



SOUTH EAST WATER

INVESTORS REPORT

For the six months ending 30 September 2016

**South East Water Financing Group:
South East Water (Holdings) Limited
South East Water Limited
South East Water (Finance) Limited**

Contents Page

CONTENTS PAGE	2
GENERAL OVERVIEW AND BUSINESS UPDATE.....	3
1.0 OPERATIONAL PERFORMANCE	3
2.0 WATER RESOURCES AND LEAKAGE.....	3
3.0 CUSTOMER SERVICE	3
4.0 HEALTH, SAFETY AND ENVIRONMENT	4
5.0 FINANCIAL PERFORMANCE IN THE SIX MONTHS ENDED 30 SEPTEMBER 2016	4
6.0 REGULATORY UPDATE.....	7
7.0 CAPITAL EXPENDITURE	9
8.0 WATER QUALITY	10
9.0 OUTSOURCING	10
10.0 FINANCING.....	11
11.0 CREDIT RATINGS	11
12.0 SURPLUS	12
13.0 BOARD / MANAGEMENT CHANGES	13
RATIOS.....	14
APPENDIX	20
FINANCIAL STATEMENTS	20

General Overview and Business Update

This Investors Report covers the six month period ending 30 September 2016. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

1.0 Operational Performance

Our performance for the first six months of the year has been good. Where interruptions to supply have occurred, most customers have their water restored in under three hours, leading to an average interruption time of just over seven minutes per property for the first six months of the year. Just over five minutes of this figure comes from one significant burst water main in Barcombe, East Sussex in August 2016.

We are pleased to report that customer complaints to South East Water have fallen for a fifth year running and we continue to be on track for further reductions during 2016-17. A report from the Consumer Council for Water published in September 2016 shows that during 2016-17, South East Water saw a 38 per cent drop in customer complaints compared to the previous year. This was the best improvement seen within the industry and we are now better than the industry average.

We are the only water company to specifically set outcomes based on customer satisfaction and in the first six months of the year have surveyed 800 customers through a monthly telephone survey. This is an innovative approach which has been shortlisted for the Utility Week Award for customer engagement. During the first six months of the year we have seen an improvement in our scores compared to the previous year.

2.0 Water Resources and Leakage

April experienced rainfall close to long term average. Then followed very wet conditions through May (150% long term average rainfall) and June (163% long term average rainfall), followed by drier than normal conditions through July, August and September (close to 50% long term average rainfall).

As a consequence of the rainfall observed, demand was below normal year projections during the 6 month period April 2016 to September 2016. The very wet conditions experienced in May and June kept soils sufficiently wetted up through July to September despite the rainfall in those latter months being notably below long term average levels.

The company has made good progress with its water efficiency strategy agreed with the regulator. Leakage levels continue to be maintained below the leakage target.

Good progress is continuing with the planning of new water resource schemes required to maintain the supply demand balance during the period 2015 to 2020.

3.0 Customer Service

Our focus on improving the customer experience has been maintained.

We continue to maintain our focus on delivering a “Five out of Five” customer experience on every customer contact we receive. Our Five out of Five Customer Voice programme asks every customer to rate our service, and the helpfulness of the advisor they spoke with, on a

scale of 1 (low) to 5 (high). Advisors are focussed on call quality and achieving a 5/5 rating for every call and many are achieving this consistently.

The customer experience improvements are also supporting our delivery efficiencies, with our average cost to serve significantly ahead of target. With the percentage of metered customers increasing through our metering programme, we are successfully absorbing the upward cost pressures of metered customers who generally contact the Company more frequently than unmetered customers. Our cash collection performance also continues to remain positive, with performance on our older debt particularly strong, with collection of debt over 12 months old ahead of target.

We continue to focus on identifying and engaging with our vulnerable customers, and have a dedicated customer care team who visit customers to offer the most appropriate support depending on the customer's individual circumstances. This team is also involved in various activities within the community to help ensure we maximise the number of customers aware of the support we offer, including meetings with the regional Financial Capability Forum, working with food banks, and visiting Citizens Advice Bureau offices to help ensure their clients are helpfully signposted for support.

Working with Ofwat and Market Opening Services Limited (MOSL), we have been preparing the business to be ready for non-household retail competition from April 2017. We have separated the service teams and billing systems to enable us to now manage our business customers independently in readiness for full competition from April 2017.

4.0 Health, Safety and Environment

SEW experienced no accidents that were reportable under RIDDOR for the period to 30 September 2016. This is an excellent result but sustained focus will be required to maintain this record.

Effort has continued to centre on behavioural safety initiatives such as a facilitated workshop that was delivered to all operational teams. The workshop is based on a dramatized workplace accident to encourage interventions that halt unsafe practices.

Members of the Executive team have undertaken site safety inspections alongside safety representatives to reinforce the message that health, safety and wellbeing is of primary importance to the organisation.

A new health, safety and wellbeing strategy is in the process of being developed with the intention of establishing a zero harm culture within the organisation.

5.0 Financial Performance in the six months ended 30 September 2016

The ring fenced Group includes the following companies:

- South East Water (Holdings) Limited;
- South East Water Limited; and
- South East Water (Finance) Limited.

South East Water (Finance) Limited is a 100% subsidiary of South East Water Limited and South East Water Limited is a 100% subsidiary of South East Water (Holdings) Limited.

The accounts for the SEW Group for the six months to 30 September 2016 have been prepared and these results are set out in the appendix. These accounts have been prepared under International Financial Reporting standards ("IFRS") and are not published, but are prepared for internal use. The consolidated group accounts for South East Water Limited for the same six month period which are prepared on an IFRS basis are published on the Company's website (The accounts on the website exclude the results for South East Water (Holdings) Limited).

The entity accounts for SEWL are prepared under IFRS. The entity accounts for SEWH and SEWF are prepared under FRS 101, taking advantage of the exemptions from full IFRS reporting available under this standard.

Turnover

Turnover for the six month period to 30 September 2016 was slightly higher at £111.0m when compared to £109.4m for the same six months period in the previous year. The increased revenue is largely due to increased prices averaging 4.2 per cent for the year, the impact of metering and the numbers of new properties in the area. This is partially offset by an average 5 per cent lower consumption due to the cooler and wetter than expected summer.

Operating Costs

Net operating costs for the six months to 30 September 2016 were £73.0m compared to £72.6m in the prior year. The increase in costs by 0.6% largely relates to higher staff costs (£0.6m) and depreciation (£0.8m) offset by lower other operating costs (£0.9m).

Interest

Interest payable for the group for the six month period to 30 September 2016 was £25.6m compared to £23.8m in the prior year. Interest receivable for the six months to 30 September 2016 was £0.1m, which is in line with the prior year.

Interest payable includes the following:

- £11.0m interest on listed debt/bonds (2015 - £10.9m)
- £3.9m fair value movement on interest rate swap (2015 - £3.8m)
- £1.7m indexation on index linked listed bonds (2015 - £0.8m)
- £5.8m interest on Index linked loans (including Artesian Finance loans) (2015 - £5.6m)
- £0.7m Indexation on Index linked loans (including Artesian Finance loans) (2015 - £(0.2)m)
- £2.7m interest payable by SEWH to group companies (2015 - £2.7m)
- £1.0m relating to other net interest (2015 - £1.5m)
- £(1.2)m capitalised interest (2015 - £(1.3)m)

Taxation

The tax in the profit and loss account shows a tax credit of £4.7m (2015: charge of £3.0m). The tax credit comprises a current tax charge of £0.6m and a deferred tax credit of £5.3m to reflect the reduction in corporation tax rate in future years from 20% to 17%. The current tax charge reflects the utilisation of and payment for other group losses.

Cash

The SEW Group has cash and cash equivalent balances of £16.4m as at 30 September 2016 compared with £23.2m as at 30 September 2015. As at the date of this report, no funds have been drawn on the authorised credit facilities.

The restricted cash balance as at 30 September 2016 was £1.4m compared to £1.2m as at 30 September 2015, including £1.3m (2015: of £1m) of current asset investments. This is held in designated bank accounts in order to meet interest and associated swap payments falling due in respect of the listed debt and interest payments on index linked loans.

Debt funding

There has been no new debt funding in the year. The liquidity facilities were refinanced as set out in the financing section.

IFRS

All financial statements for the group are being prepared on an IFRS basis with effect from 1 April 2015.

6.0 Regulatory Update

Regulatory Reporting

The 2015-16 Annual Report and Financial Statements and Annual Performance Report which includes the Statutory Accounts, the Regulatory Accounts, the OFWAT prescribed Performance Report and the Risk and Compliance Statement was published on the South East Water website in July.

In July we also published the Performance, People and Plant Report which gives further information about the Company's performance against the Company's performance commitments.

The below performance is for the six months ended 30 September 2016. During August there was a large burst on the 15" main from Barcombe water treatment works to St. Francis (West Sussex) network reservoir. This incident resulted in 5.1 minutes per property being added to our interruptions performance. All other performance commitments are in line with expectation.

Outcome	FD Target	Performance
Customer Satisfaction		
A1. Appearance	4.6	4.5
B1. Taste	4.3	4.2
C1. Leakage	4.0	3.7
D1. Interaction	4.5	4.3
F1. Pressure	4.5	4.3
G1. Interruptions	4.7	4.6
H1. Water restrictions	4.1	4.4
C2. Leakage	91.8	87.3
D2. SIM Score	N/A	Reported Annually
E1. Customers consider bills to be value for money and affordable	N/A	Reported Annually
F2. Number of properties at risk of low pressure	60	53
G2. Average interruption time lost per property	12.3	7.4
H2. Meeting the Water Resource Deficit	0	0
I1. Mean Zonal Compliance	100	99.95
J1. Number of breaches of abstraction licences, discharge consents and environmental permits	0	1
J2. Number of pollution incidents (Category 1-2)	0	Reported Annually
K1. Number of compliance breaches of legislation	0	Reported Annually
L1. Number of breaches of National Security obligations	0	Reported Annually
M1. Number of compliance breaches of other statutory obligations and licence conditions	0	Reported Annually
N1. Discolouration Contacts	0.78	0.74
N2. Above ground asset performance	Stable	Stable
N3. Number of sites at risk of flooding	N/A	55
N4. Water mains bursts	2429	1254
O1. KG of carbon emissions per customer per year	N/A	Reported Annually
O2. We will monitor our abstractions at low flows at environmentally sensitive sites	N/A	Reported Annually

Water 2020

In May 2016 Ofwat published an update to their Water 2020 proposals which is available on the Ofwat website. The Company responded to this document and continues to play an active role in workshops that Ofwat have been running.

Further consultations have since been issued on the cost of debt and licence modifications. The Company has responded to the cost of debt consultation and the licence modifications consultation responses are due in December. A further consultation in relation to the performance commitments and targets that are set for companies is due in the next few months.

Retail non-household competition

A substantial milestone was reached for the industry and Market Operator Services Limited (MOSL) in October 2016 with the commencement of shadow market operations. The Company's plans are progressing well with the necessary changes being made to ensure the Company can interact with the market and fulfil all of its required obligations.

Retail non-household price review 2016

Ofwat issued draft determinations in July to all companies in relation to the Business Retail Price Review (PR16). Ofwat accepted the Company's proposals with no changes to the Company's submission. Final Determinations are due in December 2016.

Retail household competition

On 19th September Ofwat published their findings on the costs and benefits of introducing competition to residential customers. The government will determine any next steps.

Tariffs

In line with new guidance issued by Ofwat the Company published wholesale non-household indicative charges in September 2016. These can be found at:
<http://www.southeastwater.co.uk/news-and-information/publications/our-charges>

Final tariffs will be published in early 2017.

Instrument of appointment

Subsequent to the amendment of companies' instruments of appointment to remove the "in-area trading ban" on 20 May 2016 and the introduction of a new readiness condition on 27 May 2016, Ofwat introduced further changes for the purpose of the opening of the non-household retail market to competition.

Following consultation on further changes to the instruments of appointment of companies to enable the implementation of market reforms in May 2016 and in July 2016, Ofwat amended the instrument of appointment of all undertakers on 25 August 2016 under powers granted to it under section 55 of the Water Act 2014. These changes will come into effect on the retail market opening date which is expected to be in April 2017.

This modification introduced (i) a new condition R3 (MAC Condition) requiring appointed companies to become a party to and comply with the market arrangements code, (ii) a new

condition R4 (Stapling Condition) requiring companies which remain integrated, to have written arrangements in place between their wholesale business and their retail business for the application between them of the provisions of the wholesale retail code as if they were separate entities and (ii) a new condition R5 (Customer Protection Condition) requiring companies to comply with the customer protection code of practice. Condition F6A.2A (Certificate of Adequacy) was also amended to require companies to provide separate certificates of adequacy in respect of the non-household retail business and the rest of their appointed business. Consequential amendments to conditions A, R and Q were also made to include new defined terms and to amend terminology as appropriate.

Following consultation by Ofwat at the beginning of 2016 and in October 2016, the Company notified its acceptance of a change to condition B of its instrument of appointments to allow in-period adjustments under the wholesale revenue forecast incentive mechanism on 9 November 2016. This change provides that the Company is allowed to adjust customer prices under the wholesale revenue forecast mechanism in the current regulatory period to reflect the revenue limit set in the wholesale price control.

On 9 November 2016, Ofwat issued a notice and consultation under section 13 of the Water Industry Act 1991 asking companies to notify Ofwat by 7 December 2016 whether they accept proposed modifications required to enable its approach for the next price review referred to as Water 2020. The notice includes changes to (i) Condition B in order to introduce separate wholesale price controls for “Water Resources” and for “Network Plus Water”, (ii) Condition B in order to allow in-period reward or penalty adjustments in respect of outcome delivery incentives, (iii) Conditions A, B and K to replace the definition of “Retail Price Index” with “Relevant Index” allowing for the use of either CPI or CPI(H) rather than RPI for regulatory indexation, and (iv) a new Condition M1 (Information Remedies) requiring companies to make specified information available to specified third parties to support the development and operation of a market in the provision, management and development of water resources, demand management or leakage services.

7.0 Capital Expenditure

South East Water Final Determination (FD) capital expenditure for 2015-2020 is £465.2m (2016-17 price base). Net capital investment in the first half of 2016-17, the second year of the AMP6 five year programme, is £38.9m. Cumulative spend in this regulatory period is £126.0m

For the first half of 2016-17:

- £22.4m (58%) of investment has been made in the development of new assets and the enhancement of existing assets, including £17.9m for the management of the supply demand balance and £4.4m to meet the company's legal undertakings with respect to drinking water quality standards;
- £6.6m (17%) of investment has been made in the maintenance of its below ground assets. This investment is essential to maintain the performance of the mains network and maintain a stable level of service, thus preventing a rise in disruption to customers with the associated water quality and leakage issues. Investment in the period has been predominantly in the following key areas:
 - Mains renewal programme;
 - Reactive mains burst repairs; and
 - Reactive communication pipe and stop tap repairs and replacements.

- £9.9m (25%) of investment has been made in the maintenance of its above ground assets. Again, this investment is essential in maintaining a stable level of service to its customers and has been targeted in the following key areas:
 - Resource facilities;
 - Treatment works maintenance;
 - Service reservoirs and water towers;
 - Pumping stations; and
 - Management and general spend such as IT infrastructure.

8.0 Water Quality

Each year the Chief Inspector of the Drinking Water Inspectorate publishes a report summarising drinking water quality in England and Wales which includes a number of comparative compliance indices. These are also used by OFWAT to assess asset performance.

The Company's overall Drinking Water Quality performance, as measured using the DWI's key performance indicator at the customer's tap "Mean Zonal Compliance" is in line with the National Industry Average at 99.95 per cent. A further indication of the high performance standards of our water treatment works is provided by Treatment Process Control Index which was again maintained at 100.00 per cent and the disinfection index which remains at 99.98 per cent. Performance against other Water Quality indices has been maintained at the high level demonstrated throughout 2015, with the exception of the Reservoir Integrity Index which has improved to 99.97 per cent as a result of our ongoing capital investment programme. These results are based on 224,500 tests measured against EU and UK mandatory standards.

In addition to these regulatory tests the company carried out a further 400,000 operational tests to ensure that our assets consistently performed to deliver excellent quality water to our customers.

9.0 Outsourcing

The Company continues to deliver a competitive tendering/outsourcing programme using a number of standard tools including:

- Call for competition (OJEU);
- Request for Information (RFI) and pre-qualification of potential vendors;
- Use of Achilles Utility Vendor Database (industry specific supplier database & qualification system);
- Invitation to Tender; and
- Contract negotiation;

All procurement activities are compliant with relevant laws and undertakings including EU Utilities Contracts Regulations and the Outsourcing Policy of the Common Terms Agreement.

Contracts awarded, extended and/or signed (during last six months) include:

<u>Supplier</u>	<u>Description</u>	<u>Contract Value</u>
Meter-U	Meter Reading Services	£10,000,000
Saint Gobain	Highway Covers and Chambers	£2,000,000
Brenntag	Polyaluminum Chloride	£2,000,000
Virgin Media	Wide Area Network	£1,200,000

Tenders in preparation and/or issued include:

<u>Tenders In Hand</u>	<u>Estimated Contract Value</u>
Chemicals - Production	£ 10,000,000
Emergency Bottled Water	£ 2,400,000
Security Alarms, Access and Barrier Systems	£ 1,500,000
Granular Activated Carbon	£ 1,200,000

SEW operates a sustainable procurement policy whereby suppliers of goods and services are rated for whole life cost, environmental impact and sustainability as part of the contract award decision criteria.

10.0 Financing

The Group has adequate liquidity with £16m on the balance sheet at the half-year end and a further £90m available to draw down on the authorised credit facility.

Authorised Credit Facility

On 8 August 2016 the £90m revolving Authorised Credit Facility was extended for another 12 months making the new Final Maturity Date 18 June 2021. All other terms remain unchanged. The facility is currently undrawn.

Liquidity Facilities

The DSR and O&M facilities were renewed in July 2016 with Commonwealth Bank of Australia until July 2017. The DSR liquidity facility has a commitment of £36m and the O&M facility has a commitment of £18m.

11.0 Credit ratings

The credit rating of SEW is covered by Moody's Investor Service ("Moody's") and Standard and Poor's ("S&P"). Moody's issued its credit opinion in November 2016. S&P issued its latest annual update in November 2015. There was no change in credit rating from either rating agency.

	Moody's	S&P
Credit rating	Baa2	BBB

12.0 Surplus

The SEWH Board approved £3.9m of dividends to Hastings Water (UK) Limited in the first six months of this financial year.

13.0 Board / Management Changes

The South East Water Board of directors is as follows

South East Water Limited

N Salmon	Independent Non-Executive Chairman
P Butler	Managing Director*
A Farmer	Finance Director*
D Hinton	Asset and Regulation Director*
P Dixon	Non-executive Director**
V Rosati	Non-executive Director**
O Fortin	Non-executive Director***
J-P Ouellet	Non-executive Director***
J Barnes	Independent Non-executive Director
E Gilthorpe	Independent Non-executive Director
C Girling	Independent Non-executive Director
P Rich	Independent Non-executive Director

* Denotes an Executive Director

** Denotes a Hastings appointee

*** Denotes a CDPQ appointee

The Company Secretary is Nicolas Truillet

South East Water (Holdings) Limited

P Dixon	Non-executive Director*
M Szczepaniak	Non-executive Director* (appointed 15 September 2016)
O Fortin	Non-executive Director**
J-P Ouellet	Non-executive Director**
V Rosati	Non-executive Director* (resigned 14 September 2016)

* Denotes a Hastings appointee

** Denotes a CDPQ appointee

South East Water (Finance) Limited

P Butler	Executive Director
A Farmer	Executive Director
M Szczepaniak	Non-executive Director* (appointed 15 September 2016)
V Rosati	Non-executive Director* (resigned 14 September 2016)

* Denotes a Hastings appointee

Ratios

1. Historic

We confirm that in respect of the Calculation Date on 30 September 2016, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) of the Common Terms Agreement that the ratios are as detailed in the table below in respect of the Calculation date on 30 September 2016.

Date	Calculation Date	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	80.8%	79.4%	78.0%	77.5%	80.8%
Test Period	1-Apr-15 to 31-Mar-16	1-Apr-16 to 31-Mar-17	1-Apr-17 to 31-Mar-18	1-Apr-18 to 31-Mar-19	1-Apr-19 to 31-Mar-20
ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
Average Adjusted ICR	3.40 x	3.33 x	3.14 x	3.10 x	2.89 x
Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
Conformed Average Adjusted ICR	1.65 x	1.50 x	1.37 x	1.36 x	1.29 x

2. Forward Looking

We confirm that each of the above Ratios has been calculated in respect of each of the relevant period(s) for which it is required under the Common Terms Agreement and has not breached the Trigger Event Ratio Levels and has not caused Paragraph 17 (Ratios) of part 2 (Event of Default (SEW)) of Schedule 6 of the Common Terms Agreement to be breached.

3. We set out below the computation of the following ratios set out in the table in Paragraph 1 above for your information:

a) RAR

	Calculation Date £m	31-Mar-17 £m	31-Mar-18 £m	31-Mar-19 £m	31-Mar-20 £m
Senior Debt (Closing Balances)					
Finance Leases	0.0	0.0	0.0	0.0	0.0
Debentures	1.0	1.0	1.0	1.0	1.0
Nominal Debt	166.0	166.0	166.0	166.0	166.0
Synthetic Index Linked Bonds	282.9	287.6	292.3	300.0	0.0
Index Linked Bonds	156.1	160.0	163.1	167.7	172.4
Fixed Rate Bonds	0.0	0.0	0.0	0.0	150.0
Index Linked Bonds	0.0	0.0	0.0	0.0	154.2
Index Linked Loans (USS)	107.2	109.7	112.0	115.0	118.2
Index Linked Loans	246.3	250.9	254.7	261.8	269.1
Capex Drawdown Facility	0.0	10.0	14.4	33.3	66.4
Total Senior Debt Closing Balance	959.5	985.2	1003.5	1044.7	1097.3
Less: Cash Balance	(17.0)	(13.7)	(0.6)	(0.7)	(0.8)
Senior Net Indebtedness	942.5	971.4	1002.9	1044.0	1096.5
Regulatory Capital Value	1166.6	1222.9	1285.8	1347.1	1357.1
RAR	80.8%	79.4%	78.0%	77.5%	80.8%

b) ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow					
Net cash flow from operating activities	120.2	117.6	116.3	123.1	129.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.0	2.1	2.1	2.1
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Non-appointed	0.0	(2.1)	(3.2)	(3.4)	(3.6)
Net Cash Flow	122.4	117.5	115.2	121.9	127.5

Senior Debt Interest

Finance Leases	0.0	0.1	0.0	0.0	0.0
Debentures	0.0	0.0	0.0	0.0	0.0
Nominal Debt	9.3	9.3	9.3	9.3	17.5
Synthetic Index Linked Bonds	8.6	8.7	8.8	9.0	4.0
Index Linked Bonds	3.9	4.0	4.1	4.2	8.1
Index Linked Loans (USS)	2.6	2.6	2.7	2.7	2.8
Index Linked Loans	8.6	8.8	8.9	9.1	9.4
Drawdown Facilities	0.8	0.5	0.6	0.9	1.6
Ambac fee	0.7	0.8	1.3	1.3	0.7
Senior Debt Interest Payable	34.6	34.7	35.5	36.4	44.1
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1

ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
-----	--------	--------	--------	--------	--------

c) Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
CCD & IRC					
CCD	0.0	0.0	0.0	0.0	0.0
IRC	0.0	0.0	0.0	0.0	0.0
Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
Net Cash Flow after regulatory depreciation	122.4	117.5	115.2	121.9	127.5
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x

d) Average Adjusted ICR

	1-Apr-15 to 31-Mar- 16 £m	1-Apr-16 to 31-Mar- 17 £m	1-Apr-17 to 31-Mar- 18 £m	1-Apr-18 to 31-Mar- 19 £m	1-Apr-19 to 31-Mar- 20 £m
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
CCD & IRC					
CCD	0.0	0.0	0.0	0.0	0.0
IRC	0.0	0.0	0.0	0.0	0.0
Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
Net Cash Flow after regulatory depreciation	122.4	117.5	115.2	121.9	127.5
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
Adjusted ICR	3.56 x	3.40 x	3.25 x	3.34 x	2.89 x
Average Adjusted ICR	3.40 x	3.33 x	3.14 x	3.10 x	2.89 x

e) Conformed Adjusted ICR

	1-Apr-15 to 31-Mar- 16 £m	1-Apr-16 to 31-Mar- 17 £m	1-Apr-17 to 31-Mar- 18 £m	1-Apr-18 to 31-Mar- 19 £m	1-Apr-19 to 31-Mar- 20 £m
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
RCV Depreciation	38.3	43.5	46.1	48.4	50.9
Capitalised IRE	18.9	16.2	20.0	20.3	19.9
Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8
Net Cash Flow after regulatory depreciation	65.2	57.8	49.2	53.2	56.7
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1

Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
------------------------	--------	--------	--------	--------	--------

f) Conformed Average Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.2	121.9	127.5
CCD & IRC					
CCD	38.3	43.5	46.1	48.4	50.9
IRC	18.9	16.2	20.0	20.3	19.9
Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8
Net Cash Flow after regulatory depreciation	65.2	57.8	49.2	53.2	56.7
Senior Debt Interest	34.4	34.6	35.4	36.4	44.1
Conformed Adjusted ICR	1.90 x	1.67 x	1.39 x	1.46 x	1.29 x
Conformed Average Adjusted ICR	1.65 x	1.50 x	1.37 x	1.36 x	1.29 x

4. We certify that the Annual Finance Charge will be £34.6m.

5. Annual Finance Charge calculation:

	to 31 March 2017 £m
Senior Debt Interest	
Finance Leases	0.1
Debentures	0.0
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	8.7
Index Linked Bonds (£130m)	4.0
Index linked loans (USS)	2.6
Index Linked Loans	8.8
Working Capital Facility	0.0

Capex Drawdown Facility	0.0
Ambac fee	0.8
Commitment fee	0.5
	34.7
Less: interest earned	(0.1)
	34.6
12 Months Total	34.6

Total payments into the DSR Accounts for the period to 30 September 2016 were £16.9m.

7. We also confirm that:

- (a) no Default of Potential Trigger Event is outstanding; and
- (b) that SEW's insurance's are being maintained in accordance with:
 - (i) the Common Terms Agreement; and
 - (ii) the provisions of the Finance Leases

Yours faithfully,

Director

For and on behalf of
SOUTH EAST WATER LIMITED

Director

For and on behalf of
**SOUTH EAST WATER (FINANCE)
LIMITED**

Director

For and on behalf of
SOUTH EAST WATER (HOLDINGS) LIMITED

Appendix

Financial Statements

South East Water (Holdings) Limited

Consolidated profit & loss account for the six months ended 30 September 2016

	Companies £000	Eliminations £000	Group £000
Turnover	110,990	-	110,990
Operating costs	(72,986)	-	(72,986)
Profit on disposal of fixed assets	96	-	96
Other operating income	3,939	-	3,939
Operating profit	42,039	-	42,039
Income from investments	8,000	(8,000)	-
Interest receivable - group	2,462	(2,462)	-
Interest receivable - other	56	-	56
Interest payable - group	(5,173)	2,462	(2,711)
Interest payable - other	(22,882)	-	(22,882)
Return on pension scheme assets	168	-	168
Profit on ordinary activities before taxation	24,670	(8,000)	16,670
Tax (charge)/credit on profit on ordinary activities	4,684	-	4,684
Profit on ordinary activities after taxation	29,354	(8,000)	21,354
Dividends	(11,850)	8,000	(3,850)
Profit in p&l account	17,504	-	17,504
STRGL - pension	(9,133)	-	(9,133)
Profit for period	8,371	-	8,371

South East Water (Holdings) Limited
Consolidated balance sheet at 30 September 2016

	Companies £000	Eliminations £000	Group £000
Tangible assets	1,440,997	-	1,440,997
Investments	361,421	(361,421)	-
Net Current (liabilities)/assets	(8,365)	-	(8,365)
Creditors: amounts falling due after more than one year	(212,569)		(212,569)
Current asset investments	15,000	-	15,000
Cash and cash equivalents:			
Current accounts	1,302	-	1,302
DSR	113	-	113
O&M	-	-	-
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(912,607)	912,607	-
Intra group loan debtors	912,607	(912,607)	-
Other loans	(82,152)	-	(82,152)
Finance leases	-		-
Debentures	(991)	-	(991)
Bonds	(496,000)	-	(496,000)
Indexation	(118,888)	-	(118,888)
Artesian loans	(269,000)	-	(269,000)
Indexation	(85,211)	-	(85,211)
Unamortised costs	6,428	-	6,428
Net pension liability	(1,205)	-	(1,205)
Net assets	550,880	(361,421)	189,459
Capital and reserves			
Called up share capital	140,720	(49,312)	91,408
Revaluation reserve	264,063	-	264,063
Profit and loss account b/fwd	135,259	(312,109)	(176,850)
Loss for period	10,838	-	10,838
Capital employed	550,880	(361,421)	189,459

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the period ended 30 September 2016

	Companies £000	Eliminations £000	Group £000
At 1 April 2016	135,259	(312,109)	(176,850)
Profit for the year	29,354	(8,000)	21,354
Pension scheme in STRGL	(9,133)	-	(9,133)
Dividends	(11,850)	8,000	(3,850)
Movement through reserves	2,467	-	2,467
	10,838	-	10,838
At 30 September 2016	146,097	(312,109)	(166,012)