



SOUTH EAST WATER

INVESTORS REPORT

For the six months ending 30 September 2017

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

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General Overview and Business Update

This Investors Report covers the six month period ending 30 September 2017. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

1.0 Operational Performance

We have reached the half-way mark of our five year business plan, a plan which put customer satisfaction at the heart of everything we do. We do this by working with our customers and communities, sharing ideas and working together to innovate in ensuring we provide a reliable and economic high quality drinking water service, while enhancing the environment and benefiting society through our work.

One of our customer commitments is to keep interruptions to customer supplies to a minimum. Our underlying performance has been good and most customers who have suffered an interruption have had their water restored in under three hours, leading to an average interruption time across our whole customer base of 3.9 minutes per property for the period to 30 September 2017. Our target for the full year is to remain below 12 minutes per property.

On the 1 April 2017 we, along with the other water companies nationally, were ready for the opening of a new retail market for non-household customers. We welcomed the challenge and continue to work hard to ensure the new market is successful. Our dedicated Wholesale Service Desk is working closely with the new retailers to ensure a smooth transition and that the non-household customers continue to receive an excellent and reliable service.

2.0 Water Resources and Leakage

April was dry with 13% of long term average rainfall, this caused the winter groundwater recharge period to end four weeks earlier than might normally be expected and our water resources to start the year a little lower than average. Then followed by onset of wet conditions from May through to August with 128% of long term average rainfall received over the summer period. In September there was 82% of long term average rainfall at a company level, Kent was drier with 64% of long term average rainfall.

As a consequence of the rainfall observed, overall demand was below normal year projections during the 6 month period April 2017 to September 2017.

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.

We are reaching the advanced stages of preparation of our draft long term (2020-80) Water Resources Management Plan 2019. The plan will be submitted to Defra at the beginning of December 2017, with consultation on the plan in early 2018. The plan has been developed through engagement with regulators, key stakeholders, third parties, customers and neighbouring water companies.

3.0 Customer Service

Our focus on a “Five out of Five” experience for all customers continues to deliver improvements across all channels. The number of customer complaints has fallen again in the first 6 months of the year and we are on target to deliver a 10% reduction on last year. This follows 5 years of continuous improvement in our complaint numbers which resulted in our overall industry ranking rising to top 3 for 2016/17.

Our overall Customer Service performance measured by the Service Incentive Mechanism (SIM), has improved again this year from a score of 85 out of 100, to 86 for the first 6 months of this financial year.

Following agreement with Southern Water, we have commenced a project to jointly-bill around 500,000 customers, where we provide the water supply, and Southern Water provide the sewerage services, a ‘One Bill’ service we have provided for our shared Thames Water customers for some years. The project started in July 2017 and we have successfully transferred and billed around 140,000 customers. Our customer research shows this ‘One Bill’ service is a priority for customers and the project is scheduled to be completed by April 2018.

The focus on customer service excellence continues to support similar strong performance on cost to serve. We have managed to absorb the higher operating costs arising from a metered customer base. The proportion of customers that are billed on a meter reading stands at 84%, as our customer metering programme continues to progress well. The metering team has recently been shortlisted as “Team of the Year” at the Utility Week Awards, which endorses their efforts to ensure a smooth transition to metered water for customers.

Cash collection also remains a key priority, including a reduction in debt over 12 months old which has fallen by over £1m. Customers who choose not to pay their bills continue to be pursued firmly, with broad support offered to those customers who genuinely cannot afford their charges.

Our dedicated Customer Care Team supports customers experiencing financial vulnerability, and has increased the number of customers benefiting from our social tariff, which offers a discount on their water charges of between 30 to 40%. The total number of customers on our social tariff has grown by over 3,000 in the last 6 months with over 12,000 customers receiving this financial support.

4.0 Health, Safety and Environment

SEW experienced no accidents that were reportable under RIDDOR for the period to 30 September 2017. There were two lost time accidents, both manual handling, resulting in a total of 5 lost days. There have been 109 lost days due to reports of work related stress; SEW has volunteered to trial the HSE Management Standards Assessment tool specifically targeted towards the causes of work related stress. The trial is ongoing.

The Thrive 365! health, safety and wellbeing strategy has been promoted and briefed throughout the business. The Executive Directors held a Health Safety and Wellbeing meeting to agree a dashboard to measure progress with the strategy. Actions and projects that form a part of the delivery plan are being developed by managers across the business.

Leakage and metering teams and associated contractors came together for a health and safety conference. The theme of the conference was 'Your Choice' and key topics included mobile phone use, dust inhalation and mental health. The Leakage department have also held an event to promote flexible road signs. The product proposed is being trialled by the technicians within the leakage department.

5.0 Financial Performance in the six months ended 30 September 2017

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 2017 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 2017 was slightly higher at £114.5m when compared to £111.0 for the same six months period in the previous year. The increased revenue is largely due to increased prices averaging 4.86% for the year and the numbers of new properties in the area. This is partially offset by an average 3.87% lower consumption due to the cooler and wetter than expected summer which impacts revenue as over 80% of our customer base is billed on the amount of water they consume. There is a correction mechanism to ensure that revenue not collected due to lower than expected consumption of water can be collected in future years.

Operating Costs

Net operating costs for the six months to 30 September 2017 were £79.1m compared to £73.0m in the prior year. The increase in costs by 8.4% largely relates to a 30% increase in rates (£2.3m), increased depreciation (£1.6m) and higher reactive maintenance costs (£0.9m).

Interest

Interest payable for the group for the six month period to 30 September 2017 was £29.6m compared to £25.6m in the prior year. Interest receivable for the six months to 30 September 2017 was £0.1m, which is in line with the prior year.

Interest payable includes the following:

- £11.1m interest on listed debt/bonds (2016 – £11.0m)
- £3.6m fair value movement on interest rate swap (2016 – £3.9m)
- £3.1m indexation on index linked listed bonds (2016 – £1.7m)
- £5.8m interest on Index linked loans (including Artesian Finance loans) (2016 – £5.8m)
- £3.2m Indexation on Index linked loans (including Artesian Finance loans) (2016 – £0.7m)
- £2.6m interest payable by SEWH to group companies (2016 – £2.7m)
- £1.2m relating to other net interest (2016 – £1.0m)
- £(1.0)m capitalised interest (2016 – £(1.2)m)

Taxation

The income statement shows a tax charge of £0.7m (2016: credit of £4.7m). The tax credit in the prior year was due to the effect of changes in future rate of corporation tax on deferred tax. There have been no change to the corporation tax rate in the current year. 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 £27.8m as at 30 September 2017 compared with £16.4m as at 30 September 2016. During the period £15.0m has been drawn down from the authorised credit facilities to fund the continuing capital programme.

The restricted cash balance as at 30 September 2017 was £9.5m compared to £1.4m as at 30 September 2016, including £9.4m (2016: of £1.3m) of current asset investments. This increase relates to the delay in the payment of interest on listed bonds due to the following business day convention. 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 period except the £15.0m drawn down from authorised credit facilities mentioned above.

6.0 Regulatory Update

Regulatory Reporting

The 2016-17 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. For the full report please go to the following link:

<https://corporate.southeastwater.co.uk/news-media/publications/financial-reports>

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. For the full report please go to the following link:

<https://corporate.southeastwater.co.uk/news-media/publications/performance-reports>

The below performance is for the six months ended 30 September 2017:

Outcome	FD Target	Performance
Customer Satisfaction		
A1. Appearance	4.6	4.5
B1. Taste	4.3	4.2
C1. Leakage	4.0	3.9
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	90.0	85.7
D2. SIM Score	N/A	N/A
E1. Customers consider bills to be value for money and affordable	N/A	N/A
F2. Number of properties at risk of low pressure	60	49
G2. Average interruption time lost per property	12	3.9
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	18
J2. Number of pollution incidents (Category 1-2)	0	0
K1. Number of compliance breaches of legislation	0	0
L1. Number of breaches of National Security obligations	0	0
M1. Number of compliance breaches of other statutory obligations and licence conditions	0	0
N1. Discolouration Contacts	0.58	0.65
N2. Above ground asset performance	Stable	Stable
N3. Number of sites at risk of flooding	N/A	N/A
N4. Water mains bursts	2429	1,217
O1. KG of carbon emissions per customer per year	N/A	N/A
O2. We will monitor our abstractions at low flows at environmentally sensitive sites	N/A	Kingston: -0.01 Windmill Hill: -2.07

2020-2025 Price Review

In July 2017 Ofwat published a series of documents for their consultation of the 2020-2025 price review methodology which can be downloaded from the following link:

<http://www.ofwat.gov.uk/regulated-companies/price-review/pr19/>

The Company responded to this consultation highlighting areas of support and also some suggested improvements to Ofwat's proposed methodology. The Company continues to be actively involved in workshops and discussions with Ofwat and the industry on the proposals.

An extensive customer research programme is underway to feed into the Company's business plan submission in September 2018. This not only introduces a range of innovative research techniques but also brings together the learnings from daily interactions with customers and insight from research undertaken by other companies and industries.

Tariffs

In line with new guidance issued by Ofwat the Company published wholesale non-household indicative charges in October 2017. These can be found at:

<https://wholesale.southeastwater.co.uk/our-network/our-charges>

Final tariffs will be published in early 2018.

Instrument of appointment

On 19 October 2017 Ofwat amended Condition C of the instrument of appointment of all water and sewerage companies with effect from 20 October 2017 using powers under section 55 of the Water Act 2014. This modification was made in order to allow for the implementation of a new charging methodology for new connections and more specifically for setting infrastructure charges as set out in charging rules for new connections services that will come into effect on 1 April 2018. The modification provides that provisions which limit the amount of infrastructure charges will cease to have effect on 1 April 2018 subject to certain transitional provisions.

7.0 Capital Expenditure

South East Water Final Determination (FD) capital expenditure for 2015-2020 is £470.5m (2016-17 price base). Net capital investment in the first half of 2017-18, the third year of the AMP6 five year programme, is £40.6m. Cumulative spend in this regulatory period is £189.2m.

For the first half of 2017-18:

- £17.3m (43%) of investment has been made in the development of new assets and the enhancement of existing assets, including £14.9m for the management of the supply demand balance and £2.4m to meet the company's legal undertakings with respect to drinking water quality standards;
- £8.5m (21%) 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.
- £14.8m (36%) 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 Company's performance commitment at 99.95 per cent. A further indication of the high performance standards of our water treatment works is provided by the Treatment Process Control Index which was 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 2016. These results are based on 244,747 tests measured against EU and UK mandatory standards.

In addition to these regulatory tests the company carried out over 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:

Supplier	Description	Contract Value
Top Mark Claims Management	Insurance Claims Management Services	£600k
CSG	>300mm Large Gate Valves	£550k
Talis	<300mm Small Gate Valves	£480k

Tenders in preparation and/or issued include:

Tenders In Hand	Estimated Contract Value
Chemicals - Production	£ 10,000,000
Reservoir Cleaning & Remedial Works	£ 7,000,000
Leakage Detection	£ 6,000,000
Outwood to Whitely - Strategic Main	£ 4,500,000
Emergency Bottled Water	£ 2,400,000
Security Alarms, Access and Barrier Systems	£ 1,500,000
Plastic Service Fittings	£ 1,100,000

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 £28m on the balance sheet at the half-year end and a further £75m available to draw down on the authorised credit facility.

Authorised Credit Facility

On 18 August 2017 the £90m revolving Authorised Credit Facility was extended for another 12 months making the new Final Maturity Date 17 June 2022. All other terms remain unchanged. £15m has been drawn down on the facility.

Liquidity Facilities

The DSR and O&M facilities were renewed in June 2017 with Commonwealth Bank of Australia until June 2018. 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 2017. S&P issued its latest annual update in October 2017. 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 £6.15m 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*
J Barnes	Independent Non-executive Director
E Gilthorpe	Independent Non-executive Director
C Girling	Independent Non-executive Director
O Schubert	Non-executive Director (appointed 3 May 2017)**
M Szczepaniak	Non-executive Director**
P Rich	Independent Non-executive Director (resigned 3 July 2017)
P Dixon	Non-executive Director (resigned 27 April 2017)**

* Denotes an Executive Director

** Denotes a Shareholder appointee

The Company Secretary is Nicolas Truillet

South East Water (Holdings) Limited

O Schubert	Non-executive Director (appointed 28 April 2017)*
M Szczepaniak	Non-executive Director*
P Dixon	Non-executive Director (resigned 27 April 2017)*

* Denotes a Shareholder appointee

South East Water (Finance) Limited

P Butler	Executive Director
A Farmer	Executive Director
M Szczepaniak	Non-executive Director*

* Denotes a Shareholder appointee

Ratios

1. Historic

We confirm that in respect of the Calculation Date on 30 September 2017, 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 2017.

Date	31-Mar-16	Calculation Date	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%	78.3%	78.2%	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	3.76 x	3.47 x	3.24 x	3.04 x
Adjusted ICR	3.56 x	3.76 x	3.47 x	3.24 x	3.04 x
Average Adjusted ICR	3.60 x	3.49 x	3.24 x	3.13 x	3.04 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.74 x	1.31 x	1.34 x
Conformed Average Adjusted ICR	1.91 x	1.71 x	1.45 x	1.32 x	1.34 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

	31-Mar-16	Calculation Date	31-Mar-18	31-Mar-19	31-Mar-20
	£m	£m	£m	£m	£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	287.5	295.7	305.0	0.0
Index Linked Bonds	156.1	160.4	164.7	168.4	173.6
Fixed Rate Bonds	0.0	0.0	0.0	0.0	305.0
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	112.6	117.2	120.6
Index Linked Loans	246.3	250.9	259.9	265.5	273.9
Capex Drawdown Facility	0.0	0.0	20.0	40.4	79.3
Total Senior Debt Closing Balance	959.5	975.7	1019.9	1063.5	1119.3
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(0.2)	(0.3)
Senior Net Indebtedness	942.5	964.3	1013.4	1063.3	1119.0
Regulatory Capital Value	1166.6	1231.1	1296.3	1372.0	1384.7
RAR	80.8%	78.3%	78.2%	77.5%	80.8%

b) ICR

	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
	£m	£m	£m	£m	£m
Net Cash Flow					
Net cash flow from operating activities	120.2	127.5	125.0	123.9	135.8
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.7	0.0	0.0	0.0
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Non-appointed	0.0	0.0	(3.1)	(7.1)	(7.1)
Net Cash Flow	122.4	130.2	121.9	116.8	128.7

Senior Debt Interest

Finance Leases	0.0	0.0	0.0	0.0	0.0
Debentures	0.0	0.1	0.1	0.0	0.0
Nominal Debt	9.3	9.3	9.3	9.3	20.6
Synthetic Index Linked Bonds	8.6	8.7	8.9	8.9	2.9
Index Linked Bonds	3.9	4.0	4.2	4.1	4.3
Index Linked Loans (US\$)	2.6	2.6	2.7	2.7	2.8
Index Linked Loans	8.6	8.8	9.1	9.1	9.4
Drawdown Facilities	0.8	0.5	0.1	0.6	1.1
Ambac fee	0.7	0.8	0.8	1.3	1.3
Senior Debt Interest Payable	34.6	34.7	35.2	36.0	42.3
Interest Receivable	(0.2)	(0.1)	(0.1)	0.0	0.0
Senior Debt Interest	34.4	34.6	35.1	36.0	42.3

ICR	3.56 x	3.76 x	3.47 x	3.24 x	3.04 x
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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	130.2	121.9	116.8	128.7
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	130.2	121.9	116.8	128.7
Senior Debt Interest	34.4	34.6	35.1	36.0	42.3
Adjusted ICR	3.56 x	3.76 x	3.47 x	3.24 x	3.04 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	130.2	121.9	116.8	128.7
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	130.2	121.9	116.8	128.7
Senior Debt Interest	34.4	34.6	35.1	36.0	42.3
Adjusted ICR	3.56 x	3.76 x	3.47 x	3.24 x	3.04 x
Average Adjusted ICR	3.60 x	3.49 x	3.24 x	3.13 x	3.04 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	130.2	121.9	116.8	128.7
RCV Depreciation	38.3	43.1	46.3	49.3	52.0
Capitalised IRE	18.9	14.7	14.5	20.2	20.2
Total regulatory depreciation	57.2	57.8	60.8	69.6	72.2
Net Cash Flow after regulatory depreciation	65.2	72.4	61.1	47.2	56.5
Senior Debt Interest	34.4	34.6	35.1	36.0	42.3

Conformed Adjusted ICR	1.90 x	2.09 x	1.74 x	1.31 x	1.34 x
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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	130.2	121.9	116.8	128.7
CCD & IRC					
CCD	38.3	43.1	46.3	49.3	52.0
IRC	18.9	14.7	14.5	20.2	20.2
Total regulatory depreciation	57.2	57.8	60.8	69.6	72.2
Net Cash Flow after regulatory depreciation	65.2	72.4	61.1	47.2	56.5
Senior Debt Interest	34.4	34.6	35.1	36.0	42.3
Conformed Adjusted ICR	1.90 x	2.09 x	1.74 x	1.31 x	1.34 x
Conformed Average Adjusted ICR	1.91 x	1.71 x	1.45 x	1.32 x	1.34 x

4. We certify that the Annual Finance Charge will be £35.6m.

5. Annual Finance Charge calculation:

	to 31 March 2018 £m
Senior Debt Interest	
Finance Leases	0.0
Debentures	0.1
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	8.9
Index Linked Bonds (£130m)	4.2
Index linked loans (USS)	2.7
Index Linked Loans	9.1
Working Capital Facility	0.0

Capex Drawdown Facility	0.1
Ambac fee	0.8
Commitment fee	0.6
	<u>35.7</u>
Less: interest earned	<u>(0.1)</u>
6 Months Total	<u>35.6</u>

Total payments into the DSR Accounts for the period to 30 September 2017 were £17.4m.

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



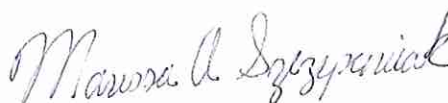
Director

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



Director

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



Appendix

Financial Statements

South East Water (Holdings) Limited

Consolidated profit & loss account for the six months ended 30 September 2017

	Companies £000	Eliminations £000	Group £000
Turnover	114,450	-	114,450
Operating costs	(79,097)	-	(79,097)
Profit on disposal of fixed assets	88	-	88
Other operating income	3,840	-	3,840
Operating profit	39,281	-	39,281
Income from investments	9,000	(9,000)	-
Interest receivable - group	2,210	(2,210)	-
Interest receivable - other	15	-	15
Interest payable - group	(4,813)	2,210	(2,603)
Interest payable - other	(26,957)	-	(26,957)
Return on pension scheme assets	124	-	124
Profit on ordinary activities before taxation	18,860	(9,000)	9,860
Tax (charge)/credit on profit on ordinary activities	(702)	-	(702)
Profit on ordinary activities after taxation	18,158	(9,000)	9,158
Dividends	(15,150)	9,000	(6,150)
Profit in p&l account	3,008	-	3,008
STRGL - pension	(2,622)	-	(2,622)
Profit for period	386	-	386

South East Water (Holdings) Limited
Consolidated balance sheet at 30 September 2017

	Companies £000	Eliminations £000	Group £000
Tangible assets	1,490,848	-	1,490,848
Investments	361,421	(361,421)	-
Net Current (liabilities)/assets	(29,452)	-	(29,452)
Creditors: amounts falling due after more than one year	(231,663)		(231,663)
Current asset investments	26,785	-	26,785
Cash and cash equivalents:			
Current accounts	848	-	848
DSR	129	-	129
O&M	-	-	-
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(935,104)	935,104	-
Intra group loan debtors	935,104	(935,104)	-
Other loans	(82,152)	-	(82,152)
Finance leases	-		-
Debentures	(991)	-	(991)
Bonds	(496,000)	-	(496,000)
Indexation	(138,009)	-	(138,009)
Artesian loans	(269,000)	-	(269,000)
Indexation	(94,968)	-	(94,968)
Unamortised costs	5,881	-	5,881
Net pension liability	6,726	-	6,726
Net assets	550,403	(361,421)	188,982
Capital and reserves			
Called up share capital	140,720	(49,312)	91,408
Revaluation reserve	258,965	-	258,965
Profit and loss account b/fwd	147,710	(312,109)	(164,399)
Loss for period	3,008	-	3,008
Capital employed	550,403	(361,421)	188,982

South East Water (Holdings) Limited
Consolidated movement in the profit and loss reserve for the period ended 30 September 2017

	Companies £000	Eliminations £000	Group £000
At 1 April 2017	147,710	(312,109)	(164,399)
Profit for the year	18,158	(9,000)	9,158
Pension scheme in STRGL	(2,622)	-	(2,622)
Dividends	(15,150)	9,000	(6,150)
Movement through reserves	2,467	-	2,467
	2,853	-	2,853
At 30 September 2017	150,563	(312,109)	(161,546)