



SOUTH EAST WATER

INVESTORS REPORT

For the 12 months ending 31 March 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 twelve month period ending 31 March 2017. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

We were pleased to welcome new shareholders in February 2017 when Hastings Funds Management completed the acquisition from La Caisse de dépôt et placement du Québec (CDPQ) of its shareholding in HDF (UK) Holdings Ltd, the holding company of South East Water on behalf of its managed clients.

Three entities of the Desjardins cooperative financial group (Régime de Rentes Du Mouvement Desjardins, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company) own a 25 per cent stake. With a further 25 per cent being held by RBS Pension Trustee Ltd as trustee for the Royal Bank of Scotland Group Pension Fund (Main Fund Section).

With Utilities Trust of Australia (UTA) maintaining ownership of its 50 per cent stake which was already managed by Hastings, Hastings is our sole investment manager.

This acquisition represents a strong vote of confidence in the current performance of the business and our plans for the future. We look forward to continuing to work with Hastings and our shareholders further developing a long term and supportive relationship.

1.0 Operational Performance

The year 2016/17 has been one that has seen South East Water realise some significant achievements against our five business commitments which are important steps towards our vision of being the water company people want to be supplied by and want to work for.

Key highlights against our five commitments include:

Every customer counts – 30 per cent drop in complaints and a 2.6 point improvement in the overall Service Incentive Mechanism (SIM) with a score of 84.6 out of 100.

Everyone counts – Achieving an 87 per cent response rate for our employee engagement survey, our highest ever score.

Every action counts – Delivering £89.8m of investment to improve our infrastructure to deliver better water quality and reliability for customers.

Every drop counts – Installing more than 44,201 water meters so that we now have 82 per cent of our customers able to monitor and influence their water use.

Our future counts – Recognition from Ofwat in the Company Monitoring Framework where we achieved self-assured status. Being ready for the commencement of the open market for non-household customers, which occurred on 1 April 2017.

2.0 Water Resources and Leakage

During 2016-17 we received 83% of long term average (LTA) rainfall. Spring 2016 rainfall was close to normal across the UK, however summer through to winter was drier, with below

average rainfall. As a result of reduced rainfall over the winter period, groundwater recharge was below normal.

At the end of March 2017, groundwater levels were below normal in the chalk aquifers, but at normal levels in other aquifers; and surface reservoirs were full. There is little concern regarding the Company's water resources position for summer 2017.

Average demand for 2016/17 was 521 Ml/d, below the expected demand as a result of a wet summer in 2016 reducing the requirement for crop irrigation and watering of gardens.

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 have made good progress with the preparation of our draft 2019 Water Resources Management Plan that will be submitted to Defra at the beginning of December 2017, with consultation on the plan anticipated between January and March 2018. We have been working proactively with regulators, key stakeholders, third parties and neighbouring water companies to develop the draft plan.

3.0 Customer Service

We have continued to focus on delivering our "Five out of Five" customer experience to every customer, at every touch point. Customers are offered a full choice of contact methods - face to face, telephone, written, self-serve, web, email or social media - and our aim is to ensure that, whichever route they chose, they get a consistently great service.

The resulting service improvements have again delivered a significant fall in the number of customer complaints for the fifth year running - down 30% compared to the previous year. The improvement over the last few years has moved our performance relative to the industry to upper quartile. Our overall customer service performance measured by the Service Incentive Mechanism (SIM), has seen solid improvements this year with a year-end score of 84.6 out of 100, towards the higher end of the range of scores within the industry of 77 to 88.

Our focus on delivering great service in an efficient manner has also helped us maintain strong performance against our average cost to serve. We have managed to absorb the increased costs from serving an ever-increasing metered customer base, as our customer metering programme continues to progress well. Over 80% of our customers are now billed based on their actual usage.

One of the key challenges that customer engagement for the 2015-2020 Business Plan showed was that over 75% of our customers agreed or strongly agreed with the statement "I think of water and wastewater as one service and it would be much easier to have one bill". We already deliver 'one bill' for our customers who receive their wastewater services from Thames Water and have now agreed to provide this service to our customers who receive their wastewater services from Southern Water. Over the last three months we have been working closely with Southern Water to enable us to provide 'one bill' to the customers affected, and we will be implementing this in 2017/18.

Our balanced approach on cash collection continues to deliver strong results. We have been able to support greater numbers of customers who may otherwise struggle with their water charges through our social tariff, with almost 9,500 customers now benefiting from a

discount on their water charges of between 30 to 40%. The total number of customers on our social tariff grew by 4,890 in the year. Customers who choose not to pay their bills continue to be pursued firmly, and our collection targets for debt over 12 months old have been exceeded by £1.9m in the last year.

A key focus over the last 12 months has been working with OFWAT and Market Opening Services Limited (MOSL), as we prepared the business to be ready for non-household retail competition from April 2017. We have successfully separated our household and business retail teams with South East Water Choice now delivering the retail service for business customers.

4.0 Health, Safety and Environment

SEW experienced three reportable accidents during 2016-17; one fall from height, one slip trip fall and one manual handling injury. This is an increase on 2015-16, where no reportable accidents occurred, but the overall performance remains positive.

South East Water launched its new health, safety and wellbeing strategy “Thrive 365!” The strategy was developed in consultation with the directors, senior management team and safety representatives and has provided a clear vision for the future based on the two key themes of safe people and safe working. Each of the themes is underpinned by four key safety goals with a renewed emphasis on leadership and wellbeing. The strategy was launched by Managing Director Paul Butler and supports the overall corporate vision of being the water company people want to be supplied by and want to work for.

October 2016 saw the fourth annual Water Wellbeing Week. This campaign to promote health and wellbeing was initiated by the water industry and has since developed into a national campaign inclusive of all industry sectors. SEW held a number of promotional events throughout the week including the Executive Step Challenge, Meet an Olympian and an employee Boot Camp.

A joint emergency exercise was held with the fire and rescue services at Barcombe water treatment works. A number of other exercises are planned for 2017/18.

5.0 Financial Performance in the 12 months ended 31 March 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 consolidated accounts for the ring fenced Group for the year to 31 March 2017 have been prepared and these results are set out in the appendix. These accounts have been prepared under International Financial Reporting standards (“IFRS”) but are not published, being prepared for internal use only.

The consolidated group accounts for South East Water Limited for the same twelve month period, which are prepared on an IFRS basis, are published on the South East Water

website. These published consolidated accounts are prepared for South East Water Limited and its subsidiary, South East Water (Finance) Limited, only.

The entity accounts for SEWL, which are incorporated in the published consolidated accounts and not published separately, are prepared under IFRS. The entity accounts for SEWH and SEWF, which are filed at Companies House, are prepared under FRS 101, taking advantage of the exemptions from full IFRS reporting available under this standard.

Turnover

Turnover for the year to 31 March 2017 was £4.5m higher at £218.9m when compared to £214.4m for the previous year. The increased revenue is largely due to increased prices averaging 4.2 per cent for the year, the impact of an increase in the proportion of customers who pay based on the water they consume and the number of new properties in the area.

Operating Costs

Net operating costs for the year to 31 March 2017 were £147.4m compared to £146.2m in the prior year. The increase in costs of 0.8% largely relates to higher staff costs (£1.6m), due to an increase in employee numbers over the year, increased depreciation (£0.8m) and higher bulk water supply costs (£0.5m) offset by a release of the bad debt provision due to improved cash collections and lowering bad debt charges (£1.7m) in the year.

Interest

Interest payable for the group for the year to 31 March 2017 was £64.1m compared to £42.9m in the prior year. The increase in finance costs of £21.2m are due to an increase in the fair value of the group's interest rate swap (£15.3m) and the effect of higher inflation on the group's other indexed linked borrowing (£5.7m). See below for further details of the group's interest payable for the year.

Interest receivable for the year to 31 March 2017 was £0.4m, compared to £0.2m in the prior year, and includes a positive return on pension scheme assets of £0.3m (2016: finance cost of £0.2m).

Interest payable includes the following:

- £22.0m interest on listed debt/bonds (2016: £21.9m)
- £13.7m fair value movement on interest rate swap (2016: £(1.6)m)
- £4.3m indexation on index linked listed bonds (2016: £2.6m)
- £11.4m interest on Index linked loans (including Artesian Finance loans) (2016: £11.2m)
- £7.3m Indexation on Index linked loans (including Artesian Finance loans) (2016: £3.9m)
- £5.3m interest payable by SEWH to group companies (2016: £5.4m)
- £2.4m relating to other net interest (2016: £2.3m)
- £(2.3)m capitalised interest (2016: £(2.8)m)

Taxation

The tax in the profit and loss account for the year shows a tax credit of £3.8m (2016: £6.1m). The tax credit comprises a current tax charge of £1.1m and a deferred tax credit of £4.9m to

reflect the tax rate changes 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 £11.4m as at 31 March 2017 compared with £17.0m at the previous year end. In May 2017 £5.0m was drawn on the Capex & Working Capital Facility by South East Water Limited. The total amounts drawn down on the group's authorised credit facilities as at the date of this report is £5.0m.

The restricted cash balance as at 31 March 2017 was £0.7m compared to £0.6m at the previous year end, including £nil (2016: of £0.5m) 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 was no new debt funding in the year to 31 March 2017.

6.0 Regulatory Update

Regulatory Reporting

The 2016-17 Annual Report and Financial Statements which includes the Statutory Accounts, the Regulatory Accounts, the OFWAT prescribed Performance Report and the Risk and Compliance Statement has been published on our website.

In addition, we have also published on our website our Performance, People and Plant Report which gives further information about our performance against our agreed outcomes.

The level of written complaints received from our customers has reduced this year with a 30 per cent improvement compared to the prior year and a 76 per cent reduction over a three year period.

In 2016/17, our leakage team have detected a record number of leaks (500 higher than 2015/16). Our increased investment in loggers in the past two years has enabled us to detect more invisible leaks.

During the year we had larger bursts at Barcombe (August) and Haywards Heath (March). These two events contributed 7.5 minutes in total to our interruptions performance. Excluding the Barcombe and Haywards Heath bursts, our underlying performance equates to 5.4 minutes per connected property compared to 9.1 minutes in the prior year. We are pleased our teams have continued to improve underlying performance.

Outcome	FD Target	Performance	Reward /penalty if applicable	£m (if applicable)
Customer Satisfaction				
A1. Appearance	4.6	4.5	No penalty	
B1. Taste	4.3	4.2	No penalty	
C1. Leakage	4.0	3.8	Penalty	-0.037
D1. Interaction	4.5	4.3	Penalty	-0.008

F1. Pressure	4.5	4.2	Penalty	-0.053
G1. Interruptions	4.7	4.6	No penalty	
H1. Water restrictions	4.1	4.4	Reward	0.048
C2. Leakage	90.9	88.6	Reward	0.409
D2. SIM Score	N/A	84.6	N/A	N/A
E1. Customers consider bills to be value for money and affordable	N/A	74%	N/A	N/A
F2. Number of properties at risk of low pressure	60	49	Reward	0.003
G2. Average interruption time lost per property	12.3	12.9	No reward/penalty	N/A
H2. Meeting the Water Resource Deficit	0	0	No penalty	N/A
I1. Mean Zonal Compliance	100	99.95	No penalty	N/A
J1. Number of breaches of abstraction licences, discharge consents and environmental permits	0	5	N/A	N/A
J2. Number of pollution incidents (Category 1-2)	0	2	N/A	N/A
K1. Number of compliance breaches of legislation	0	0	N/A	N/A
L1. Number of breaches of National Security obligations	0	0	N/A	N/A
M1. Number of compliance breaches of other statutory obligations and licence conditions	0	1	N/A	N/A
N1. Discolouration Contacts	0.78	0.96	No reward/penalty	N/A
N2. Above ground asset performance	Stable	Stable	No penalty	N/A
N3. Number of sites at risk of flooding	N/A	33	N/A	N/A
N4. Water mains bursts	2429	3032	No penalty	N/A
O1. KG of carbon emissions per customer per year	N/A	37.2	N/A	N/A
O2. We will monitor our abstractions at low flows at environmentally sensitive sites	N/A	-0.18	N/A	N/A

Water 2020

Throughout 2016/17 Ofwat have published a number of consultation documents and held a number of workshops in relation to the 2020-2025 price review process. The Company has been actively involved in these discussions and provided its view on the proposals.

In July 2017 Ofwat published a series of documents for their consultation of the PR19 methodology which can be downloaded from the following link:

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

The Company will be reviewing these in detail and responding to Ofwat to highlight any issues or concerns.

Retail Non-Household Competition

From April 2017 the biggest change to the water industry since privatisation was implemented as businesses and other non-household customers can now choose their supplier of retail services. This change does not currently apply to household customers.

Retail services include all the customer related services, such as talking with customers, advising on water usage, reading water meters, billing and collecting payments. The water supplied to such customers will continue to be provided by South East Water's wholesale business, which is responsible for the abstraction, treatment and distribution of drinking water.

During the year we worked closely with Ofwat and Market Operator Services Limited (MOSL) to prepare the business for the new market. The business undertook a significant amount of work to ensure employees were appropriately trained, our systems compliant and that all milestones were met ready for the official opening on 1 April 2017.

We are pleased to report that our teams met all the requirements in order to operate in the new market and we started offering retail services on 1 April 2017. Our strategy is to offer our current customers an enhanced service by providing wastewater retail services as well as drinking water and we have successfully obtained a sewerage licence to provide this option for our customers.

Within the current South East Water supply area we are operating as South East Water Choice. For customers outside our supply area a separate business branded Water Choice operates.

South East Water Choice, which entered the open market with 54,000 customers, has a great team in place with a new Managing Director, Tanya Sephton leading them to further develop the business both inside the South East Water region and beyond.

Non-household customers can now opt for the retail business to provide them with both water and wastewater services. Multi-site customers can also benefit from our consolidated billing service.

There is more information available at www.openwater.org.uk

Tariffs

The Company published its tariffs in January 2017 for the 2017/18 charging year. This included separate documents for wholesale and retail charges, and a detailed Board Assurance Statement. Further information can be found at: <http://www.southeastwater.co.uk/your-account/about-your-bill/water-charges>.

Instrument of appointment

On 23 November 2016, Ofwat modified condition B of the instrument of appointment of all companies introducing a new condition 8.1A with effect from 15 December 2016. This allows

in-period adjustments under the wholesale revenue forecast incentive mechanism from 1 April 2017 to 31 March 2020 when the condition will cease to have effect. 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 27 March 2017, Ofwat introduced a new condition S dealing with the possible introduction of water into an undertaker's supply system under the revised water supply licensing regime from 1 April 2017. It also modified condition R deleting paragraph 1 to 4 of that condition containing provisions on access codes that are now part of the new condition S.

On 29 March 2017, Ofwat issued a determination on the Retail Market Opening Date determining that date to be 1 April 2017. This gave effect to modifications previously made on 25 August 2016 which were due to come into effect on the Retail Market Opening Date. These modifications were (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 (iii) 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 in November / December 2016, on proposed modifications required to enable Ofwat's approach for the next price review referred to as Water 2020, Ofwat modified the instruments of appointment of all companies on 6 April 2017. This gave effect from 15 April 2017 to 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.

Sewerage Licence

South East Water limited was granted a sewerage licence by Ofwat on 8 December 2016. It took effect fully on 1 April by virtue of a "condition A2 direction" issued by Ofwat which was the process by which provisions of the licence that did not come into effect on the date it was granted were given effect for market opening. This sewerage licence allows South East Water to also provide retail sewerage services to its water customers.

7.0 Capital Expenditure

South East Water's Final Determination (FD) wholesale capital expenditure for 2015-2020 is £465.2m (2016-17 price base). Capital investment for 2016-17, the second year of the AMP6 five year programme, is £89.8m.

2016-17 Expenditure:

- £47.7m (53%) of investment has been made in the development of new assets and the enhancement of existing assets, including £36.8m for the management of the supply demand balance and £9.9m to meet the Company's legal undertakings with respect to drinking water quality standards;
- £14.3m (16%) of investment has been made in the maintenance of our 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 water quality and leakage issues. Investment in the period has been predominantly in the following key areas:
 - Mains renewal programme; and
 - Reactive replacement of stop taps and apparatus.
- £26.0m (29%) of investment has been made in the maintenance of our 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.
- £1.8m (2%) has been invested in our retail assets.

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 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 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

SEW 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 12 months) include:

Supplier	Description	Contract Value
Meter-U part of Morrison Utility Services	Meter Reading Services	£ 10,000,000
Saint Gobain	Highway Covers and Chambers	£ 2,000,000
Brenntag	Polyaluminum Chloride	£ 2,000,000
Chemviron	Granular Activated Carbon	£ 1,200,000
Virgin Media	Wide Area Network	£ 1,200,000

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
Laboratory Consumables	£ 1,500,000
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 strong liquidity with £11.4m on the balance sheet at the year end and a further £85m available to draw down on the authorised credit facility.

Authorised credit facility

As explained in the September 2016 Investors Report, the £90m Authorised Credit Facility was extended to 18 June 2021. £5m is currently drawn on the facility.

Liquidity Facilities

The DSR and O&M facilities were renewed in May 2017 with Commonwealth Bank of Australia for the period to 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 and S&P issued credit opinions in November 2016 and February 2017 respectively. There was no change in SEW's rating from either rating agency.

	Moody's	S&P
Credit rating	Baa2	BBB

12.0 Surplus

The SEWH Board approved £8.0m of dividends to Hastings Water (UK) Limited in the 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 (appointed 8 December 2016)**
P Rich	Independent Non-executive Director (resigned 3 July 2017)
P Dixon	Non-executive Director (resigned 27 April 2017)**
V Rosati	Non-executive Director (resigned 7 December 2016)**
O Fortin	Non-executive Director (resigned 8 February 2017)***
J-P Ouellet	Non-executive Director (resigned 8 February 2017)***

* Denotes an Executive Director

** Denotes a Hastings appointee

*** Denotes a CDPQ 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 (appointed 15 September 2016)*
P Dixon	Non-executive Director (resigned 27 April 2017)*
V Rosati	Non-executive Director (resigned 14 September 2016)*
O Fortin	Non-executive Director (resigned 8 February 2017)**
J-P Ouellet	Non-executive Director (resigned 8 February 2017)**

* 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 31 March 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 31 March 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%	78.1%	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	3.44 x	3.36 x	2.98 x
Adjusted ICR	3.56 x	3.76 x	3.44 x	3.36 x	2.98 x
Average Adjusted ICR	3.59 x	3.52 x	3.24 x	3.15 x	2.98 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.73 x	1.43 x	1.31 x
Conformed Average Adjusted ICR	1.90 x	1.75 x	1.48 x	1.37 x	1.31 x

2. 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	294.9	303.9	0.0
Index Linked Bonds	156.1	160.4	164.1	167.9	172.8
Fixed Rate Bonds	0.0	0.0	0.0	0.0	303.9
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	112.5	116.5	119.8
Index Linked Loans	246.3	250.9	257.4	264.5	272.1
Capex Drawdown Facility	0.0	0.0	20.0	36.8	76.4
Total Senior Debt Closing Balance	959.5	975.7	1015.9	1056.6	1112.0
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(0.2)	(0.3)
Senior Net Indebtedness	942.5	964.3	1009.4	1056.4	1111.7
 Regulatory Capital Value	 1166.6	 1231.1	 1292.0	 1363.1	 1375.9
 RAR	 80.8%	 78.3%	 78.1%	 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	128.1	135.2
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	121.0	128.1
 Senior Debt Interest				(1.0)	
Finance Leases	0.0	0.1	0.1	0.0	0.0
Debentures	0.0	0.0	0.1	0.0	0.0

Nominal Debt	9.3	9.3	9.3	9.3	21.4
Synthetic Index Linked Bonds	8.6	8.7	8.9	8.9	2.9
Index Linked Bonds	3.9	4.0	4.1	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	8.9	9.1	9.3
Drawdown Facilities	0.8	0.5	0.6	0.6	0.9
Ambac fee	0.7	0.8	0.8	1.3	1.3
Senior Debt Interest Payable	34.6	34.7	35.5	36.0	43.0
Interest Receivable	(0.2)	(0.1)	(0.1)	0.0	0.0
Senior Debt Interest	34.4	34.6	35.4	36.0	43.0

ICR	3.56 x	3.76 x	3.44 x	3.36 x	2.98 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	121.0	128.1
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	121.0	128.1
Senior Debt Interest	34.4	34.6	35.4	36.0	43.0
Adjusted ICR	3.56 x	3.76 x	3.44 x	3.36 x	2.98 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	121.0	128.1
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	121.0	128.1
Senior Debt Interest	34.4	34.6	35.4	36.0	43.0
Adjusted ICR	3.56 x	3.76 x	3.44 x	3.36 x	2.98 x
Average Adjusted ICR	3.59 x	3.52 x	3.24 x	3.15 x	2.98 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	121.0	128.1
RCV Depreciation	38.3	43.1	46.3	49.0	51.7
Capitalised IRE	18.9	14.7	14.5	20.5	20.1
Total regulatory depreciation	57.2	57.8	60.8	69.5	71.8
Net Cash Flow after regulatory depreciation	65.2	72.4	61.1	51.5	56.3
Senior Debt Interest	34.4	34.6	35.4	36.0	43.0
Conformed Adjusted ICR	1.90 x	2.09 x	1.73 x	1.43 x	1.31 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	130.2	121.9	121.0	128.1

CCD & IRC

CCD	38.3	43.1	46.3	49.0	51.7
IRC	18.9	14.7	14.5	20.5	20.1
Total regulatory depreciation	57.2	57.8	60.8	69.5	71.8
Net Cash Flow after regulatory depreciation	65.2	72.4	61.1	51.5	56.3
Senior Debt Interest	34.4	34.6	35.4	36.0	43.0

Conformed Adjusted ICR	1.90 x	2.09 x	1.73 x	1.43 x	1.31 x
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Conformed Average Adjusted ICR	1.90 x	1.75 x	1.48 x	1.37 x	1.31 x
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4. We certify that for the period to 31 March 2017 the Annual Finance Charge is £34.6m.

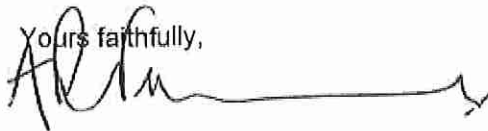
5. Annual Finance Charge calculation:

	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)
12 Months Total	34.6

Total payments into the DSR Accounts for the period to 31 March 2017 were £33.8m.

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 year ended 31 March 2017

	Companies £'m	Eliminations £'m	Group £'m
Turnover	218.9	-	218.9
Operating costs	(147.4)	-	(147.4)
Profit on disposal of fixed assets	0.1	-	0.1
Other operating income	7.4	-	7.4
Operating profit	79.0	-	79.0
Income from investments	16.0	(16.0)	-
Interest receivable - group	4.7	(4.7)	-
Interest receivable - other	0.1	-	0.1
Interest payable - group	(10.0)	4.7	(5.3)
Interest payable - other	(58.8)	-	(58.8)
Return on pension scheme assets	0.3	-	0.3
Profit on ordinary activities before taxation	31.3	(16.0)	15.3
Tax (charge)/credit on profit on ordinary activities	3.8	-	3.8
Profit on ordinary activities after taxation	35.1	(16.0)	19.1
Dividends	(24.0)	16.0	(8.0)
Profit in p&l account	11.1	-	11.1
STRGL - pension	(3.5)	-	(3.5)
Profit for period	7.6	-	7.6

South East Water (Holdings) Limited
Consolidated balance sheet at 31 March 2017

	Companies £'m	Eliminations £'m	Group £'m
Tangible & intangible assets	1,466.4	-	1,466.4
Investments	361.4	(361.4)	-
Net Current (liabilities)/assets	(15.8)	-	(15.8)
Creditors: amounts falling due after more than one year	(216.1)	-	(216.1)
Current asset investments	10.2	-	10.2
Cash and cash equivalents:		-	
Current accounts	0.5	-	0.5
DSR	0.7	-	0.7
O&M	-	-	-
First loss account	-	-	-
Financing liabilities		-	
Intra group loan creditors	(927.2)	927.2	-
Intra group loan debtors	927.2	(927.2)	-
Other loans	(82.2)	-	(82.2)
Finance leases	-	-	-
Debentures	(1.0)	-	(1.0)
Bonds	(496.0)	-	(496.0)
Indexation	(131.3)	-	(131.3)
Artesian loans	(269.0)	-	(269.0)
Indexation	(91.8)	-	(91.8)
Unamortised costs	6.2	-	6.2
Pension liability	7.8	-	7.8
Net assets	550.0	(361.4)	188.6
Capital and reserves			
Called up share capital	140.7	(49.3)	91.4
Revaluation reserve	261.5	-	261.5
Profit and loss account b/fwd	140.2	(312.1)	(171.9)
Loss for period	7.5	-	7.5
Capital employed	550.0	(361.4)	188.6

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the year ended 31 March 2017

	Companies £'m	Eliminations £'m	Group £'m
At 1 April 2016	147.8	(312.1)	(164.3)
Profit for the year	35.1	(16.0)	19.1
Pension scheme in STRGL	(3.5)	-	(3.5)
Dividends	(24.0)	16.0	(8.0)
	7.6	-	7.6
At 31 March 2017	155.4	(312.1)	(156.7)