

south east water



# Investors Report

For the six months ending 30 September 2019

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 2019. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

## 1 Operational performance

We have had good operational performance in the first six months of the financial year. Our leakage, customer interruptions and water discolouration measures are all in line with or ahead of expectation.

We have met our leakage target for more than 10 years, but we are further improving our performance and are using the latest, most innovative technology to drive leakage down further. An example of our ambition is the significant progress made during this period in our digital water meter trial which could revolutionise the way the water industry detects and prevents leaks.

During the last six months we have made significant progress in the construction of the company's largest ever single investment at the Keleher Water Treatment Works at Bray in Berkshire.

This £21 million project will increase the capacity of the Keleher plant, which treats water extracted from the River Thames to drinking water standards from the current 45 million litres per day to 68 million litres per day. The civil work used innovative precast concrete building techniques to help deliver the project build quickly and safely with 150,000 man hours worked and no accidents. The project team is now completing the electrical installations and testing, recently filling the 750,000 Granular Activated Carbon (GAC) filter unit with water to test them for leaks before installing pipe and electric cables ahead of final commissioning – the project is anticipated to complete by spring 2020.

Clancy Docwra have been employed as our Network Maintenance Contractor for the past

eight years, with responsibilities including reactive network repairs and maintenance and planned mains renewals. As such they are a key partner in the success of our operations. This contract expires in April 2020 and we have undertaken a full competitive tender process for the equivalent contract covering the next five years, with an option for an additional 3 years. The specification for this £50 million a year contract put even greater emphasis on collaboration, innovation and supporting our responsible business objectives. After a rigorous evaluation of the tenders, Clancy Docwra emerged as the winning bidder and we look forward to the continuation of our successful partnership.

Trusted corporate governance is one of the 10 responsible business commitments made as part of our business plan for 2020 to 2025. All 10 commitments are being governed through a new Board Sub-Committee which has been established specifically with the purpose of providing assistance to the Board in defining South East Water's strategy relating to Environment, Social, Governance (ESG) matters and in reviewing the practices and initiatives relating to ESG matters ensuring they remain effective and up to date. One way we are monitoring progress against our strategy is through GRESB, a global benchmarking of ESG practice. We are pleased to report that this year South East Water obtained five stars, the highest rating possible, and increased our standing with a score of 81 out of 100 in the 2019 GRESB survey.

## 2 Water resources and leakage

April and May proved to be drier than normal, with 40 per cent and 67 per cent of long term average (LTA) rainfall respectfully. In contrast, June proved to be the wettest month during the past 6 months with 167 per cent of LTA rainfall, July to September rainfall remained closer to LTA levels overall. As a consequence of the weather conditions experienced,

demand was in line with our normal year demand forecast.

At the end of September our water resource position was good. Groundwater levels and reservoir storage remaining close to normal for the time of year.

We made good progress with our water efficiency strategy agreed with the regulator. Leakage levels continue to be maintained below the leakage target. Good progress is continuing with new water resource schemes required to maintain the supply demand balance during the period 2015 to 2020.

During this period we are pleased to report our Water Resources Management Plan was finalised, being one of the first in the sector to be approved by the Secretary of State. We published our plan in August 2019.

### 3 Customer service

Our focus on great service experience continues to support our efficient operational performance. We continue to have one of the lowest customer service costs within the industry, recognised by Ofwat in the draft PR19 determination. The first six months of the year have seen our written complaint volumes reduce markedly from a strong industry position, with complaints to the end of September 33 per cent lower than at the same point last year.

In preparation for Ofwat's new measure on service C-MeX, which replaces SIM from April 2020, we have launched our new '10 out of 10' strategy. This is a continuation of many of the service initiatives that have helped us achieve our excellent complaint reductions, while introducing new approaches for reaching and managing the perceptions of the majority of our customers who would otherwise not contact South East Water from year to year.

One of our key areas of development is the growth of our digital experience, where we have seen the number of customers who have chosen to receive their bills online grow to just under 20 per cent. Our latest digital platform will be launched later this year, increasing further the number of transactions that

customers can self-serve and enabling us to tailor our information and communication to targeted customer segments.

Our commitment to a "10 out of 10" customer experience applies to every customer. Our approach to ensuring customers in vulnerable circumstances are also able access our services has seen growing numbers of customers register on our Priority Services Register (PSR). Our dedicated Customer Care Team also 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 per cent, to over 30,000. We have also developed the option for our customers to receive their bill in a language of their choice, closely reflecting the translation option that is available on our website, and helping ensure all customers can fully access our services.

We have maintained strong cash collection performance, and have again reduced debt for outstanding charges over 12 months old – the fifth year in a row that outstanding debt over 12 months old has fallen.

### 4 Health, safety and environment

Consultation has been undertaken with the senior management team and safety representatives in order to develop a mental health strategy in support of our Thrive 365! Health Safety and Wellbeing Strategy. This supplementary strategy was launched to managers in November at a conference for more than 200 employees. The conference had a number of speakers including from Mind and the Health and Safety Executive (HSE). The company has trained an initial 16 employees from across the business to be mental health first aiders. Everyone trained now wears a yellow lanyard so it is clear they are available for anyone to talk to.

We have commenced a monthly programme of senior management site tours in order to provide the senior team with a greater understanding of the health, safety and wellbeing considerations facing their colleagues throughout the organisation and how their leadership can help us to achieve our goals.

A new health, safety and wellbeing induction process is in development which takes a modular format that can be undertaken over a video link. This will enable inductions to be undertaken prior to arrival on site.

## **5 Financial Performance in the six months ended 30 September 2019**

The ring fenced SEW 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 per cent subsidiary of South East Water Limited and South East Water Limited is a 100 per cent subsidiary of South East Water (Holdings) Limited.

The accounts for the SEW Group for the six months to 30 September 2019 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 period was £122.8 million compared with £121.0 million for the same period in the previous year. The increase of £1.8 million is due to the water revenue price increase averaging 5.0 per cent for the year, amounting to £5.7 million in the period. This is offset by lower household demand compared to the hot summer of 2018 (£2.5 million), additional social tariffs discounts (£0.4 million) and the effect of the customer metering programme (£1.0 million).

### **Operating costs**

Net operating costs for the period to 30 September 2019 were £86.2 million, which is £1.3 million higher than the corresponding period last year. Depreciation was £1.1 million higher due to the continued high investment in the company's assets. Additionally, there was £0.2 million of other inflationary costs.

### **Interest**

Interest payable for the group for the six month period to 30 September 2019 was £28.7 million compared to £28.5 million in the prior year. Interest receivable for the six months to 30 September 2019 was £0.1 million, which is in line with the prior year.

Interest payable includes the following:

- £11.6m interest on listed debt/bonds (2018 – £11.4 million)
- £2.7m fair value movement on interest rate swap (2018 – £1.0 million)
- £2.5m indexation on index linked listed bonds (2018 – £2.9 million)
- £6.2m interest on Index linked loans (including Artesian Finance loans) (2018 – £6.0 million)
- £2.2 million Indexation on Index linked loans (including Artesian Finance loans) (2018 – £4.2 million)
- £2.8 million interest payable by SEWH to group companies (2018 – £2.8 million)
- £2.2 million relating to other interest and fees payable (2018 – £1.2 million)
- £(1.5) million capitalised interest (2018 – £(1.0) million)

### **Taxation**

The income statement shows a tax charge of £0.8 million in the period compared to £2.6 million for the period to 30 September 2018, being £0.1 million of current tax on our ordinary operations and £0.7 million of deferred tax.

### **Cash**

The SEW Group has cash and cash equivalent balances of £12.9 million as at 30 September 2019 compared with £11.0 million as at 30 September 2018.

## General overview and business update continued

The restricted cash balance as at 30 September 2019 was £6.8 million compared to £9.8 million as at 30 September 2018. 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.

## 6 Regulatory update

### Regulatory reporting

The 2018/19 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:

[corporate.southeastwater.co.uk/news-media/publications/financial-reports](https://corporate.southeastwater.co.uk/news-media/publications/financial-reports)

In July we also published the Performance, People and Planet 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:

[corporate.southeastwater.co.uk/news-media/publications/performance-reports](https://corporate.southeastwater.co.uk/news-media/publications/performance-reports)

The below performance is for the six months ended 30 September 2019:

Outcome	Final Determination 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	89.1	87.0
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	52
G2. Average interruption time lost per property	12	5.7
H2. Meeting the Water Resource Deficit	0	0
I1. Mean Zonal Compliance	100	99.96
J1. Number of breaches of abstraction licences, discharge consents and environmental permits	0	16
J2. Number of pollution incidents (Category 1-2)	0	1
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	0.42
N2. Above ground asset performance	Stable	Stable
N3. Number of sites at risk of flooding	N/A	N/A
N4. Water mains bursts	2429	1,185
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	0	Kingston: 0.00 Windmill Hill: -1.00

### **2020 to 2025 price review**

On 18 July Ofwat issued South East Water's Draft Determination for 2020 to 2025. The company responded on 30th August and the full response can be found using the following link:

[corporate.southeastwater.co.uk/news-info/publications/draft-determination-response-submission](https://corporate.southeastwater.co.uk/news-info/publications/draft-determination-response-submission)

Ofwat has confirmed that Final Determinations will be published on 16 December 2019.

### **Tariffs**

In line with guidance issued by Ofwat the company published indicative wholesale charges for 2020/21. These can be found using the following link:

[corporate.southeastwater.co.uk/news-info/publications/our-charges](https://corporate.southeastwater.co.uk/news-info/publications/our-charges)

### **Instrument of appointment**

**Consultation relating to change of control and ring fencing**

Following the consultations in May 2018 on "change of control – general policy and its application to Thames Water" and of November 2018 on "strengthening the regulatory ring-fencing framework", Ofwat published two conclusion documents in November 2018 and July 2019. It decided to proceed with standardising ring-fencing licence conditions relating to credit rating and cash lock-up, notification of material issues and change of control.

In October 2019 Ofwat issued a pre-consultation document setting out how it intended to implement these changes (requesting companies to notify their consent in principle) before issuing a formal consultation under section 13 of the Water Industry Act 1991. This modification will bring all ring-fencing related provisions into a new condition P, replacing the current condition P.

Ring-fencing provisions in current conditions K and I will be transferred (with or without changes) to the new condition P which will also include new provisions. The current condition I will be removed entirely and condition K will only relate to disposals of land.

The main modifications will include:

- a new obligation to notify Ofwat of changes of ultimate controller and of merger controls
- a new obligation to comply with a direction to enforce a condition P undertaking against an ultimate controller
- a revised obligation to ensure that an investment grade credit rating is maintained (as opposed to a "reasonable endeavours" obligation to do so)
- the inclusion of corporate family ratings and alternative ratings in the definition of issuer credit rating
- revised provisions relating to ring-fencing certificates
- a new obligation to report any issues that may materially affect the ability of a company to carry out its regulated activities

**Consultation relating to board leadership, transparency and governance (BLTG) principles**

Following previous consultations in 2018 and engagement with companies, Ofwat issued a formal consultation under section 13 of the Water Industry Act 1991 in May 2019 proposing to introduce a new condition in the instrument of appointment of water companies (and Tideway) to meet the objectives of Ofwat's board leadership, transparency and governance principles. These principles were last updated in January 2019 and include high level objectives which companies will have an obligation to meet, and provisions which companies are expected to meet.

On 22 July 2019 Ofwat published the modification of these companies' licences replacing condition I26 in its entirety with a new condition I26 which included the new obligation to comply with the objectives of the BLTG principles. This modification came into effect on 1 August 2019.

### **Simplification of the instrument of appointment of all companies**

In January 2019, Defra issued a consultation on improving the management of water in the environment which also included a proposal to revise the process set out in the Water Industry Act 1991 for amending water companies' instruments of appointment. The consultation proposed to give new powers to Ofwat to amend companies' licences without their consent. To challenge licence modifications, companies would have to appeal on limited grounds to the CMA who would decide whether or not the modifications should be finally applied.

The company responded to the proposal on 12 March 2019, questioning the need for and the appropriateness of the proposal considering in particular that a number of licence changes had been successfully made by Ofwat and that the current provisions had not in practice operated as a barrier for amending licences when required and provided an appropriate equilibrium between the regulator and water companies.

Defra held a workshop with companies on 10 July 2019 on the proposed new process for amending licences. The Secretary of State and Ofwat stated that they would go ahead with the change which requires legislation. The published Environment Bill includes a section 76 which will amend the Water Industry Act 1991 to introduce a new licence modification process.

The process includes:

- **consultation of at least 42 working days stating the modification, its purpose and effect**
- **obligation for Ofwat to consider representations**
- **publication of a decision by Ofwat to modify, stating the effect of the modification, how Ofwat has taken account of representations made and the differences between the decision and the initial proposal**
- **a modification will become effective normally 56 days after publication of the decision (but this may be shorter if necessary or "expedient" and provided the shorter effective date is stated in the initial consultation)**

Once a decision has been published by Ofwat a company or representative body may ask the CMA for permission to appeal within 20 working days, on limited grounds (no or insufficient regard to duties or direction statement, error of fact, modification failing to achieve stated effect, procedural impropriety, decision wrong in law). The CMA may refuse to grant permission if the interest of the applicant are not "materially affected" by Ofwat's decision.

A new schedule will also be added to the Water Industry Act 1991 describing the procedure to follow. The CMA will make an order about its own costs. The CMA may also make an order about the other party's costs

### **Definition of excluded charges in condition B**

Following engagement with companies through the price review process, the definition of "excluded charges" in condition B of the licence was amended by agreement to add to that definition charges relating to the alteration of relevant pipes (diversions) carried out other than pursuant to the provisions of the Water Industry Act 1991. This change excludes charges relating to diversions carried out under the New Roads and Street Works Act 1991 from the price control. This change came into effect on 15 November 2019.

### Revenue incentive mechanism

Ofwat carried out pre-consultation engagement with companies between March and June 2019 on the proposed amendment of condition B of their instruments of appointments in relation to the revenue incentive mechanism and to determine a baseline for the network plus revenue as this price control is introduced for the first time at PR19. The changes are intended to clarify the existing provisions in the context of the changes implemented for PR19, in particular that the price control limit does not prevent companies from levying charges to recover a relevant shortfall under the new revenue forecast incentive mechanism. Following consultation as part of the draft determination process, Ofwat published the modification of condition B of companies' licences on 4 November 2019. The modification came into effect on 10 November 2019.

## 7 Capital expenditure

Capital investment net of grants and contributions for the first half of 2019/20, the final year of the AMP6 five year programme, is £41.1 million. Cumulative spend in this regulatory period is £408.2 million (2019/20 price base).

For the first half of 2019/20:

- £14.2 million (35 per cent) of investment has been made in the development of new assets and the enhancement of existing assets, including £12.2 million for the management of the supply demand balance and £2.0 million to meet the company's legal undertakings with respect to drinking water quality standards
- £11.1 million (27 per cent) 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
  - reactive communication pipe and stop tap repairs and replacements
- £15.8 million (38 per cent) 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
  - management and general spend such as IT infrastructure

## 8 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.

Our overall drinking water quality performance, as measured using the DWI's key performance indicator at the customer's tap "Mean Zonal Compliance" is above our performance commitment at 99.96 per cent. The DWI has introduced a new measure of compliance, the Compliance Risk Index (CRI), which assesses performance across all final water samples. For the first six months of the year our performance was better than industry average at 2.45. 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, the disinfection index which is at 99.99 per cent and the Reservoir Integrity Index which has been maintained at the improved level of 99.97 per cent from the previous year. These results are based on 195,587 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 Outsourcing

We continue 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 and qualification system)
- invitation to tender
- 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 £
Solo and GSF (East and Western Regions)	Office Cleaning Services	1,400,000
RPM	HVAC Replacement	900,000
1st Locate and UK Search	Trace and Collect (Debt)	800,000

Tenders in preparation and/or issued include:

Tenders in hand	Estimated contract value £
Network maintenance and strategic mains	360,000,000
Consultancy services	56,000,000
Commercial vehicles	5,400,000
Nitrate removal	4,600,000
Fire systems, CCTV, alarms, door access, response services (security)	4,000,000
Revenue meters	3,200,000
Chamber sections	2,112,000
Clothing, PPE & consumables	1,440,000
Gunmetal service fittings	1,416,000

South East Water 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 Financing

The Group has adequate liquidity with £12 million on the balance sheet at the half-year end and a further £75 million available to draw down on the authorised credit facility.

### Refinancing process

In September we successfully refinanced our £311.5 million debt which matured on 30 September 2019. The funding was secured to repay the maturing debt in three tranches:

- a £120 million floating rate bank loan was secured in December 2018 and drawn in September 2019. The loan has a term of seven years
- £175 million of fixed rate debt was secured from the US private placement market in March 2019 with drawdown in September 2019. £75 million has a term of 12 years and £100 million has a term of 23 years
- £54 million was invested by equity injection from our parent company Hastings Water (UK) Limited in line with our 2020 to 2025 Business Plan commitment

The excess of funds raised was used to reduce £40 million of borrowing on our authorised credit facility.

## Liquidity facilities

The DSR and O&M facilities were renewed in June 2019 with Commonwealth Bank of Australia and Credit Agricole until June 2020. The DSR liquidity facility has a commitment of £38 million and the O&M facility has a commitment of £19 million.

## 11 Credit ratings

The credit rating of South East Water is covered by Moody's Investor Service ("Moody's") and Standard and Poor's ("S&P"). Moody's issued its credit opinion in November 2019. S&P issued its latest annual update in December 2019. There was no change in credit rating from either rating agency.

	Moody's	S&P
Credit rating	Baa2	BBB

## 12 Surplus

The SEWH Board approved £0.2 million of dividends to Hastings Water (UK) Limited in the first six months of this financial year.

### 13 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

**C Girling**

Independent Non-Executive Director

**C Pronto**

Independent Non-Executive Director

**S Jordan**

Non-Executive Director\*\*

**M Szczepaniak**

Non-Executive Director\*\*

#### South East Water (Holdings) Limited

**S Jordan**

Non-Executive Director\*\*

**M Szczepaniak**

Non-Executive Director\*\*

#### South East Water (Finance) Limited

**P Butler**

Executive Director\*

**A Farmer**

Executive Director\*

**S Jordan**

Non-Executive Director\*\*

**M Szczepaniak**

Non-Executive Director\*\*

\* Denotes an Executive Director

\*\* Denotes a Shareholder appointee

The Company Secretary is **Nicolas Truillet**

# Ratios

## 1 Historic

We confirm that in respect of the Calculation Date on 30 September 2019, 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 2019.

Date	31-Mar-16	31-Mar-17	31-Mar-18	Calculation Date	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%	77.7%	73.2%	74.0%
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	3.62 x	3.50 x	2.99 x
Adjusted ICR	3.56 x	3.76 x	3.62 x	3.50 x	2.99 x
Average Adjusted ICR	3.65 x	3.62 x	3.35 x	3.35 x	3.35 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.90 x	1.61 x	1.34 x
Conformed Average Adjusted ICR	1.96 x	1.86 x	1.60 x	1.60 x	1.60 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.

## Ratios continued

**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

Date	31-Mar-16	31-Mar-17	31-Mar-18	Calculation Date	31-Mar-20
	£m	£m	£m	£m	£m
<b>Senior Debt</b> (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	296.3	0.0	0.0
Index Linked Bonds	156.1	160.4	166.0	173.1	175.6
Fixed Rate Bonds	0.0	0.0	0.0	175.0	175.0
Variable rate loans	0.0	0.0	0.0	120.0	120.0
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	113.5	117.6	120.1
Index Linked Loans	246.3	250.9	259.9	269.6	275.8
Capex Drawdown Facility	0.0	0.0	20.0	15.0	25.0
Total Senior Debt Closing Balance	959.5	975.7	1022.8	1037.2	1058.4
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(12.3)	(7.1)
Senior Net Indebtedness	942.5	964.3	1016.2	1024.9	1051.4
Regulatory Capital Value	1166.6	1231.1	1307.5	1399.4	1420.1
<b>RAR</b>	80.8%	78.3%	77.7%	73.2%	74.0%

## Ratios continued

### b) ICR

Date	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
<b>Net Cash Flow</b>					
Net cash flow from operating activities	120.2	127.5	123.2	125.0	127.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.7	4.0	2.9	1.1
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Pension funding	0.0	0.0	0.0	0.0	0.0
Non-appointed	0.0	0.0	0.0	0.0	(5.2)
Net Cash Flow	122.4	130.2	127.2	127.9	123.2
<b>Senior Debt Interest</b>					
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	13.4
Synthetic Index Linked Bonds	8.6	8.7	8.8	9.3	9.4
Index Linked Bonds	3.9	4.0	4.1	4.3	4.4
Index Linked Loans (USS)	2.6	2.6	2.7	2.8	2.8
Index Linked Loans	8.6	8.8	9.1	9.4	9.6
Drawdown Facilities	0.8	0.5	0.5	0.9	1.3
Ambac fee	0.7	0.8	0.8	0.7	0.3
Senior Debt Interest Payable	34.6	34.7	35.2	36.7	41.3
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Senior Debt Interest	34.4	34.6	35.2	36.6	41.2
ICR	3.56 x	3.76 x	3.62 x	3.50 x	2.99 x

### c) Adjusted ICR

Date	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	127.2	127.9	123.2
<b>CCD &amp; IRC</b>					
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	127.2	127.9	123.2
Senior Debt Interest	34.4	34.6	35.2	36.6	41.2
Adjusted ICR	3.56 x	3.76 x	3.62 x	3.50 x	2.99 x

### d) Average adjusted ICR

Date	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	127.2	127.9	123.2
<b>CCD &amp; IRC</b>					
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	127.2	127.9	123.2
Senior Debt Interest	34.4	34.6	35.2	36.6	41.2
Adjusted ICR	3.56 x	3.76 x	3.62 x	3.50 x	2.99 x
Average Adjusted ICR	3.65 x	3.62 x	3.35 x	3.35 x	3.35 x

**e) Conformed adjusted ICR**

Date	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	127.2	127.9	123.2
RCV Depreciation	38.3	43.1	46.8	49.1	50.2
Capitalised IRE	18.9	14.7	13.4	19.9	17.9
Total regulatory depreciation	57.2	57.8	60.2	69.0	68.1
Net Cash Flow after regulatory depreciation	65.2	72.4	67.0	58.8	55.1
Senior Debt Interest	34.4	34.6	35.2	36.6	41.2
Conformed Adjusted ICR	1.90 x	2.09 x	1.90 x	1.61 x	1.34 x

**f) Conformed average adjusted ICR**

Date	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	127.2	127.9	123.2
<b>CCD &amp; IRC</b>					
CCD	38.3	43.1	46.8	49.1	50.2
IRC	18.9	14.7	13.4	19.9	17.9
Total regulatory depreciation	57.2	57.8	60.2	69.0	68.1
Net Cash Flow after regulatory depreciation	65.2	72.4	67.0	58.8	55.1
Senior Debt Interest	34.4	34.6	35.2	36.6	41.2
Conformed Adjusted ICR	1.90 x	2.09 x	1.90 x	1.61 x	1.34 x
Conformed Average Adjusted ICR	1.96 x	1.86 x	1.60 x	1.60 x	1.60 x

**4** We certify that the Annual Finance Charge will be £37.1 million.

## Ratios continued

### 5 Annual Finance Charge calculation:

	to 31 March 2020 £m
<b>Senior Debt Interest</b>	
Finance Leases	0.2
Debentures	0.0
Nominal Debt (£166m)	13.7
Synthetic Index Linked Bonds (£200m)	4.7
Index Linked Bonds (£130m)	4.4
Index linked loans (US\$)	2.9
Index Linked Loans	9.6
Capex Drawdown Facility	0.5
Ambac fee	0.5
Commitment fee	0.8
	37.4
Less: interest earned	(0.2)
12 Months Total	37.1

Total payments into the DSR Accounts for the period to 30 September 2019 were £25.2 million.

### 6 We also confirm that:

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

Yours faithfully,



Director

For and on behalf of

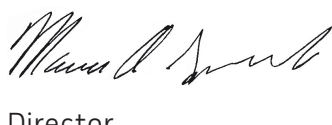
**SOUTH EAST WATER LIMITED**



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 2019

	Companies £'m	Eliminations £'m	Group £'m
<b>Turnover</b>	122.8	-	122.8
Operating costs	(86.2)	-	(86.2)
Profit on disposal of fixed assets	0.1	-	0.1
Other operating income	6.1	-	6.1
<b>Operating profit</b>	42.7	-	42.7
Income from investments	5.5	(5.5)	-
Interest receivable – group	2.6	(2.6)	-
Interest receivable – other	0.1	-	0.1
Interest payable – group	(5.4)	2.6	(2.8)
Interest payable – other	(25.9)	-	(25.9)
Return on pension scheme assets	0.3	-	0.3
Profit on sale of intangible assets	-	-	-
<b>Profit on ordinary activities before taxation</b>	20.0	(5.5)	14.5
Tax (charge)/credit on profit on ordinary activities	(0.8)	-	(0.8)
<b>Profit on ordinary activities after taxation</b>	19.2	(5.5)	13.7
<b>Dividends</b>	(5.7)	5.5	(0.2)
	13.5	-	13.5
STRGL – pension	9.7	-	9.7
<b>Profit/(loss) for period taken to p&amp;l reserves</b>	23.2	-	23.2

## Financial Statements continued

South East Water (Holdings) Limited  
Consolidated balance sheet at 30 September 2019

	Companies £'m	Eliminations £'m	Group £'m
Tangible assets	1,591.3	-	1,591.3
Investments	361.4	(361.4)	-
Net Current (liabilities)/assets	(17.4)	-	(17.4)
Creditors: amounts falling due after more than one year	(158.3)	-	(158.3)
Current asset investments	-	-	-
Cash and cash equivalents:			
Current accounts	6.1	-	6.1
DSR	6.8	-	6.8
O&M	-	-	-
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(592.7)	592.7	-
Intra group loan debtors	592.7	(592.7)	-
Other HDF group loans	(82.2)	-	(82.2)
Debentures	(1.0)	-	(1.0)
Bonds	(296.0)	-	(296.0)
Indexation	(43.1)	-	(43.1)
Artesian loans	(269.0)	-	(269.0)
Indexation	(118.1)	-	(118.1)
Other external loans	(295.0)	-	(295.0)
Finance leases (IFRS 16)	(3.0)	-	(3.0)
Unamortised costs	7.5	-	7.5
Bank loans	(15.0)	-	(15.0)
Net pension liability	37.1	-	37.1
<b>Net assets</b>	<b>712.0</b>	<b>(361.4)</b>	<b>350.6</b>
<b>Capital and reserves</b>			
Called up share capital	194.7	(49.3)	145.4
Revaluation reserve	248.7	-	248.7
Profit and loss account b/fwd.	242.9	(312.1)	(69.3)
Profit for period	25.7	-	25.7
<b>Capital employed</b>	<b>712.0</b>	<b>(361.4)</b>	<b>350.6</b>

## Financial Statements continued

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the period ended 30 September 2019

	Companies £'m	Eliminations £'m	Group £'m
At 1 April 2019	242.9	312.1	69.3
Profit for the year	19.2	5.5	13.7
Pension scheme in STRGL	9.7	-	9.7
Dividends	5.7	5.5	0.2
Movement through reserves	2.5	-	2.5
	25.7	0.0	25.7
At 30 September 2019	268.6	312.1	43.5