



SOUTH EAST WATER

INVESTORS REPORT

For the 12 months ending 31 March 2016

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

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General Overview and Business Update

This Investors Report covers the twelve month period ending 31 March 2016. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

1.0 Operational Performance

In February we opened our new state of the art laboratory in Farnborough, Hampshire. The new laboratory, which operates 24 hours a day, 365 days a year, is able to test 700,000 water samples each year, ensuring that the water we provide to our customers continues to be top quality. The establishment of this new laboratory has been an important milestone for the business.

Our leakage target for the year was 91.8 million litres per day (Ml/d), compared with 93Ml/d in 2014/15. We are pleased to report that we have made significant progress in delivering our five-year leakage strategy, beating the target by reducing leakage to 88.1 million litres per day. It has been achieved by significant improvements in performance across our leakage programme, including investment in the latest technology, increases in the number of technicians and a record number of leaks detected by our teams.

We have continued to focus on minimising interruptions to supply for our customers, on both our planned engineering works and in response to unplanned events. The engineering team has been working hard to ensure that in particular we minimise interruptions over three hours. I am pleased to report we only had eight interruptions during planned work on our network, which was an average of 0.1 minutes per property. At the beginning of the year there was a significant incident at Hailsham, East Sussex as a result of a burst in a large underground supply main, installed over 40 years ago. This meant we missed our overall target of an average of less than 11 minutes interruption per property for the year. We wrote to all customers impacted to apologise and credited their accounts in recognition of the inconvenience caused. Thankfully incidents like this one are rare and if the Hailsham interruption was not included the year would have seen an average of 9.1 minutes which was a very good performance. The team is working hard to ensure we have a successful year in 2016/17.

2.0 Water Resources and Leakage

Winter 2015/16 has been the second-wettest for the UK on record in a series dating from 1910, with only winter 2013/14 having been wetter. This rain compensated for below average rainfall in the period October through to December. Groundwater aquifers have recharged and reservoirs are full going into summer 2016.

Customer demand was in line with prediction for a normal year, and below the prediction for a dry year. This was explained by cooler summer temperatures and above long term average summer rainfall having the effect of reducing demand over what is usually the peak demand period.

All planned water resource schemes required to maintain the supply demand balance during the period were successfully completed, and a Security of Supply Index of 100% was maintained.

We have initiated the planning process for the 2019 Water Resources Management Plan. This has included working closely with regulators to contribute to the development of revised guidance, and also participating in national and regional water resources planning studies. We are pro-actively inviting third party organisations to propose options to improve future water resources for consideration in the planning process.

3.0 Customer Service

Our focus on delivering a “Five out of Five” customer experience continues to result in improving customer satisfaction and fewer complaints. Customer complaint numbers fell by 38% in 2015-16 compared to the prior year, following an industry-best reduction of 45% in 2014-15. The improvement over the last few years has moved our relative performance within the industry to upper quartile.

Increased investment in the training and development of our frontline teams and working throughout the year with our Customer Panel, listening to customers and improving our internal processes have led to significant improvements in customer service levels across the business.

The initiatives are also improving our delivery efficiencies, with our average cost to serve also significantly ahead of target. We have managed to absorb the upward pressures resulting from an ever-increasing metered customer base, as our customer metering programme continues to progress well. Over 76% of our customers are now billed based on their actual usage.

Cash collection performance also continues to remain positive, with receipts exceeding our budget for the year. Performance on our older debt was particularly strong, with collection of debt over 12 months old ahead of target by over £1m.

Working with Ofwat and Market Opening Services Limited (MOSL), we have been preparing the business to be ready for non-household retail competition from April 2017. There is a lot of work to do during 2016/17 and the team is making good progress and is on track to deliver a successful outcome for the business and our customers.

Our performance continues to receive external recognition. We were awarded with the silver accreditation by Investors in People (IIP). This is a great achievement for the business and puts us in the top seven per cent of businesses who are accredited by IIP and underpins our commitment to our people. We received the Institute of Water Innovation Award for our work using eDNA to identify endangered species ahead of engineering works, while our customer care team was named Credit Today’s Utilities and Telecoms Water Team of the Year.

4.0 Health, Safety and Environment

South East Water did not experience any accidents that were reportable under RIDDOR for the financial year 2015-16. With respect to our core activity contractors, there was one RIDDOR reportable accident which was minor. Whilst this is a strong performance for the year we appreciate that there is no room for complacency and are redoubling our efforts on behavioural safety during 2016-17.

SEW experienced fewer service strikes than in any previous year, continuing the downward trend since 2012. In the coming year effort will continue to focus on eliminating all electrical strikes.

The directors and senior managers of the business attended a facilitated safety workshop using a dramatized workplace accident scenario based on real life cases. This initiative is to be extended to the operational departments in 2016-17.

Effort has continued to focus on stress awareness and in October each line manager was provided with a safety briefing on the recognition and management of stress and provided with a toolbox talk to cascade to their teams.

A new lone working application has been issued to field staff. The application is launched via an app on an android phone.

5.0 Financial Performance in the 12 months ended 31 March 2016

The SEW Financing Group includes the following companies:

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

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

The accounts for the SEW Financing Group for the 12 months to 31 March 2016 have been prepared and these results are set out in the appendix. These accounts are not published but are prepared for internal use. The annual accounts for South East Water Limited for the same period are published on the Company's website (The accounts on the website exclude the results for South East Water (Holdings) Limited).

IFRS

Historically the companies comprising the HDF (UK) Holdings Limited group have reported under UK GAAP with only the South East Water Limited Group (comprising South East Water Limited and South East Water (Finance) Limited) reporting under International Financial Reporting Standards (IFRS). With effect from 1 April 2015 all companies within the HDF (UK) Holdings Limited group including the SEW Financing Group set out in the Appendix changed the basis of preparation of their accounts to IFRS. The entity accounts for SEWH and SEWF are prepared under IFRS with effect from 1 April 2015 taking advantage of the FRS 101 exemptions available under this standard.

Turnover

Turnover for the year to 31 March 2016 was £214.4m compared to £215.1m for the previous year. This represents a decrease of 0.3% compared with the previous year. The revenue for the year reflects a regulatory reduction in prices from 1 April 2014 of 0.6% together with an RPI increase of 2.65% as allowed by Ofwat. Whilst consumption levels have been marginally higher this year compared to the prior year, we are seeing a net reduction in revenue from some of our customers who have transferred from unmeasured to measured supply.

Operating Costs

Net operating costs for the year to 31 March 2016 were £146.1m compared to £141.1m in the prior year. The increase in the costs by 3.4% is due to inflationary increases on our cost base, the current year seeing reduced inflation compared with the previous year.

Interest

Interest payable for the group for the year to 31 March 2016 was £42.7m, compared to £53.7m in the prior year. Interest receivable for year to 31 March 2016 was £0.2m, representing a small reduction on the previous year's interest receivable of £0.3m.

Interest payable includes the following:

- £21.9m interest on listed debt/bonds (2015 - £21.6m)
- (£1.6)m fair value movement on interest rate swap (2015 - £5.8m)
- £2.6m indexation on index linked listed bonds (2015 - £2.1m)
- £11.2m interest on index linked loans (incl. Artesian Finance loans) (2015 - £11.1m)
- £3.9m indexation on index linked loans (incl. Artesian Finance loans) (2015 - £7.5m)
- £5.4m interest payable by SEWH to group companies (2015 - £5.4m)
- £2.1m relating to other interest (2015 - £3.0m)
- (£2.8m) relating to interest capitalised (2015 (£2.8m))

Taxation

The tax incorporated in the income statement has been calculated under IFRS and shows a tax credit of £6.1m (2015: charge of £1.9m). The tax charge comprises a current tax charge of £1.3m and a deferred tax credit of £7.4m and reflects the tax rate changes in future years. The current tax charge reflects the utilisation of and payment for other group losses.

Cash

The SEW Financing Group has cash and cash equivalent balances of £17.0m as at 31 March 2016 compared with £28.7m as at 31 March 2015. As at the date of this report, no funds have been drawn on the authorised credit facilities.

The restricted cash balance as at 31 March 2016 was £0.6m compared to £0.2m as at 31 March 2015. This is held in designated bank accounts in order to meet interest and associated swap payments falling due in respect of the listed debt and interest payments on index linked loans.

Debt funding

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

6.0 Regulatory Update

Regulatory Reporting

The 2015-16 Annual Report and Financial Statements and Annual Performance Report which includes the Statutory Accounts, the Regulatory Accounts, the OFWAT prescribed Performance Report and the Risk and Compliance Statement has been published on our website.

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

Our improved performance in leakage compared to prior years has been achieved as a result of an in-depth review of commercial night use, significant improvements in our performance across our leakage programme, including investment in the latest technology, increases in the number of technicians, and a record number of leaks detected by our teams.

On the 10th May 2015 an 18 inch pipe burst on the A22 near Hailsham. The incident ran for 45 hours and affected 33,900 properties for varying durations. This contributed 23 minutes to our average minutes lost per connected property. Excluding the large incident, our underlying performance equates to 9.1 minutes per connected property.

Outcome	FD Target	Performance	Reward /penalty if applicable	£m (if applicable)
Customer Satisfaction			N/A	N/A
A1. Appearance	4.6	4.4		
B1. Taste	4.3	4.1		
C1. Leakage	4.0	3.4		
D1. Interaction	4.5	4.2		
F1. Pressure	4.5	4.2		
G1. Interruptions	4.7	4.6		
H1. Water restrictions	4.1	4.2		
C2. Leakage	91.8	88.11	Reward	0.846
D2. SIM Score	N/A	82.0	N/A	N/A
E1. Customers consider bills to be value for money and affordable	N/A	71%	N/A	N/A
F2. Number of properties at risk of low pressure	60	53	Reward	0.002
G2. Average interruption time lost per property	12.7	32.05	Penalty	-0.932
H2. Meeting the Water Resource Deficit	0	0	N/A	N/A
I1. Mean Zonal Compliance	100	99.96	N/A	N/A
J1. Number of breaches of abstraction licences, discharge consents and environmental permits	0	25	N/A	N/A
J2. Number of pollution incidents	0	0	N/A	N/A

(Category 1-2)				
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	0.97	0.98	N/A	N/A
N2. Above ground asset performance	Stable	Stable	N/A	N/A
N3. Number of sites at risk of flooding	N/A	55	N/A	N/A
N4. Water mains bursts	2429	2307	N/A	N/A
O1. KG of carbon emissions per customer per year	N/A	34.9	N/A	N/A
O2. We will monitor our abstractions at low flows at environmentally sensitive sites	N/A	N/A	N/A	N/A

Water 2020

In December 2015 Ofwat published a range of consultation documents setting out their key proposals for the 2020-2025 price review which are available on the Ofwat website. The Company responded to these documents and continues to play an active role in workshops that Ofwat have been running.

A further set of documents were published by Ofwat in May 2016 – many of the proposals remain unchanged with further detail provided in some areas. The Company is now building on Ofwat's proposals in formulating its plans and approach to the next price review.

Retail Non-Household Competition

The Open Water programme continues with Market Operator Services Limited (MOSL) making progress with developing the central market systems. The Company's plans are progressing well with the necessary changes being made to ensure the Company can interact with the market and fulfil all of its required obligations. Further details on the changes to the customer services division are set out in section 3.

Retail Non-Household Price Review 2016

In the Final Determination Ofwat confirmed that the retail non-household price control would be reviewed in 2016. Ofwat issued a number of consultation documents which resulted in a final methodology document that was issued in May 2016. The key proposal in the methodology document is the introduction of gross margin caps of 5% and 3% for medium and large customers. The Company will be submitting its response to this review by the deadline of 20th July 2016.

Tariffs

Following the final guidance issued by Defra and Ofwat in November 2015, the Company published its tariffs in January 2016 for the 2016/17 charging year. This included separate documents for wholesale and retail charges, and a detailed Board Assurance Statement. Further information can be found at <http://www.southeastwater.co.uk/your-account/about-your-bill/water-charges>.

Corporate Governance

Under its Licence, the Company is required to conduct its regulated business as if it were a separate public limited company and in doing so is required to have particular regard, amongst other factors, to the principles of good governance set out in the UK Corporate Governance Code (the “UK Code”).

The Company revised its own Corporate Governance Code (the “SEW Code”) in November 2015 to reflect the new provisions of the 2014 UK Code. The SEW Code incorporates into a single document the principles of corporate governance set out in the Licence, the UK Code, the Disclosure and Transparency Rules which can reasonably be applied to a privately owned company and Ofwat’s principles of leadership, transparency and governance.

The Company completed the revision of the composition of the Board initiated with the adoption of the SEW Code in 2014, with the appointment of John Barnes as a new independent non-executive director on 28 January 2016. The independent non-executive directors are the largest group on the Board compared with shareholder nominated non-executive directors and executive directors. The nomination committee and the remuneration committee have a majority of independent non-executive directors and comprise three independent non-executive directors and two shareholder nominated non-executive directors. The audit and risk committee comprises two independent non-executive directors and a shareholder nominated non-executive director. All committees are chaired by an independent non-executive director.

Instrument of appointment

Following consultation in June 2015 and further consultation in March 2016, Ofwat amended the instruments of appointment of all appointed companies in relation to the opening of the retail non-household market.

On 20 May 2016, Ofwat amended companies’ instruments of appointment to remove the “in-area trading ban” which prevented them from selling water or making any assets available to a related water supply licensee.

On 27 May 2016, Ofwat introduced a new readiness condition into all instruments of appointment. This new condition R2 requires companies to be ready for the opening of the market for retail water and sewerage services to eligible premises in 2017. This includes identifying and gathering relevant data in relation to all eligible premises and supply points in their areas, ensuring this data is sufficiently accurate to enable the effective functioning of the competitive market and ensuring it is in a form capable of being transferred to any central systems and/or any market operator established to operate the competitive market.

Ofwat also consulted on further changes to the instruments of appointment of companies to enable the implementation of market reforms in May 2016. Ofwat proposes to introduce new conditions requiring appointed companies (i) to become a party to and comply with the

market arrangements code; (ii) to comply with the customer protection code of practice; and (iii) where appointed companies remain integrated, to have written arrangements in place between their wholesale business and their retail business for the application between them of the provisions of the wholesale retail code as if they were separate entities. The consultation also proposes other minor changes of a technical nature.

At the beginning of 2016, Ofwat consulted on a potential change to condition B of companies' instruments of appointment to allow in-period adjustments under the wholesale revenue forecast incentive mechanism. As requested in the consultation, the Company notified its acceptance in principle to such a modification on 29 March 2016.

7.0 Capital Expenditure

South East Water's Final Determination (FD) capital expenditure for 2015-2020 is £463.1m (2015-16 price base). Capital investment for 2015-16, the first year of the AMP6 five year programme, is £86.5m.

2015-16 Expenditure:

- £48.4 (56%) of investment has been made in the development of new assets and the enhancement of existing assets, including £39.7m for the management of the supply demand balance and £8.7m to meet the Company's legal undertakings with respect to drinking water quality standards;
- £18.9m (22%) 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 water quality and leakage issues. Investment in the period has been predominantly in the following key areas:
 - Mains renewal programme;
 - Reactive mains burst repairs; and
 - Reactive communication pipe and stop tap repairs and replacements.
- £19.2m (22%) of investment has been made in the maintenance of its above ground assets. Again, this investment is essential in maintaining a stable level of service to its customers and has been targeted in the following key areas:
 - Resource facilities;
 - Treatment works maintenance;
 - Service reservoirs and water towers;
 - Pumping stations; and
 - Management and general spend such as IT infrastructure.

8.0 Water Quality

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

The Company's overall Drinking Water Quality performance, as measured using the DWI's key performance indicator "Mean Zonal Compliance" is in line with the National Industry Average at 99.96% for the calendar year 2015. A further indication of the high standard for our water is provided by another significant index, the Treatment Process Control Index

which was maintained at 100.00 per cent. Performance against other water quality indices has been maintained at a high level throughout calendar year 2015, with the exception of the Disinfection Index which has improved to 99.98 per cent as a result of our ongoing capital investment programme and the Reservoir Integrity Index which has dropped to 99.92 per cent. These results are based on 227,700 tests measured against EU and UK mandatory standards.

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

9.0 Outsourcing

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

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

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

Contracts awarded, extended and/or signed (during last 6 months) include:

Supplier	Description	Contract Value
DST Global	Billing System	£ 5,000,000
MTS	Sludge and Cess Pit Services	£ 2,400,000
Venson	Fleet Management	£ 2,900,000

Tenders in preparation and/or issued include:

Tenders In Hand	Estimated Contract Value
Chemicals - Production	£ 10,000,000
Meter Reading Services	£ 10,000,000
Highway Covers & Chambers	£ 2,000,000
Security Alarms, Access and Barrier Systems	£ 1,500,000
Vehicle Trackers	£ 1,400,000
Wide Area Networks	£ 1,250,000

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

10.0 Financing

The Group has strong liquidity with £17.0m on the balance sheet at the year end and a further £90m available to draw down on the authorised credit facility.

Amendment to finance documents

In response to the latest regulatory determination and consistent with other water companies, on 17 May 2016 SEW added a Conformed Adjusted ICR and Conformed Average Adjusted ICR covenant to Schedule 5 of the Common Terms Agreement by way of a STID proposal.

In the same STID proposal, in order to increase the diversity of funding options open to the Company under its whole business securitisation debt programme, changes were made to the finance documents to enable and facilitate bonds to be offered and sold in the United States.

Liquidity Facilities

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

11.0 Credit ratings

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

	Moody's	S&P
Credit rating	Baa2	BBB

12.0 Surplus

The SEWH Board approved £0.8m of dividends to Hastings Water (UK) Limited in the financial year.

13.0 Board / Management Changes

The South East Water Board of directors is as follows

South East Water Limited

N Salmon	Independent Non-Executive Chairman (appointed 01 April 2015)
P Butler	Managing Director*
A Farmer	Finance Director* (appointed 1 August 2015)
D Hinton	Asset and Regulation Director*
P Dixon	Non-executive Director**
V Rosati	Non-executive Director**
O Fortin	Non-executive Director***
J-P Ouellet	Non-executive Director***
J Barnes	Independent Non-executive Director (appointed 28 January 2016)
E Gilthorpe	Independent Non-executive Director
C Girling	Independent Non-executive Director
P Rich	Independent Non-executive Director
G Setterfield	Independent Non-executive Director (resigned 28 January 2016)
J Stimpson	Finance Director* (resigned 31 July 2015)

* Denotes an Executive Director

** Denotes a Hastings appointee

*** Denotes a CDPQ appointee

The Company Secretary is Nicolas Truillet

South East Water (Holdings) Limited

P Dixon	Non-executive Director*
V Rosati	Non-executive Director*
O Fortin	Non-executive Director**
J-P Ouellet	Non-executive Director**

* Denotes a Hastings appointee

** Denotes a CDPQ appointee

South East Water (Finance) Limited

P Butler	Executive Director
A Farmer	Executive Director (appointed 1 August 2015)
V Rosati	Non-executive Director*
J Stimpson	Executive Director (resigned 31 July 2015)

* Denotes a Hastings appointee

Ratios

1. Historic

We confirm that in respect of the Calculation Date on 31 March 2016, by reference to the most recent financial statements that we are obliged to deliver to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 4 (Covenants) of the Common Terms Agreement that the ratios are as detailed in the table below in respect of the Calculation date on 31 March 2016.

Date	Calculation Date	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	80.8%	79.1%	78.0%	77.5%	80.8%
Test Period	1-Apr-15 to 31-Mar-16	1-Apr-16 to 31-Mar-17	1-Apr-17 to 31-Mar-18	1-Apr-18 to 31-Mar-19	1-Apr-19 to 31-Mar-20
ICR	3.56 x	3.42 x	3.26 x	3.34 x	2.89 x
Adjusted ICR	3.56 x	3.42 x	3.26 x	3.34 x	2.89 x
Average Adjusted ICR	3.41 x	3.34 x	3.15 x	3.10 x	2.89 x
Conformed Adjusted ICR	1.90 x	1.68 x	1.40 x	1.46 x	1.29 x
Conformed Average Adjusted ICR	1.65 x	1.51 x	1.37 x	1.36 x	1.29 x

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

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

a) RAR

	Calculation Date £m	31-Mar-17 £m	31-Mar-18 £m	31-Mar-19 £m	31-Mar-20 £m
Senior Debt (Closing Balances)					
Finance Leases	0.0	0.0	0.0	0.0	0.0
Debentures	1.0	1.0	1.0	1.0	1.0
Nominal Debt	166.0	166.0	166.0	166.0	166.0
Synthetic Index Linked Bonds	282.9	286.6	292.3	300.0	0.0
Index Linked Bonds	156.1	159.1	163.1	167.7	172.4
Fixed Rate Bonds	0.0	0.0	0.0	0.0	150.0
Index Linked Bonds	0.0	0.0	0.0	0.0	154.2
Index Linked Loans (USS)	107.2	109.4	112.0	115.0	118.2
Index Linked Loans	246.3	248.7	254.7	261.8	269.1
Capex Drawdown Facility	0.0	10.0	14.4	33.3	66.4
Total Senior Debt Closing Balance	959.5	980.9	1003.5	1044.7	1097.3
Less: Cash Balance	(17.0)	(13.9)	(0.6)	(0.7)	(0.8)
Senior Net Indebtedness	942.5	967.0	1002.9	1044.0	1096.5
Regulatory Capital Value	1166.6	1221.8	1285.8	1347.1	1357.1
RAR	80.8%	79.1%	78.0%	77.5%	80.8%

b) ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow					
Net cash flow from operating activities	120.2	117.6	116.5	123.1	129.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.0	2.1	2.1	2.1
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Non-appointed	0.0	(2.1)	(3.2)	(3.4)	(3.6)
Net Cash Flow	122.4	117.5	115.4	121.9	127.5
Senior Debt Interest					
Finance Leases	0.0	0.1	0.0	0.0	0.0
Debentures	0.0	0.0	0.0	0.0	0.0
Nominal Debt	9.3	9.3	9.3	9.3	17.5

Synthetic Index Linked Bonds	8.6	8.6	8.8	9.0	4.0
Index Linked Bonds	3.9	4.0	4.1	4.2	8.1
Index Linked Loans (USS)	2.6	2.6	2.7	2.7	2.8
Index Linked Loans	8.6	8.8	8.9	9.1	9.4
Drawdown Facilities	0.8	0.5	0.6	0.9	1.6
Ambac fee	0.7	0.8	1.3	1.3	0.7
Senior Debt Interest Payable	34.6	34.5	35.5	36.4	44.1
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.0)	(0.0)
Senior Debt Interest	34.4	34.4	35.4	36.4	44.1

ICR	3.56 x	3.42 x	3.26 x	3.34 x	2.89 x
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c) Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.4	121.9	127.5
CCD & IRC					
CCD	0.0	0.0	0.0	0.0	0.0
IRC	0.0	0.0	0.0	0.0	0.0
Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
Net Cash Flow after regulatory depreciation	122.4	117.5	115.4	121.9	127.5
Senior Debt Interest	34.4	34.4	35.4	36.4	44.1
Adjusted ICR	3.56 x	3.42 x	3.26 x	3.34 x	2.89 x

d) Average Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.4	121.9	127.5
CCD & IRC					
CCD	0.0	0.0	0.0	0.0	0.0
IRC	0.0	0.0	0.0	0.0	0.0

Total regulatory depreciation	0.0	0.0	0.0	0.0	0.0
Net Cash Flow after regulatory depreciation	122.4	117.5	115.4	121.9	127.5
Senior Debt Interest	34.4	34.4	35.4	36.4	44.1
Adjusted ICR	3.56 x	3.42 x	3.26 x	3.34 x	2.89 x
Average Adjusted ICR	3.41 x	3.34 x	3.15 x	3.10 x	2.89 x

e) Conformed Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.4	121.9	127.5
RCV Depreciation	38.3	43.5	46.1	48.4	50.9
Capitalised IRE	18.9	16.2	20.0	20.3	19.9
Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8
Net Cash Flow after regulatory depreciation	65.2	57.8	49.4	53.2	56.7
Senior Debt Interest	34.4	34.4	35.4	36.4	44.1
Conformed Adjusted ICR	1.90 x	1.68 x	1.40 x	1.46 x	1.29 x

f) Conformed Average Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	117.5	115.4	121.9	127.5
CCD & IRC					
CCD	38.3	43.5	46.1	48.4	50.9
IRC	18.9	16.2	20.0	20.3	19.9
Total regulatory depreciation	57.2	59.7	66.0	68.7	70.8

Net Cash Flow after regulatory depreciation	65.2	57.8	49.4	53.2	56.7
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Senior Debt Interest	34.4	34.4	35.4	36.4	44.1
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Conformed Adjusted ICR	1.90 x	1.68 x	1.40 x	1.46 x	1.29 x
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Conformed Average Adjusted ICR	1.65 x	1.51 x	1.37 x	1.36 x	1.29 x
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4. We certify that for the period to 31 March 2016 the Annual Finance Charge is £34.4m.

5. Annual Finance Charge calculation:

	to 31 March 2016 £m
Senior Debt Interest	
Finance Leases	0.0
Debentures	0.0
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	8.6
Index Linked Bonds (£130m)	3.9
Index linked loans (USS)	2.6
Index Linked Loans	8.6
Working Capital Facility	0.0
Capex Drawdown Facility	0.0
Ambac fee	0.7
Commitment fee	0.8
	34.6
Less: interest earned	(0.2)
12 Months Total	34.4

Total payments into the DSR Accounts for the period to 31 March 2016 were £34.5m.

7. We also confirm that:

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

Yours faithfully,

Director

For and on behalf of
SOUTH EAST WATER LIMITED

Director

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

Director

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

Appendix

Financial Statements

South East Water (Holdings) Limited

Consolidated profit & loss account for the year ended 31 March 2016

	Companies £'m	Eliminations £'m	Group £'m
Turnover	214.4	-	214.4
Operating costs	(146.2)	-	(146.2)
Profit on disposal of fixed assets	0.1	-	0.1
Other operating income	6.5	-	6.5
Operating profit	74.8	-	74.8
Income from investments	9.0	(9.0)	-
Interest receivable - group	4.9	(4.9)	-
Interest receivable - other	0.2	-	0.2
Interest payable - group	(10.3)	4.9	(5.4)
Interest payable - other	(37.3)	-	(37.3)
Return on pension scheme assets	(0.2)	-	(0.2)
Profit on ordinary activities before taxation	41.1	(9.0)	32.1
Tax (charge)/credit on profit on ordinary activities	6.1	-	6.1
Profit on ordinary activities after taxation	47.2	(9.0)	38.2
Dividends	(9.8)	9.0	(0.8)
Profit in p&l account	37.4	-	37.4
STRGL - pension	8.4	-	8.4
Profit for period	45.8	-	45.8

South East Water (Holdings) Limited
Consolidated balance sheet at 31 March 2016

	Companies £'m	Eliminations £'m	Group £'m
Tangible assets	1,423.2	-	1,423.2
Investments	361.4	(361.4)	-
Net Current (liabilities)/assets	(10.4)	-	(10.4)
Creditors: amounts falling due after more than one year	(219.4)	-	(219.4)
Current asset investments	11.4	-	11.4
Cash and cash equivalents:			
Current accounts	5.5	-	5.5
DSR	0.1	-	0.1
O&M	-	-	-
First loss account	-	-	-
Financing liabilities			
Intra group loan creditors	(906.5)	906.5	-
Intra group loan debtors	906.5	(906.5)	-
Other loans	(82.2)	-	(82.2)
Finance leases	-	-	-
Debentures	(1.0)	-	(1.0)
Bonds	(496.0)	-	(496.0)
Indexation	(113.3)	-	(113.3)
Artesian loans	(269.0)	-	(269.0)
Indexation	(84.5)	-	(84.5)
Unamortised costs	6.7	-	6.7
Pension liability	7.5	-	7.5
Net assets	540.1	(361.4)	178.7
Capital and reserves			
Called up share capital	140.7	(49.3)	91.4
Revaluation reserve	264.1	-	264.1
Profit and loss account b/fwd	89.4	(312.1)	(222.7)
Loss for period	45.8	-	45.8
Capital employed	540.1	(361.4)	178.7

South East Water (Holdings) Limited

Consolidated movement in the profit and loss reserve for the year ended 31 March 2016

	Companies £'m	Eliminations £'m	Group £'m
At 1 April 2015	89.4	(312.1)	(222.7)
Profit for the year	47.2	(9.0)	38.2
Pension scheme in STRGL	8.4	-	8.4
Dividends	(9.8)	9.0	(0.8)
	45.8	-	45.8
At 31 March 2016	135.3	(312.1)	(176.8)