

The background of the entire page is a high-speed photograph of water being poured into a glass. The water is captured in mid-pour, creating a dynamic splash with many bubbles and droplets. The image is divided into a grid of squares, with some squares being semi-transparent, creating a layered effect.

2019/20 INVESTORS REPORT

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 12 month period ending 31 March 2020. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK

Over the last year we have made further progress with our Environmental, Social, Governance (ESG) framework. We set up a Responsible Business Committee to help the Board in defining the company's strategy in this area and to review our approach to ensure it remains relevant and effective. In September 2019 we achieved the highest award of five stars in the GRESB global ESG benchmarking, demonstrating our commitment to industry leading performance.

We have also developed a clear purpose statement which we are in the process of embedding in our articles of association:

"To provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive."

A clear purpose is a key step in our move to focus the business on what matters most to customers, the community and society and is integral to our plans for the 2020 to 2025 period and beyond.

Alongside the articulation of our company purpose, we have adopted a revised corporate governance framework which has been an important part of defining our strategy in the five-year corporate plan. This helps us demonstrate that South East Water can be trusted as a provider of an essential public service into the future.

We seek to support all our employees throughout the organisation. South East Water is recognised as an Investors in People organisation, an accredited Living Wage employer and a Disability Confident Committed employer.

We are working to provide fulfilling employment opportunities across our community. This year we are signing up to the Social Mobility Pledge where we have committed to do more to boost opportunity for all through outreach, access and recruitment.

As a major landowner, and guardian of some of the region's most precious environmental resources, our teams work hard to maintain and improve many of the region's flora and fauna. This work has resulted in the successful conclusion of a ground-breaking programme to increase biodiversity at a number of our sites and improving the quality of the water catchments as part of the Water Industry National Environment Programme (WINEP). We have committed to almost trebling the investment in this area over the next five years.

Our Environment team won two Green Apple Awards at the Houses of Parliament for their Pesticide Amnesty and Woodgarston Markets project. The awards recognise and promote environmental excellence, and as winners, we automatically become a Green World Ambassador and will be put forward to represent the UK in the Green World Awards.

Full details of our work and example case studies can be seen in our Performance, People and Planet report.

2. OPERATIONAL PERFORMANCE

This year saw the culmination of our 2015 to 2020 business plan, with excellent performance across our business commitments, and significant focus on the preparations for the next five years.

A key success has been reducing demand for water, which must continue if we are to balance the needs of customers and the environment in the longer-term. We completed our Customer Metering Programme with 90 per cent of customers now metered. Working with these customers we have encouraged water efficiency, including through our innovative use of behavioural science and delivering a “my water report” which has seen per capita consumption in our region reduce by seven per cent compared to the previous five-year period.

In June 2019 our teams contended with storms and localised flooding, brought on by a plume of Saharan air over the South East of England. We also experienced an extremely wet winter, with the worst winter floods in recent times. Storm Dennis followed immediately on from Storm Ciara in February and our technicians were called upon to restore water supplies when the storms caused power outages across the region. Despite these challenges we saw a decrease in burst water mains during the year, 2,289 compared with 2,826 in 2018/19.

Maintaining more than 14,500 kms of water mains is a never ending job to ensure we keep our customers with a continuous supply of top-quality water. The teams have worked hard to reduce the length of time of any customer interruptions, which resulted in strong performance throughout the year with the average time lost per property of 10 minutes outperforming the 2018/19 performance of 14.2 minutes.

We progressed the construction at the Keleher Water Treatment Works. This £21 million investment is our largest single project to date and will increase the capacity of the treatment works from 45 million litres per day to 68 million litres per day.

During the year a full competitive tender process was completed for our network maintenance contract. Clancy emerged as the winning bidder and we look forward to building on the 18 years’ experience of working together. The successful appointment as sole contracting partner for network maintenance is both innovative and forward-thinking, benefitting both companies and our 2.2 million customers. Clancy will deliver all repairs, maintenance and planned mains renewals, new mains and new connections across our supply area. We are now looking forward to working towards a single collaborative culture that will achieve our joint vision of delivering a great customer service while looking after the health, safety and wellbeing of our teams.

A huge effort through the year has been put into the final stages of agreeing the Price Review 2019 (PR19) with Ofwat, with close involvement of the Board throughout. Ofwat’s Final Determination announced in December, which defines the prices we can charge and what we are expected to deliver over the five year period, will be extremely challenging and is forecast to result in minimal returns to Shareholders. Further it did not, in our opinion, adequately reflect our customer’s priorities in areas such as resilience and investment for the future. The Board gave careful consideration to appealing this Determination to the Competition and Markets Authority, weighing the significant costs and diversion of resources involved in the appeal process versus the risks and uncertainty of the outcome. After much deliberation we decided not to appeal. We have now finalised our plan for the next five years to meet the challenges as far as is possible. This will require a step change in performance and cost efficiency in all areas. The plan includes building on our innovative customer satisfaction programme, delivering high performance levels far beyond any we have committed to previously and enhanced focus on our responsible business commitments.

GENERAL OVERVIEW AND BUSINESS UPDATE continued

3. COVID-19 PANDEMIC

In the final months of the year, the arrival of Covid-19 has required us to urgently adapt our operational priorities and ways of working. We have worked relentlessly to deal with the emerging and ongoing threat. At all times, we have ensured that our vital water service was maintained and at the same time ensuring that we have supported all our customers, our supply chain, the community and our employees. Our essential role in society has never felt more important. Our response to Covid-19 is set out in the 2019/20 Annual Report which is published on our website.

As part of our annual report we have analysed our long term viability which considers principal risks and uncertainties over a ten year period, including the ongoing impacts of Covid-19. We have modelled the likely impacts on our medium-term plan and developed an updated assessment of our prospects allowing for the estimated impacts of Covid-19 on the Company over AMP7. This assumes restrictions and social distancing extend through the summer of 2020; CPIH inflation reducing in the year to March 2021 and in the year to March 2022 before increasing back to longer term targets; a reduction in non-household business revenues, increased outcome delivery incentives (ODI) penalties driven predominantly by non-household voids, increased bad debts, lower non-appointed income and lower projected developer contributions, as well as an increase in revenue based on projected increases in household consumption. Our updated assessment of our prospects underpins the Ratios section of this report.

We have also undertaken downside scenario testing of the impact of Covid-19, should the impact be greater than we expect. The results of our assessment reveal that, in the absence of any mitigating action being taken, the most severe, but plausible, scenario modelled indicates a breach of the trigger threshold in the Adjusted ICR ratio. We are reviewing the consequences of a trigger event to ensure that it would not create significant distraction for our senior management. It is in the best interests of the company if senior management can focus on ensuring that we remain financially resilient and continue to provide essential services.

4. WATER RESOURCES AND LEAKAGE

The rainfall during the 2018/19 winter period supported a strong recovery of our water resources ahead of summer 2019, and by the start of the financial year, our reservoirs had filled and groundwater levels recovered to normal levels which meant moving into the summer our water resources were in a good position.

Spring and summer 2019 were drier than normal with 75 per cent of long term average rainfall (this figure excludes June 2019 which saw 176 per cent long term average rainfall). As a consequence of the drier weather, demand from our customers was slightly higher than normal, but not exceptional.

Autumn and winter 2019/20 were exceptionally wet with 150 per cent of long term average rainfall, allowing all of our water resources to recover to above normal levels at the end of March 2020, ready for this summer period.

We continued strong leakage performance during the year. We recorded a leakage level of 86.4 million litres per day (Ml/d) against a target of 87.7 Ml/d.

In August 2019 we published our final water resources management plan following approval by the Secretary of State for Defra. This plan sets out our strategy for the next 60 years, comprising a continuation of our customer demand management initiatives, further leakage reduction, and in the medium and longer term, the development of new water resource developments.

5. CUSTOMER SERVICE

We continue to focus on providing excellent customer service at a low cost to serve. We have achieved our lowest ever level of written complaints this year at 1,271, 30 per cent lower than last year. Our on-going analysis of the root cause of any complaint helps maintain our drive for further improvements. Our focus in this area is also key in helping maintain our low cost to serve by helping to avoid unnecessary contacts with our customers. This has enabled us to maintain one of the lowest cost to serve levels in the industry.

Our strong performance on cost and service has enabled us to support one of the new entrants to the water market, Icosa Water. Icosa Water have chosen us to provide an end to end billing, collection and customer service offering for their customers nationally.

In preparation for Ofwat's new measure on service, C-MeX, which replaced SIM from April 2020, we launched our new 'Ten out of Ten' strategy. This is a continuation of many of the service initiatives that have helped us achieve our customer complaint reductions, while introducing new approaches for reaching and managing the perceptions of the majority of customers who would otherwise not contact South East Water from year to year. This year Ofwat have been trialling the new C-MeX process, with our ranking during this trial year placing us in 13th position out of 17.

One of the key areas to help us improve our C-MeX ranking is the continued development of our growing digital presence. With over 20 per cent of our customers now accessing and viewing their bills on-line, we have been developing our on-line platform. The changes will enable customers our self-service capability. Our new 'My Account' will personalise and tailor communication and keep customers informed on areas of interest as well as any on-going operational issues that may impact them.

We have continued to work with vulnerability stakeholders through ongoing partnership meetings to look at how we can collaboratively work together. We also held a company-wide event for our stakeholders from a diverse range of interests and regions to help embed our strategy.

During the year we were the first water company to retain our BSI:18477 standard for inclusive service provision and this has supported a significant number of improvements along with working with the Research Institute for Disabled Consumers, resulting in improved communications as well as enabling our move to improving accessibility to our website.

We have continued to support customers through our Priority Services Register and affordability tariffs with the addition of almost 10,000 customers being supported through these tailored services.

6. OUR PEOPLE (INCLUDING HEALTH AND SAFETY)

We continue to deliver against the commitments within our health, safety and wellbeing strategy 'Thrive 365!' which this year focused on the wellbeing strand, with particular emphasis on mental health.

In November we held a company-wide management conference on mental health which served as the launch pad for the new mental health strategy. Expert speakers included the charity Mind and the Health and Safety Executive, with a keynote speech by Clarke and Carrie Carlisle. Clarke was a professional footballer whose recurrent depressive episodes led him to attempt to take his own life. The message was one of hope, encouraging others to seek assistance. Eight supporting events were planned at cinemas throughout the region to ensure that all employees could engage with the strategy. Unfortunately the final two events had to be postponed due to Covid-19.

GENERAL OVERVIEW AND BUSINESS UPDATE continued

Executive and senior management team site tours have been undertaken throughout the year. These tours took in a variety of our workplaces and provided the leaders of our business with an opportunity to engage directly with our employees and contractors on the health and safety issues most important to them.

Strikes of underground services were down 24 per cent on 2018/19 and lower than in any previous year. Those engaged with excavation have received additional training on safe digging practices and there is regular monitoring of the use of service location devices. Planning and preparation has been undertaken for the implementation of the new network maintenance contract. Clancy has been awarded the contract, with key performance indicators that include a clear emphasis on health, safety and wellbeing.

During 2019/20 South East Water experienced four accidents that were reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). Three were slip and trip injuries, all of them on third party premises, one was a crushed thumb.

Stress remains the greatest cause of lost time. As explained above, managers have attended a mental health conference and training for all employees is planned for the coming year. The mental health strategy also includes developing a proactive stress management plan for each department.

7. ENVIRONMENT

Excellent progress was made in this, our final year of the 2015 to 2020 Water Industry National Environment Programme (WINEP).

We now have eel compliant screens at all of our abstraction sites. This has involved the construction of eel screens at six surface water abstraction sites.

Biodiversity management plans have been delivered across 10 operational sites. This has delivered significant biodiversity gains across our landholdings and has been instrumental in setting out a roadmap for future biodiversity gain work across our environmental programme for the next five years. Biodiversity highlights include: 55 per cent of our Sites of Special Scientific Interest in favourable condition (government target 50 per cent), we have undertaken 80 invertebrate surveys, seven botanical surveys, 28 reptile and three bat surveys. South East Water in conjunction with Natural England has developed its own Biodiversity Gain Metric tool, 77 volunteers have invested time in supporting our conservation activities and over the year we have controlled invasive non native species on 11 hectares (ha) of our landholding and are proactively managing our sites to benefit many priority habitats including 970 ha of lowland mixed woodland, 246 ha of chalk grassland, 148 ha of freshwater ponds/rivers/standing waters, 13 ha of lowland heathland and 8 ha of wet woodland.

Our catchment management partnership continues to have success, with six surface water and eight groundwater projects and investigations now completed. The programme has had many successes, including being awarded two green apple awards (gold and bronze) for:

- pesticide amnesty work
- a trial utilising cover crops to control nitrates in our groundwater catchments

Highlights for the year include, 58,200 kg of metaldehyde slug pellets being removed from our catchments, £93,000 being invested in farm holdings to control diffuse pollution, removal of 1,056 kg of harmful chemicals from our catchments as part of a wider pesticide amnesty project and soil testing on 15 farm holdings to enable land managers to reduce their land fertiliser applications, in turn protecting raw water quality.

Nine out of 10 of our restoring sustainable abstraction schemes have been completed to agreed deadlines. A joint project with two other water companies on the Little Stour is still ongoing and will continue into 2020/21.

8. FINANCIAL PERFORMANCE IN THE 12 MONTHS ENDED 31 MARCH 2020

The ring fenced South East Water Group includes the following companies:

South East Water (Holdings) Limited ("SEWH");

South East Water Limited; ("SEWL" or "South East Water") and South East Water (Finance) Limited ("SEWF").

SEWF is a 100 per cent owned subsidiary of SEWL and SEWL is a 100 per cent owned subsidiary of SEWH.

The accounts for the South East Water Group for the year to 31 March 2020 have been prepared and these results are set out in the appendix. These accounts have been prepared under International Financial Reporting standards ("IFRS"); they are not published, but are prepared for internal use. The consolidated group accounts for SEWL, including SEWF but excluding SEWH, for the same year are published on the company's website.

The entity accounts for SEWL, which are included in the published group accounts, are also prepared under IFRS. The entity accounts for SEWH and SEWF are prepared under FRS 101, taking advantage of the disclosure exemptions available under this standard.

TURNOVER

Turnover for the year to 31 March 2020 was higher at £243.5 million when compared to £238.3 million for the previous year. The increased revenue is due to increased prices averaging five per cent for the year. This was offset by lower consumption compared to the high demands in the summer of 2018 (caused by dry weather in that year), lower revenue from properties switching from unmeasured to measured supply and additional social tariff allowances given to customers.

Other income was slightly lower in the year at £12.2 million compared to £13.0 million in the prior year, due to slightly lower billing and collection revenue.

OPERATING COSTS

Net operating costs for the year to 31 March 2020 were £174.7 million compared to £164.8 million in the prior year. The increase in costs includes increased depreciation of £3.4 million reflecting the company's continuing investment in infrastructure assets, an additional charge for bad debts of £2.6 million and price rises, most significantly energy, bulk water supplies and contractor costs.

INTEREST

Interest payable for the group for the year to 31 March 2020 was £58.4 million compared to £61.6 million in the prior year. The reduction reflects the lower costs of finance following the refinancing project in September 2019 where the £200 million bonds and related index linked swap were repaid and replaced with fixed interest rate loan notes and a variable rate loan facility.

Also, as part of the refinancing in September 2019, there was a £54 million partial repayment of the intragroup loan between SEWL and SEWH in line with our PR19 Business Plan commitment. The funds used to repay the loan were raised by the issue of shares by SEWH.

Interest payable includes the following:

- £18.4m interest on listed debt/bonds (2019: £22.8 million)
- £2.7m fair value movement on interest rate swap (2019: £4.7 million)
- £4.4 indexation on index linked listed bonds (2019: £4.6 million)
- £12.5m interest on Index linked loans (including Artesian Finance loans) (2019: £12.2 million)
- £10.4m indexation on Index linked loans (including Artesian Finance loans) (2019: £11.5 million)
- £2.9 million interest on new loan notes (2019: £nil)
- £1.2 million interest on new loan facility draw down (2019: £nil)
- £5.6m interest payable by SEWH to group companies (2019: £5.6 million)
- £2.4m relating to other interest payable (2019: £2.7 million)
- £(2.8) million capitalised interest (2019: £(2.5) million)

TAXATION

The income statement shows a tax charge of £15.1 million (2019: credit of £4.9 million). Deferred tax increased by £9.1 million in the year due to the government announcement to not implement the tax rate change from 19 per cent to 17 per cent from 1 April 2020.

CASH

The South East Water Group has cash and cash equivalent balances of £13.1 million as at 31 March 2020 compared with £12.8 million as at 31 March 2019.

The restricted cash balance as at 31 March 2020 was £0.4 million compared to £0.2 million as at 31 March 2019. Cash held in these designated bank accounts are to meet interest payments falling due in respect of the listed debt and loans.

9. REGULATORY UPDATE

REGULATORY REPORTING

The 2019/20 Annual Report and Financial Statements which includes the Statutory Accounts, the Regulatory Accounts, the Ofwat prescribed Performance Report and the Risk and Compliance Statement are published on our website.

In addition, we also publish on our website our Performance, People and Planet Report for 2019/20 which gives further information about our performance against our agreed outcomes.

In 2019/20 our leakage team has again strived to reduce leakage further than our target – 86.4 Ml/d against a target of 88.1 Ml/d.

In 2019/20 we have achieved discolouration contacts rate of 0.53 (per 1,000) compared to 0.59 last year. During the past four years we have undertaken a number of activities to reduce our discolouration contacts, some of which, such as treatment works improvements, take time to realise the full benefits. Our performance in 2019/20 shows a reduction of 55 per cent since 2014/15 as a result of this work, which has included optimising treatment works performance and removing historic mineral deposits from our pipe network.

| OUTCOME | FD Target | Performance | Reward /penalty if applicable | £m |
|--|-----------|-------------|-------------------------------|--------|
| Customer Satisfaction | | | | |
| A1. Appearance | 4.6 | 4.5 | No penalty | |
| B1. Taste | 4.3 | 4.3 | No penalty | |
| C1. Leakage | 4.0 | 3.6 | Penalty | -0.111 |
| D1. Interaction | 4.5 | 4.3 | Penalty | -0.008 |
| F1. Pressure | 4.5 | 4.3 | Penalty | -0.027 |
| G1. Interruptions | 4.7 | 4.6 | No penalty | |
| H1. Water restrictions | 4.1 | 4.4 | Reward | 0.048 |
| C2. Leakage | 88.1 | 86.4 | Reward | 0.220 |
| D2. SIM Score | N/A | N/A | N/A | -0.500 |
| E1. Customers consider bills to be value for money and affordable | 80% | 74% | N/A | N/A |
| F2. Number of properties at risk of low pressure | 60 | 25 | Reward | 0.013 |
| G2. Average interruption time lost per property | 12.0 | 10 | Penalty | 0.266 |
| H2. Meeting the Water Resource Deficit | 0 | 0 | No penalty | N/A |
| I1. Mean Zonal Compliance | 100 | 99.96 | No penalty | N/A |
| J1. Number of breaches of abstraction licences, discharge consents and environmental permits | 0 | 21 | N/A | N/A |
| J2. Number of pollution incidents (Category 1-2) | 0 | 3 | 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 | 0 | N/A | N/A |
| N1. Discolouration Contacts | 0.58 | 0.53 | Penalty | 0.075 |
| N2. Above ground asset performance | Stable | Stable | No penalty | N/A |
| N3. Number of sites at risk of flooding | N/A | 0 | N/A | N/A |
| N4. Water mains bursts | 2429 | 2289 | No penalty | N/A |
| O1. Kg of carbon emissions per customer per year | N/A | 35.89 | N/A | N/A |
| O2. We will monitor our abstractions at low flows at environmentally sensitive sites | N/A | -0.27 | N/A | N/A |

GENERAL OVERVIEW AND BUSINESS UPDATE continued

2020 TO 2025 PRICE REVIEW

In December 2019 Ofwat published the Final Determination for South East Water for the period 2020 to 2025. In February 2020 we confirmed to Ofwat that we did not want the determination referred to the Competition and Markets Authority (CMA). Ofwat has made four references from water companies to the CMA for a redetermination following its 2019 price review – these can be found using the following link.

gov.uk/cma-cases/ofwat-price-determinations

TARIFFS

In line with guidance issued by Ofwat, we published charges for 2019/20 which can be found using the following link:

corporate.southeastwater.co.uk/news-info/publications/our-charges

INSTRUMENT OF APPOINTMENT**Condition to meet the objectives of the BLTG principles**

Ofwat issued a 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 17 water companies (and Tideway) to meet the objectives of Ofwat's Board leadership, transparency and governance (BLTG) principles.

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 as well as minor modifications to condition P. This modification came into effect on 1 August 2019.

Customer tariff 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 customer tariff and to determine a baseline for the network plus revenue as this price control is introduced for the first time in 2020. The changes are intended to clarify the existing provisions and 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.

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.

Ring-fencing obligations

In October 2019 Ofwat issued a pre-consultation document setting out how it intended to standardise ring-fencing licence conditions relating to credit rating and cash lock-up, notification of material issues and change of control (requesting companies to notify their consent in principle) before issuing a formal consultation. We notified our consent in principle on 11 December 2019. Ofwat issued a consultation under section 13 of the Water Industry Act 1991 in May 2020 on substantially the same wording except for changes requested by companies. We notified our consent to the modification on 25 June 2020.

This modification will consist in bringing 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) and revised provisions on cash lock-up
- 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

Licence modification process

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.

We 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 2020 includes a section 78 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 reasons for 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, 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 Bill was being considered by a Public Bill Committee which is now scheduled to report by Tuesday 29 September 2020.

10. CAPITAL EXPENDITURE

Net capital investment for 2019/20, the fifth and final year of the AMP6 capital programme, is £88.3 million. Cumulative spend in this regulatory period is £403.1 million.

2019/20 expenditure:

- £28.6 million (32 per cent) of investment has been made in the development of new assets and the enhancement of existing assets, including £22.1 million for the management of the supply demand balance and £6.5 million to meet the company’s legal undertakings with respect to drinking water quality standards

GENERAL OVERVIEW AND BUSINESS UPDATE continued

- £21.8 million (25 per cent) 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 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

- £37.8 million (43 per cent) 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 our 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

11. 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.

Overall drinking water quality performance, as measured using the DWI's key performance indicator, the Compliance Risk Index (CRI), which assesses performance across all final water samples has improved from 3.4 in calendar year 2018 to 3.2 in 2019 and is close to the industry average performance of 2.9. 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 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 211,316 tests measured against EU and UK mandatory standards.

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

12. OUTSOURCING

South East Water 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
- 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 £ |
|--------------------|---|------------------|
| Clancy | Network Maintenance and Strategic Mains | 360,000,000 |
| BP | Fuel Cards | 5,500,000 |
| MWH Treatment | Woodgarston Nitrate Removal | 4,600,000 |
| Waterfit | Gunmetal Fittings | 1,900,000 |
| Hambaker Pipelines | Large Gate Valves | 1,300,000 |

Tenders in preparation and/or issued include:

| Tenders in hand | Estimated contract value £ |
|---|----------------------------|
| Consultancy Services Framework | 56,000,000 |
| Power purchasing agreement – Green energy | 10,000,000 |
| Commercial vehicles | 5,400,000 |
| Chamber sections | 2,200,000 |
| Fire systems, CCTV, alarms, door access, ID cards, response services (security) | 2,000,000 |
| Man-guarding services | 2,000,000 |
| Fire extinguishers | 1,600,000 |
| Network valve contracts | 1,500,000 |
| Clothing, PPE & consumables | 1,440,000 |

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.

13. FINANCING

The Group had adequate liquidity with £13.1 million on the balance sheet at the year end and a further £60 million available to draw down on the authorised credit facility.

Authorised credit facility

The £90 million Authorised Credit Facility matures in 2022. Since the financial year-end, a further £40 million has been drawn on the facility and retained on deposit in order to provide a strong liquidity position to guard against any disruption as a result of the Covid-19 pandemic.

Liquidity Facilities

The DSR and O&M facilities were renewed in June 2020 with Commonwealth Bank of Australia and Credit Agricole Corporate and Investment Bank each taking a 50 per cent share of each facility. The renewal is for the period to June 2021. The DSR liquidity facility has a commitment of £38 million and the O&M facility has a commitment of £20 million.

Refinancing process

On 30 September 2019 the £200.0 million fixed rate bond and associated inflation linked swap matured. In September 2019 to fund the maturing debt, we drew down a 7 year £120 million floating rate loan, £175 million US Private Placement debt in two tranches; a £75 million tranche maturing in 2031 and a £100 million tranche maturing in 2042. Finally our shareholders invested £54 million into South East Water Ltd in September 2019. The proceeds funded the debt maturing on 30 September, with the excess funds repaying £40 million on the authorised credit facility.

14. 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 March 2020 following the Final Determination. S&P issued its most recent credit opinion in December 2019, and in February 2020, confirmed South East Water's credit rating at BBB/ stable in its water sector update following the Final Determination. There was no change in South East Water's rating from either rating agency.

| | Moody's | S&P |
|---------------|---------|-----|
| Credit rating | Baa2 | BBB |

15. SURPLUS

The SEWH Board approved £1.3 million of dividends to Hastings Water (UK) Limited in the financial year.

GENERAL OVERVIEW AND BUSINESS UPDATE continued

16. BOARD / MANAGEMENT CHANGES

We are preparing for Managing Director Paul Butler to retire in July 2020, having served in the role at South East Water and previously Mid Kent Water for 18 years. Paul has overseen three price reviews since the merger of South East Water and Mid Kent Water in 2007 and his strategic leadership has developed a company which puts customer satisfaction at its heart and his legacy is an organisation with a strong future.

David Hinton, has been promoted from the role of Asset and Regulation Director to replace Paul as CEO. He has many years' experience within the organisation and was instrumental in developing the 2020 to 2025 five year plan and our responsible business strategy.

In addition to David as CEO and Andrew Farmer as CFO, the top leadership team now comprises Tanya Sephton – Customer Services Director, Oliver Martin – Asset and Regulation Director and Douglas Whitfield – Operations Director. All three were promoted internally to these roles over the past several months. They each have considerable experience in the business and it is good to see we have a refreshed but experienced team to lead the business.

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 | Chief Financial Officer* |
| D Hinton | Asset and Regulation Director* |
| J Barnes | Independent Non-executive Director |
| C Pronto | Independent Non-executive Director |
| C Girling | Independent Non-executive Director |
| R Drew | Non-executive Director (appointed 06 December 2020)*** |
| S Jordan | Non-executive Director (resigned 06 December 2020)*** |
| M Szczepaniak | Non-executive Director** |

South East Water (Holdings) Limited

| | |
|----------------------|--|
| R Drew | Non-executive Director (appointed 27 December 2019)*** |
| S Jordan | Non-executive Director (resigned 27 December 2019)*** |
| M Szczepaniak | Non-executive ** |

South East Water (Finance) Limited

| | |
|----------------------|---|
| P Butler | Executive Director |
| A Farmer | Executive Director |
| R Drew | Non-executive Director (appointed 09 January 2020)*** |
| M Szczepaniak | Non-executive Director** |
| S Jordan | Non-executive Director (resigned 09 January 2020)*** |

* Denotes an Executive Director

** Denotes a Vantage appointee

*** Denotes a H.R.L. Morrison & Co. appointee

The Company Secretary is **Nicolas Truillet**

RATIOS

1. HISTORIC

We confirm that in respect of the Calculation Date on 31 March 2020, 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 2020.

| Date | Calculation date | 31-Mar-21 | 31-Mar-22 | 31-Mar-23 | 31-Mar-24 | 31-Mar-25 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period) | 74.5% | 77.8% | 78.4% | 78.0% | 78.7% | 79.1% |
| Test Period | 1-Apr-19 to 31-Mar-20 | 1-Apr-20 to 31-Mar-21 | 1-Apr-21 to 31-Mar-22 | 1-Apr-22 to 31-Mar-23 | 1-Apr-23 to 31-Mar-24 | 1-Apr-24 to 31-Mar-25 |
| ICR | 3.38 x | 3.28 x | 3.45 x | 3.40 x | 3.29 x | 3.42 x |
| Adjusted ICR | 3.38 x | 3.28 x | 3.45 x | 3.40 x | 3.29 x | 3.42 x |
| Average Adjusted ICR | 3.37 x | 3.38 x | 3.38 x | 3.37 x | 3.37 x | 3.37 x |
| Conformed Adjusted ICR | 1.57 x | 1.43 x | 1.69 x | 1.64 x | 1.45 x | 1.62 x |
| Conformed Average Adjusted ICR | 1.56 x | 1.59 x | 1.59 x | 1.57 x | 1.57 x | 1.57 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 (South East Water)) 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

| | Calculation date £m | 31-Mar-21 £m | 31-Mar-22 £m | 31-Mar-23 £m | 31-Mar-24 £m | 31-Mar-25 £m |
|---------------------------------------|---------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Senior Debt (Closing Balances) | | | | | | |
| Finance Leases | 4.2 | 4.0 | 3.7 | 3.5 | 3.2 | 2.9 |
| Debentures | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Nominal Debt | 166.0 | 166.0 | 244.4 | 244.4 | 244.4 | 244.4 |
| Index Linked Bonds | 175.0 | 178.9 | 182.3 | 187.7 | 193.4 | 199.2 |
| Fixed Rate Loan Notes | 175.0 | 175.0 | 175.0 | 175.0 | 175.0 | 175.0 |
| Variable rate loans | 120.0 | 120.0 | 120.0 | 120.0 | 120.0 | 120.0 |
| Index Linked Loans (USS) | 119.7 | 122.1 | 123.9 | 127.0 | 130.9 | 134.8 |
| Index Linked Loans | 275.7 | 279.1 | 283.3 | 292.0 | 300.9 | 310.0 |
| Capex Drawdown Facility | 30.0 | 78.4 | 0.0 | 0.0 | 2.4 | 18.2 |
| Total Senior Debt Closing Balance | 1066.6 | 1124.5 | 1133.7 | 1150.6 | 1171.2 | 1205.5 |
| Less: Cash Balance | (13.1) | (46.2) | (28.7) | (16.1) | (0.0) | (0.6) |
| Senior Net Indebtedness | 1053.5 | 1078.3 | 1105.0 | 1134.6 | 1171.1 | 1204.9 |
| Regulatory Capital Value | 1413.2 | 1386.6 | 1408.6 | 1455.3 | 1487.4 | 1523.7 |
| RAR | 74.5% | 77.8% | 78.4% | 78.0% | 78.7% | 79.1% |

b) ICR

| | 1-Apr-19 to 31-Mar-20 £m | 1-Apr-20 to 31-Mar-21 £m | 1-Apr-21 to 31-Mar-22 £m | 1-Apr-22 to 31-Mar-23 £m | 1-Apr-23 to 31-Mar-24 £m | 1-Apr-24 to 31-Mar-25 £m |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Net Cash Flow | | | | | | |
| Net cash flow from operating activities | 134.4 | 119.3 | 132.0 | 132.6 | 130.4 | 138.7 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Recoverable VAT | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporation tax paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pension funding | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-appointed | 0.0 | (3.1) | (4.2) | (4.6) | (4.9) | (5.3) |
| Net Cash Flow | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| Senior Debt Interest | | | | | | |
| Finance Leases | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Debentures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal Debt | 9.3 | 9.3 | 11.3 | 11.3 | 11.3 | 11.3 |
| Fixed rate loan notes | 2.7 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Variable rate loan facility | 1.2 | 2.4 | 2.4 | 2.6 | 2.6 | 2.7 |
| Synthetic Index Linked Bonds | 9.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Index Linked Bonds | 4.4 | 4.5 | 4.5 | 4.6 | 4.7 | 4.9 |
| Index Linked Loans | 12.5 | 12.7 | 12.9 | 13.1 | 13.5 | 13.9 |
| Drawdown Facilities | 0.5 | 0.7 | 0.0 | 0.0 | 0.0 | 0.2 |
| Financial Guarantor fees | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Senior Debt Interest Payable | 40.4 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| Interest Receivable | (0.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Senior Debt Interest | 40.2 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| ICR | 3.38 x | 3.28 x | 3.45 x | 3.40 x | 3.29 x | 3.42 x |

c) Adjusted ICR

| | 1-Apr-19 to 31-Mar-20 £m | 1-Apr-20 to 31-Mar-21 £m | 1-Apr-21 to 31-Mar-22 £m | 1-Apr-22 to 31-Mar-23 £m | 1-Apr-23 to 31-Mar-24 £m | 1-Apr-24 to 31-Mar-25 £m |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Net Cash Flow | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| CCD & IRC | | | | | | |
| CCD | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IRC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total regulatory depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Cash Flow after regulatory depreciation | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| Senior Debt Interest | 40.2 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| Adjusted ICR | 3.38 x | 3.28 x | 3.45 x | 3.40 x | 3.29 x | 3.42 x |

d) Average Adjusted ICR

| | 1-Apr-19 to 31-Mar-20 £m | 1-Apr-20 to 31-Mar-21 £m | 1-Apr-21 to 31-Mar-22 £m | 1-Apr-22 to 31-Mar-23 £m | 1-Apr-23 to 31-Mar-24 £m | 1-Apr-24 to 31-Mar-25 £m |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Net Cash Flow | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| CCD & IRC | | | | | | |
| CCD | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| IRC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total regulatory depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Cash Flow after regulatory depreciation | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| Senior Debt Interest | 40.2 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| Adjusted ICR | 3.38 x | 3.28 x | 3.45 x | 3.40 x | 3.29 x | 3.42 x |
| Average Adjusted ICR | 3.37 x | 3.38 x | 3.38 x | 3.37 x | 3.37 x | 3.37 x |

RATIOS continued

e) Conformed Adjusted ICR

| | 1-Apr-19 to 31-Mar-20 £m | 1-Apr-20 to 31-Mar-21 £m | 1-Apr-21 to 31-Mar-22 £m | 1-Apr-22 to 31-Mar-23 £m | 1-Apr-23 to 31-Mar-24 £m | 1-Apr-24 to 31-Mar-25 £m |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Net Cash Flow | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| RCV Depreciation | 51.5 | 51.6 | 52.2 | 53.9 | 55.4 | 56.7 |
| Capitalised IRE | 21.3 | 13.9 | 12.8 | 12.5 | 14.8 | 13.4 |
| Total regulatory depreciation | 72.8 | 65.5 | 65.0 | 66.4 | 70.2 | 70.1 |
| Net Cash Flow after regulatory depreciation | 63.0 | 50.7 | 62.8 | 61.7 | 55.3 | 63.2 |
| Senior Debt Interest | 40.2 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| Conformed Adjusted ICR | 1.57 x | 1.43 x | 1.69 x | 1.64 x | 1.45 x | 1.62 x |

f) Conformed Average Adjusted ICR

| | 1-Apr-19 to 31-Mar-20 £m | 1-Apr-20 to 31-Mar-21 £m | 1-Apr-21 to 31-Mar-22 £m | 1-Apr-22 to 31-Mar-23 £m | 1-Apr-23 to 31-Mar-24 £m | 1-Apr-24 to 31-Mar-25 £m |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Net Cash Flow | 135.8 | 116.3 | 127.8 | 128.1 | 125.5 | 133.3 |
| RCV Depreciation | 51.5 | 51.6 | 52.2 | 53.9 | 55.4 | 56.7 |
| Capitalised IRE | 21.3 | 13.9 | 12.8 | 12.5 | 14.8 | 13.4 |
| Total regulatory depreciation | 72.8 | 65.5 | 65.0 | 66.4 | 70.2 | 70.1 |
| Net Cash Flow after regulatory depreciation | 63.0 | 50.7 | 62.8 | 61.7 | 55.3 | 63.2 |
| Senior Debt Interest | 40.2 | 35.5 | 37.1 | 37.6 | 38.2 | 39.0 |
| Conformed Adjusted ICR | 1.57 x | 1.43 x | 1.69 x | 1.64 x | 1.45 x | 1.62 x |
| Conformed Average Adjusted ICR | 1.56 x | 1.59 x | 1.59 x | 1.57 x | 1.57 x | 1.57 x |

4. We certify that for the period to 31 March 2020 the Annual Finance Charge is £36.9 million.

5. Annual Finance Charge calculation:

| | 31 March 2020 £m |
|--------------------------------------|------------------------|
| Senior Debt Interest | |
| Finance Leases | 0.1 |
| Debentures | 0.0 |
| Nominal Debt (£166m) | 9.3 |
| Fixed rate loan notes | 2.9 |
| Variable rate loan | 1.2 |
| Synthetic Index Linked Bonds (£200m) | 4.7 |
| Index Linked Bonds (£130m) | 4.4 |
| Index linked loans (USS) | 2.9 |
| Index Linked Loans | 9.6 |
| Working Capital Facility | 0.4 |
| Ambac fee | 0.5 |
| Commitment fee | 0.9 |
| Total regulatory depreciation | 37.1 |
| Less: interest earned | (0.2) |
| 12 Months Total | 36.9 |

Total payments into the DSR Accounts for the period to 31 March 2020 were £41.2 million.

6. We also confirm that:

- (a) no Default of Potential Trigger Event is outstanding
- (b) that South East Water's insurance's 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 period ended 31 March 2020

| | Companies £000 | Eliminations £000 | Group £000 |
|---|-------------------|----------------------|---------------|
| Turnover | 243,481 | - | 243,481 |
| Operating costs | (174,688) | - | (174,688) |
| Profit on disposal of fixed assets | 50 | - | 50 |
| Other operating income | 12,199 | - | 12,199 |
| Operating profit | 81,042 | - | 81,042 |
| Income from investments | 11,000 | (11,000) | - |
| Interest receivable – group | 4,469 | (4,469) | - |
| Interest receivable – other | 201 | - | 201 |
| Interest payable – group | (10,022) | 4,469 | (5,553) |
| Interest payable – other | (52,862) | - | (52,862) |
| Return on pension scheme assets | 633 | - | 633 |
| Profit on ordinary activities before taxation | 34,461 | (11,000) | 23,461 |
| Tax (charge)/credit on profit on ordinary activities | (15,065) | - | (15,065) |
| Profit on ordinary activities after taxation | 19,396 | (11,000) | 8,396 |
| Dividends | (12,300) | 11,000 | (1,300) |
| | 7,096 | - | 7,096 |
| STRGL – pension | 4,812 | - | 4,812 |
| Profit/(loss) for period taken to p&l reserves | 11,908 | - | 11,908 |

South East Water (Holdings) Limited

Consolidated balance sheet at 31 March 2020

| | Companies £000 | Eliminations £000 | Group £000 |
|---|-------------------|----------------------|----------------|
| Tangible assets | 1,618,413 | - | 1,618,413 |
| Investments | 361,421 | (361,421) | - |
| Net Current (liabilities)/assets | (14,233) | - | (14,233) |
| Creditors: amounts falling due after more than one year | (173,939) | - | (173,939) |
| Current asset investments | - | - | - |
| Cash and cash equivalents: | | | |
| Current accounts | 12,653 | - | 12,653 |
| DSR | 416 | - | 416 |
| O&M | - | - | - |
| First loss account | - | - | - |
| Financing liabilities | | | |
| Intra group loan creditors | (596,651) | 596,651 | - |
| Intra group loan debtors | 596,651 | (596,651) | - |
| Other HDF group loans | (82,152) | - | (82,152) |
| Debentures | (990) | - | (990) |
| Finance leases | (4,239) | - | (4,239) |
| Bonds | (296,000) | - | (296,000) |
| Indexation | (44,986) | - | (44,986) |
| Artesian loans | (269,000) | - | (269,000) |
| Indexation | (126,398) | - | (126,398) |
| Loan notes | (175,000) | - | (175,000) |
| Variable rate loan | (120,000) | - | (120,000) |
| Unamortised costs | 7,287 | - | 7,287 |
| Bank loans | (30,000) | - | (30,000) |
| Net pension liability | 32,797 | - | 32,797 |
| Net assets | 696,050 | (361,421) | 334,629 |
| Capital and reserves | | | |
| Called up share capital | 194,720 | (49,312) | 145,408 |
| Revaluation reserve | 241,582 | - | 241,582 |
| Profit and loss account b/fwd. | 242,856 | (312,109) | (69,253) |
| Profit for period | 16,892 | - | 16,892 |
| Capital employed | 696,050 | (361,421) | 334,629 |

FINANCIAL STATEMENTS continued

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the period ended 31 March 2020

| | Companies £000 | Eliminations £000 | Group £000 |
|---------------------------|-------------------|----------------------|---------------|
| At 1 April 2019 | 242,856 | (312,109) | (69,253) |
| Profit for the year | 19,396 | (11,000) | 8,396 |
| Pension scheme in STRGL | 4,812 | - | 4,812 |
| Dividends | (12,300) | 11,000 | (1,300) |
| Movement through reserves | 4,984 | - | 4,984 |
| | 16,892 | - | 16,892 |
| At 31 March 2020 | 259,748 | (312,109) | (52,361) |