.3	2.4	1.2	0.8	0.7	0.4
	Class A Facilities commitment fees	8.2	2.0	2.0	2.0	3.5	3.5
7	Class A Debt Interest	108.1	112.0	119.6	125.1	130.3	124.6
8	Senior Debt Interest	128.3	131.1	137.9	143.1	146.1	124.6
	Annual Finance Charge	128.3	131.1	137.9	143.1	146.1	124.6
	Monthly Payment Amount *	11.0	11.1	11.6	12.0	12.2	10.4

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

We have completed the review of our capital structure in preparation for the next PR19 regulatory period in order to maintain financial resilience into the next period and beyond. Southern Water is expected to receive sufficient funds to reduce gearing and to restructure some of the index-linked derivative portfolio in order to reduce interest payments for the period from 2020 to 2030. There were £177 million of index-linked derivatives with mandatory breaks at March 2019 and these breaks have now been extended to November 2025. These restructured derivatives have also been transferred to Southern Water Services Ltd, from Southern Water Services (Finance) Limited, in preparation for the removal of the Cayman incorporated Southern Water Services (Finance) Ltd. The expected reduction in gearing at Southern Water will include the early redemption of an existing Class B loan and Bond. A new deed poll will prohibit the future issuance of Class B debt by Southern Water.

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	44.3
	Cash transferred	0.3	-52.7	272.1	-130.9	-96.9	64.3
	Closing balance	52.7	0.0	272.1	141.2	44.3	108.6
	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	53.2
	Cash transferred	39.6	-169.6	272.1	-131.7	-96.9	64.3
9	Closing balance	179.3	9.7	281.8	150.1	53.2	117.5

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	237.5	244.6
	*	£35m A2b 3.706% Limited Index Bonds due 2034	49.6	50.1	51.7	53.6	55.4	57.0
		£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	237.5	244.6
	*	£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	163.3	216.4
		£250m B2 4.5% Fixed/Floating rate Bonds due 2038	250.0	250.0	250.0	250.0	0.0	0.0
		£150m Class B loan facility due 2021	150.0	150.0	150.0	150.0	0.0	0.0
	*	£165m Artesian 4.076% Index-linked Bonds due 2033	237.1	239.5	244.0	252.7	261.2	269.0
	*	£156m Artesian 3.635% Index-linked Bonds due 2032	219.4	221.7	225.8	233.9	241.8	249.0
		£100m EIB Index Linked loan due 2025	0.0	60.5	103.1	107.1	105.4	92.3
		£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	247.0	345.5
		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	3,499.1	3,668.4
		Senior Indebtedness	3,620.5	3,461.6	3,760.1	3,865.6	3,499.1	3,668.4
10		Class A Net Indebtedness	3,041.2	3,051.9	3,078.3	3,315.5	3,445.9	3,550.9
11		Senior Net Indebtedness	3,441.2	3,451.9	3,478.3	3,715.5	3,445.9	3,550.9
		Nominal value of fixed rate debt swapped to Index-linked	1,318.0	1,318.0	1,318.0	1,318.0	1,318.0	1,318.0

* Wrapped by AG

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

Interest Cover Ratios - Original format

		Trigger	Default	31 Mar 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	481.9	546.8
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	469.7	485.0	549.9
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	119.6	125.1	130.3	124.6
E	Senior Debt interest (8)			128.3	131.1	137.9	143.1	146.1	124.6
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	4.5
Class A Average ICR		1.4	N/A	3.7	4.2	4.1	4.0	4.1	4.5
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	3.4	4.5
Senior Average Adjusted ICR		1.2	N/A	3.2	3.6	3.8	3.7	3.9	4.5
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	3.8	3.8	4.5
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 8 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	481.9	546.8
B	Net Total Income (1+2+3+4+6)			555.9	508.2	524.2	469.7	485.0	549.9
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	245.7	260.0	273.7	248.2
D	Class A Debt interest (7)			108.1	112.0	119.6	125.1	130.3	124.6
E	Senior Debt interest (8)			128.3	131.1	137.9	143.1	146.1	124.6
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	2.2
Class A Average ICR		1.4	N/A	2.1	2.1	2.0	1.9	1.9	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	1.5	1.5	2.2
Senior Average Adjusted ICR		1.2	N/A	1.8	1.8	1.8	1.7	1.8	2.2
Class A ICR									
	Historic: B/D Projected: A/D	N/A	1.6	5.2	4.6	4.5	3.8	3.8	4.5
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 11)	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	3,445.9	3,550.9
H	Senior Net Indebtedness (11)			3,441.2	3,451.9	3,478.3	3,715.5	3,445.9	3,550.9
I	RCV			4,397.1	4,385.2	4,619.7	4,885.6	5,069.9	5,191.6
Class A RAR									
	Historic / Projected: G/I	0.750	N/A	0.692	0.696	0.666	0.679	0.680	0.684
Senior RAR									
	Historic / Projected: H/I	0.900	0.950	0.783	0.787	0.753	0.761	0.680	0.684

	Default						
Control of Repayments (maturity buckets)							
Percentage of refinancing - consecutive two years: no more than:	20%		6.9%	7.8%	1.2%	14.3%	14.0%
Percentage of refinancing - within a regulatory period: no more than:	40%		<<<<<<<<<<<<<<<<<		22.3%	>>>>>>>>>>>>>>>	

Note: swap accretion payments have been included in this test

We have completed the review of our capital structure in preparation for the next PR19 regulatory period in order to mainitain financial resilience into the next period and beyond. Southern Water is expected to receive sufficient funds to reduce gearing and to restructure some of the index-linked derivative portfolio in order to reduce interest payments for the period from 2020 to 2030. There were £177 million of index-linked derivatives with mandatory breaks at March 2019 and these breaks have now been extended to November 2025. The expected reduction in gearing at Southern Water will include the early redemption of an existing Class B loan and Bond. A new deed poll will prohibit the future issuance of Class B debt by Southern Water.

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 £146.1 million for 2018/19 equating to a Monthly Payment Amount for this period of £12.2 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

Richard Manning
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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