



# Investors Report

For the six months ending 30 September 2018

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 2018. It also includes a summary of any subsequent material events in the period prior to the publication of this report.

## 1. Operational performance

This has been a period of intense activity for the company and its employees as we continue to strive to realise our vision and deliver on the commitments within our 2015 to 2020 business plan, deal with particular operational challenges from this summer's heatwave, and at the same time look to the future with the preparation of our revised water resources management plan (rWRMP) and our ambitious business plan for the 2019 Price Review (PR19), which will take us through to 2025 and beyond.

Our 2015 to 2020 business plan puts customer satisfaction at the heart of everything we do. Our future plans build on this and on our commitments to both the environment and the communities in which we work, as we aim to take the lead on responsible business practice and to make a positive contribution to wider society.

Early in the summer we were starting to experience above average demand for water leading to the stepping up of our water efficiency messaging and a campaign encouraging customers to use water wisely during the heatwave, a recurring theme for the entirety of the summer in which the whole country experienced hotter than normal conditions for a number of weeks.

During this time our production teams geared up to produce an extra one hundred million litres of drinking water a day at the peak with employees working around the clock to produce the extra water needed.

Although the amount of untreated, raw water available in reservoirs and aquifers was good for the time of year, and remained so throughout the hot weather, we asked customers to save water in order to help us meet demand for extra supplies of drinking quality water at peak times of the day.

## 2. Water resources and leakage

April and May proved to be very wet, with 143 per cent and 119 per cent of long term average (LTA) rainfall respectfully. The wetter than average end to the winter period ensured that groundwater levels and reservoir storage started at normal levels ahead of summer 2019.

In contrast, June proved to be the driest on record with just five per cent of LTA rainfall, and the dry weather continued throughout July with 56 per cent of LTA rainfall observed. As a consequence of the dry conditions customer demand for water during June and July was higher than normal, but still in line with our dry year demand forecast.

During August rainfall was closer to LTA, causing demand to drop back to normal levels, where it remained, despite a return to below average rainfall conditions, throughout September. At the end of September, our water resource position was good with groundwater levels and reservoir storage remaining close to normal for time of year.

We have 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 the planning of new water resource schemes required to maintain the supply demand balance during the period 2015 to 2020.

Following a 12 week consultation on our draft water resources management plan (WRMP19) during the summer, a statement of response to representations received on our plan and a revised draft plan were published. We submitted our plan to Defra on the 24 August 2018. We await Defra's decision on whether to approve the plan and direct us to publish in final form.

### 3. Customer service

The first six months of the year has been particularly busy for the customer service teams. The summer heatwave generated additional customer enquiries, and the 500,000 “One Bill” customers receiving their second combined water and sewerage service bill also increased the volumes of customer contacts received. Our teams have performed exceptionally with increases of nearly 20 per cent in customer contacts. Our on-going improvements to our online offering has seen more customers using self-serve options and registering for paperless billing.

During this busy period our focus on delivering our “five-out-of-five” customer experience to every customer has been maintained with an increase in satisfaction scores on our internal customer tracking survey. We have maintained our customer service performance, measured by the Service Incentive Mechanism (SIM), although the SIM score still doesn’t fully replicate the improvement we are seeing in our own tracking surveys. The number of complaints we have received so far this year is slightly up on last year, reflecting the busy start to the year, but complaint volumes have fallen more recently and in line with last year’s volumes, and we remain confident that this trend will continue.

Our focus on a positive service experience continues to support our efficient operational performance. We continue to absorb the increased costs arising from a metered customer base that has risen to nearly 89 per cent, as our customer metering programme approaches completion. We have also maintained our strong cash collection performance, and have again reduced debt for outstanding charges over 12 months old – the fourth year in a row that outstanding debt over 12 months old has fallen.

Our commitment to a “five-out-of-five” 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 to over 21,000, which offers a discount on their water charges of between 30 to 40 per cent. We have developed the option for our customers to receive their bill in a language of their choice very similar to the translation option that is available on our website, helping ensure all customers can fully access our services.

Our PR19 Business Plan submission builds on our successes in these areas. Our key focus remains unchanged as we continue to improve our overall service in the most efficient way, while ensuring all customers, including those in vulnerable circumstances, are satisfied and able to rate us “five-out-of-five”.



#### 4. Health, safety and environment

South East Water experienced one accident that was reportable under RIDDOR during the first half of 2018/19. A third party vehicle collided with a stationary South East Water van causing whiplash. There was one other lost time injury as a result of a vehicular accident, two as a result of trips and one manual handling incident.

Physical wellbeing initiatives have received enthusiastic support from the workforce. At the beginning of the year South East Water won the Kent Active Workplace Challenge; an eight week challenge in which the employees from 122 workplaces logged their exercise and activity to earn points. We also entered a team in the Kent Workplace Challenge games finishing third out of twenty participating organisations.

Mental wellbeing of employees has also been the focus of continuous attention with a number of talks provided and information and advice sheets issued throughout the first half of the year. Proactive assessments of workplace stresses have also been conducted via the HSE Management Standards Indicator Tool; this will be cascaded to more departments as the initiative develops.

South East Water has now migrated all documents onto a new document management system. QPulse is intended to improve document control but also comes with a module for developing quality and safety audits and hence improving assurance. The audit criteria are currently being developed.

The work management system, Maximo, is being developed to include more data on safety critical assets. This will ensure we can better monitor and control essential maintenance on our plant and machinery.

#### 5. Financial performance in the six months ended 30 September 2018

The ring fenced Group includes the following companies:

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

*South East Water Limited ("SEWL")*

*South East Water (Finance) Limited ("SEWF")*

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

The accounts for the South East Water Group for the six months to 30 September 2018 have been prepared and these results are set out in the appendix. These accounts have been prepared under International Financial Reporting standards ("IFRS") and are not published, but are prepared for internal use. The consolidated group accounts for South East Water Limited for the same six month period which are prepared on an IFRS basis are published on our website (The accounts on our 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 £121.0 million compared with £114.5 million for the same period in the previous year. The increase of £6.5 million is largely due to the change in our accounting policy for developer contributions and similar receipts following the adoption of IFRS 15 which has led to £3.1 million of additional revenue being reported in the income statement. An increase in prices averaging 4.6 per cent for the year amounted to £5.3 million of increased revenue. This is partially offset by the impact of the customer metering programme which has reduced revenue by £2.0 million.

## Operating costs

Net operating costs for the period to 30 September 2018 were £84.9 million, which is £5.9 million higher than the corresponding period last year. This was primarily due to higher contractor and employee costs due to increase in reactive maintenance and the impact of IFRS 15 on the treatment of the costs and associated contributions for properties that are connected to our water supply of £1.0 million.

Additionally, increased depreciation due to the continued high investment in the company's assets of £1.3 million, additional costs of £0.8 million relating to the heatwave during the summer and £1.0 million of other inflationary costs added to the higher operation costs in the year when compared to the previous year.

## Interest

Interest payable for the group for the six month period to 30 September 2018 was £28.5 million compared to £29.6 million in the prior year. Interest receivable for the six months to 30 September 2018 was £0.4 million, which is in line with the prior year.

Interest payable includes the following:

- *£11.4 million interest on listed debt/bonds (2017 – £11.1 million)*
- *1.0 million fair value movement on interest rate swap (2017 – £3.6 million)*
- *£2.9 million indexation on index linked listed bonds (2017 – £3.1 million)*
- *£6.0 million interest on Index linked loans (including Artesian Finance loans) (2017 – £5.8 million)*
- *£4.2 million Indexation on Index linked loans (including Artesian Finance loans) (2017 – £3.2 million)*
- *£2.8 million interest payable by SEWH to group companies (2017 – £2.6 million)*
- *£1.2 million relating to other interest payable (2017 – £1.2 million)*
- *£(1.0) million capitalised interest (2017 – £(1.0) million)*

## Taxation

Income Statement shows a tax charge of £2.6 million in the period compared to £1.7 million for the period to 30 September 2017, being £0.1 million of current tax on our ordinary operations and £2.5 million of deferred tax.

## Cash

The South East Water Group has cash and cash equivalent balances of £26.1 million as at 30 September 2018 compared with £27.7 million as at 30 September 2017.

The restricted cash balance as at 30 September 2018 was £9.8 million compared to £9.5 million as at 30 September 2017. This high balance in both years reflects the delay in paying the interest on the £200.0 million bonds under the following business day convention where the due dates have fallen on a non-business day. This is held in designated bank accounts in order to meet interest and associated swap payments falling due in respect of the listed debt and interest payments on index linked loans.

## Debt funding

There has been no new debt funding in the period.

## 6. Regulatory update

### Regulatory reporting

The 2017/18 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 our 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 2018:

Outcome	FD Target	Performance
Customer satisfaction		
A1. Appearance	4.6	4.5
B1. Taste	4.3	4.2
C1. Leakage	4.0	3.5
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	49
G2. Average interruption time lost per property	12.0	9.7
H2. Meeting the water resource deficit	0	0
I1. Mean zonal compliance	100	99.98
J1. Number of breaches of abstraction licences, discharge consents and environmental permits	0	6
J2. Number of pollution incidents (Category 1-2)	0	0
K1. Number of compliance breaches of legislation	0	0
L1. Number of breaches of national security obligations	0	0
M1. Number of compliance breaches of other statutory obligations and licence conditions	0	1
N1. Discolouration contacts	0.58	0.48
N2. Above ground asset performance	Stable	Stable
N3. Number of sites at risk of flooding	N/A	N/A
N4. Water mains bursts	2,429	1,407
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: -0.08

## 2020 to 2025 Price Review

On 3 September we published our business plan for the period 2020 to 2025. The business plan and a range of supporting appendices and models can be found using the following link:

[corporate.southeastwater.co.uk/about-us/our-plans/our-business-plan-2020-2025](https://corporate.southeastwater.co.uk/about-us/our-plans/our-business-plan-2020-2025)

Ofwat is assessing the business plans of all water companies and will be publishing their initial assessment of plans on 31 January 2019.

## Tariffs

In line with guidance issued by Ofwat we published indicative wholesale charges for 2019/20. 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

On 11 May 2018 Ofwat issued a consultation relating to change of control – general policy and its application to Thames Water. In this document Ofwat consulted on changes to the instrument of appointment of Thames Water and also indicated that it was considering whether to apply some of these changes to all companies. Ofwat issued another consultation on 25 May 2018 in relation to the modification of the instrument of appointment of Portsmouth Water to impose obligations similar to those imposed on Thames Water.

The new conditions that Ofwat consulted upon for inclusion in the instrument of appointment of all companies included:

- *a new obligation on appointees to notify Ofwat when becoming aware of a change of control or upcoming likely change and to provide information on the prospective incoming ultimate controller*
- *a new obligation on appointees to comply with a direction from Ofwat to enforce a condition P undertaking*

- *a new obligation to meet the board leadership, transparency and governance principles issued by Ofwat*
- *revised standardised ring fencing obligations similar to those imposed on Thames Water*

The implementation of these changes to all companies would require further consultation by Ofwat. Ofwat indicated that it intends to consult on changes to the ring fencing obligations (conditions F, K and P) toward the end of 2018.

## Consultation relating to board leadership, transparency and governance principles

On 11 July 2018 Ofwat published a consultation on revised principles of board leadership, transparency and governance. In this document Ofwat consulted on possible changes to the instrument of appointment for all appointees.

The possible changes highlighted in the consultation included:

- *a new obligation that independent non-executive directors be the largest group on the board*
- *an obligation to meet the principles of governance set by Ofwat, with in this case a possibility for companies to refer disputed changes to the principles to the CMA*

The implementation of these changes to all companies would require further consultation by Ofwat.

## Simplification of the instrument of appointment of all companies

After circulating a range of proposed licence amendments developed in collaboration with the water industry as part of a licence simplification project, Ofwat issued a formal consultation under section 13 of the Water industry Act 1991 on 19 September 2018. South East Water notified our consent to the proposed modifications on 12 October 2018. The effective date of the change has not yet been communicated but is expected to take place as soon as Ofwat has prepared the revised licence conditions for each appointee.



The simplified conditions are conditions:

*A (interpretation and construction)*

*C (infrastructure charges)*

*D (new connections)*

*E (undue preference/discrimination in charges)*

*F (regulatory accounting statements)*

*G (core customer information)*

*H (procedure on leakage)*

*I (ring fencing)*

*J (levels of service information and targets)*

*M (provision of information to Ofwat)*

*N (fees)*

*O (termination and replacement of appointment)*

*Q (interruptions in supply because of drought)*

Some of the provisions in condition J relating to service targets and the provisions of condition L relating to the preparation of underground asset management plans which Ofwat originally intended to remove as they have been superseded by other regulatory mechanisms such as SIM and ODIs have been maintained until further review by Ofwat in the wider context of the regulatory framework.

### **New condition E1**

After circulating the drafts of two new licence conditions on 14 February 2018 and 18 June 2018 relating to the prohibition of undue discrimination against other market participants and on the management and confidentiality of information they may provide to water companies, Ofwat issued a formal notice under section 13 of the Water Industry Act 1991 on 16 July 2018 on the modification of the instrument of appointment of water and sewerage companies and requested companies to notify whether they consented to the change. South East Water notified our consent on 2 July 2018 and on 2 November 2018 Ofwat amended the instrument of appointment of water and sewerage companies by including a new condition E1 into their instruments of appointment. The change will come into effect on 1 April 2019.

### **Changes to the area of appointment of the company**

Changes were made by Ofwat to the supply area of South East Water in relation to two new inset appointments. Icosa Water Services was appointed water undertaker for a development site at Conningbrook, Ashford, Kent with effect from 11 September 2018. Independent Water Networks was appointed water undertaker for a development site at Cockering Road, Canterbury, Kent with effect from 18 September 2018.

On 6 November 2018, Ofwat issued a consultation proposing to appoint Icosa Water Services as the water undertaker for a development site at Duckhurst Farm, Marden Road, Staplehurst, Kent.

## 7. Capital expenditure

South East Water Final Determination (FD) capital expenditure for 2015 to 2020 is £504.3 million (2018/19 price base).

Net capital investment for the first half of 2018/19, the fourth year of the AMP6 five year programme, is £46.8 million. Cumulative spend in this regulatory period is £288.2 million (2018/19 price base).

For the first half of 2018/19:

- *£21.6 million (46 per cent) of investment has been made in the development of new assets and the enhancement of existing assets, including £19.6 million for the management of the supply demand balance and £2.0 million to meet our legal undertakings with respect to drinking water quality standards*
- *£10.1 million (22 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*
- *£15.1 million (32 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*

In May we started 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 work got underway with a site clearance programme involving the removal of approximately 25,000 cubic metres of earthworks. This stage of the project was completed ahead of schedule.

## 8. Water quality

Each year the Chief Inspector of the Drinking Water Inspectorate (DWI) 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 99.98 per cent. A further indication of the high performance standards of our water treatment works is provided by the Treatment Process Control Index which was again maintained at 100.00 per cent, the disinfection index which is at 99.96 per cent and the Reservoir Integrity Index which has improved this year to 99.97 per cent. These results are based on 195,587 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.

## 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
GPS PE Pipe Systems	Supply of PE Pipes & Fittings	£6,800,000
Saint Gobain PAM	Supply of Ductile Iron Pipe & Fittings	£10,000,000
Plasson	Plastic Service Fittings	£1,520,000

Tenders in preparation and/or issued include:

Tenders in hand	Estimated contract value
Network Maintenance and Strategic Mains	£360,000,000
Fire Systems, CCTV, Alarms, Door Access, ID Cards, Response Services	£4,000,000
Chamber Sections	£2,112,000
Building maintenance	£2,000,000
Clothing, PPE & Consumables	£1,440,000
Gunmetal Service Fittings	£1,416,000
Office Cleaning Services	£1,400,000

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 £26.0 million on the balance sheet at the half-year end and a further £70.0 million available to draw down on the authorised credit facility.

### Refinancing process

On 30 September 2019 the £200.0 million fixed rate bond and associated inflation linked swap will mature. We are planning to secure all finance to fund the maturing debt by the end of March 2019. We have engaged a debt advisor to assist on the refinancing process and on 20 December 2018 entered into a £120.0 million floating rate bank loan as part of the refinancing.

### Liquidity facilities

The DSR and O&M facilities were renewed in June 2018 with Commonwealth Bank of Australia until June 2019. The DSR liquidity facility has a commitment of £38.0 million and the O&M facility has a commitment of £19.0 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 2018. S&P issued its latest annual update in October 2018. 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 £9.5 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

#### E Gilthorpe

Independent Non-Executive Director  
(Resigned 30 September 2018)

#### C Girling

Independent Non-Executive Director

#### C Pronto

Independent Non-Executive Director  
(Appointed 01 June 2018)

#### S Jordan

Non-Executive Director\*\* (appointed 17 August 2018)

#### O Schubert

Non-Executive Director \*\*

#### M Szczepaniak

Non-Executive Director (resigned 03 August 2018)\*\*

The Company Secretary is **Nicolas Truillet**

### South East Water (Holdings) Limited

#### O Schubert

Non-Executive Director\*\*

#### S Jordan

Non-Executive Director (appointed 03 August 2018)\*\*

#### M Szczepaniak

Non-Executive Director (resigned 03 August 2018)\*\*

### South East Water (Finance) Limited

#### P Butler

Executive Director\*

#### A Farmer

Executive Director\*

#### S Jordan

Non-Executive Director (appointed 03 August 2018)\*\*

#### O Schubert

Non-Executive Director (appointed 03 August 2018)\*\*

#### M Szczepaniak

Non-Executive Director (resigned 03 August 2018)\*\*

\* Denotes an Executive Director

\*\* Denotes a Shareholder appointee

# Ratios

## 1. Historic

We confirm that in respect of the Calculation Date on 30 September 2018, 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 2018.

	31-Mar-16	31-Mar-17	Calculation Date	31-Mar-19	31-Mar-20
RAR (at such Calculation Date or, in the case of forward-looking ratios, as at 31 March falling in the relevant Test Period)	80.8%	78.3%	77.7%	78.2%	75.6%
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	3.52 x	3.43 x	3.20 x
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x
Average Adjusted ICR	3.61 x	3.57 x	3.37 x	3.37 x	3.37 x
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 x
Conformed Average Adjusted ICR	1.93 x	1.81 x	1.56 x	1.56 x	1.56 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 (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

	31-Mar-16 £m	31-Mar-17 £m	Calculation Date £m	31-Mar-19 £m	31-Mar-20 £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	306.3	0.0
Index Linked Bonds	156.1	160.4	166.0	170.7	176.4
Fixed Rate Bonds	0.0	0.0	0.0	175.0	175.0
Index Linked Bonds	0.0	0.0	0.0	0.0	0.0
Index Linked Loans (USS)	107.2	109.9	113.5	116.7	121.2
Index Linked Loans	246.3	250.9	259.9	268.3	276.9
Capex Drawdown Facility	0.0	0.0	20.0	30.0	138.0
Total Senior Debt Closing Balance	959.5	975.7	1022.8	1234.0	1054.5
Less: Cash Balance	(17.0)	(11.4)	(6.5)	(165.9)	(9.1)
Senior Net Indebtedness	942.5	964.3	1016.2	1068.1	1045.4
Regulatory Capital Value	1166.6	1231.1	1307.5	1366.6	1383.2
RAR	80.8%	78.3%	77.7%	78.2%	75.6%

Ratios *continued*

## 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
<b>Net Cash Flow</b>					
Net cash flow from operating activities	120.2	127.5	123.1	127.9	132.3
Exceptional items	0.0	0.0	0.0	0.0	0.0
Recoverable VAT	2.2	2.7	4.1	1.8	0.0
Corporation tax paid	0.0	0.0	0.0	0.0	0.0
Pension funding					
Non-appointed	0.0	0.0	(3.4)	(6.0)	(6.6)
Net Cash Flow	122.4	130.2	123.7	123.6	125.7
<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	16.7
Synthetic Index Linked Bonds	8.6	8.7	8.8	9.3	4.5
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	0.3	0.3
Ambac fee	0.7	0.8	0.8	0.8	1.0
Senior Debt Interest Payable	34.6	34.7	35.2	36.1	39.3
Interest Receivable	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x

Ratios *continued*

## c) Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	130.2	123.7	123.6	125.7
<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	123.7	123.6	125.7
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x

## d) Average Adjusted ICR

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	130.2	123.7	123.6	125.7
<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	123.7	123.6	125.7
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Adjusted ICR	3.56 x	3.76 x	3.52 x	3.43 x	3.20 x
Average Adjusted ICR	3.61 x	3.57 x	3.37 x	3.37 x	3.37 x

Ratios *continued*

**e) Conformed Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	130.2	123.7	123.6	125.7
RCV Depreciation	38.3	43.1	46.8	47.9	52.3
Capitalised IRE	18.9	14.7	13.4	20.0	20.4
Total regulatory depreciation	57.2	57.8	60.2	68.0	72.7
Net Cash Flow after regulatory depreciation	65.2	72.4	63.5	55.6	53.0
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 x

**f) Conformed Average Adjusted ICR**

	1-Apr-15 to 31-Mar-16 £m	1-Apr-16 to 31-Mar-17 £m	1-Apr-17 to 31-Mar-18 £m	1-Apr-18 to 31-Mar-19 £m	1-Apr-19 to 31-Mar-20 £m
Net Cash Flow	122.4	130.2	123.7	123.6	125.7
<b>CCD &amp; IRC</b>					
CCD	38.3	43.1	46.8	47.9	52.3
IRC	18.9	14.7	13.4	20.0	20.4
Total regulatory depreciation	57.2	57.8	60.2	68.0	72.7
Net Cash Flow after regulatory depreciation	65.2	72.4	63.5	55.6	53.0
Senior Debt Interest	34.4	34.6	35.2	36.0	39.3
Conformed Adjusted ICR	1.90 x	2.09 x	1.81 x	1.54 x	1.35 x
Conformed Average Adjusted ICR	1.93 x	1.81 x	1.56 x	1.56 x	1.56 x

4. We certify that for the period to 30 September 2018 the Annual Finance Charge will be £36.1 million.

Ratios *continued*

## 5. Annual Finance Charge calculation:

	to 31 March 2019 £m
<b>Senior Debt Interest</b>	
Finance Leases	0.0
Debentures	0.0
Nominal Debt (£166m)	9.3
Synthetic Index Linked Bonds (£200m)	9.3
Index Linked Bonds (£130m)	4.3
Index linked loans (USS)	2.8
Index Linked Loans	9.4
Working Capital Facility	0.1
Capex Drawdown Facility	0.0
Ambac fee	0.8
Commitment fee	0.3
	36.2
Less: interest earned	(0.1)
12 Months Total	36.1

Total payments into the DSR Accounts for the period to 30 September 2018 were £17.4 million.

## 6. We also confirm that:

- (a) no Default of Potential Trigger Event is outstanding; and
- (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 six months ended 30 September 2018

	Companies £m	Eliminations £m	Group £m
Turnover	121.0	-	121.0
Operating costs	(84.9)	-	(84.9)
Profit on disposal of fixed assets	8.2	-	8.2
Other operating income	6.3	-	6.3
<b>Operating profit</b>	50.6	-	50.6
Income from investments	14.0	(14.0)	-
Interest receivable - group	2.6	(2.6)	(0.0)
Interest receivable - other	(0.0)	0.1	0.1
Interest payable - group	(5.4)	2.6	(2.8)
Interest payable - other	(25.8)	-	(25.8)
Return on pension scheme assets	0.3	-	0.3
<b>Profit on ordinary activities before taxation</b>	36.3	(13.9)	22.4
Tax (charge)/credit on profit on ordinary activities	(2.6)	-	(2.6)
<b>Profit on ordinary activities after taxation</b>	33.8	(13.9)	19.9
<b>Dividends</b>	(23.5)	14.0	(9.5)
	10.3	0.1	10.4
STRGL - pension	1.3	-	1.3
<b>Profit/(loss) for period taken to P&amp;L reserves</b>	11.6	0.1	11.7

Appendix *continued*
**South East Water (Holdings) Limited**  
**Consolidated balance sheet at 30 September 2018**

	Companies £m	Eliminations £m	Group £m
Tangible assets	1,539.2	-	1,539.2
Investments	361.4	(361.4)	0.0
Net Current (liabilities)/assets	(36.9)	-	(36.9)
Creditors: amounts falling due after more than one year	(161.6)		(161.6)
Current asset investments	15.1	-	15.1
Cash and cash equivalents:			
Current accounts	1.2	-	1.2
DSR	9.8	-	9.8
O&M	0.0	-	0.0
First loss account	-	-	-
Financing liabilities	-	-	-
Intra group loan creditors	(944.9)	944.9	0.0
Intra group loan debtors	944.8	(944.8)	0.0
Other HDF group loans	(82.2)	-	(82.2)
Debentures	(1.0)	-	(1.0)
Bonds	(496.0)	-	(496.0)
Indexation	(144.1)	-	(144.1)
Artesian loans	(269.0)	-	(269.0)
Indexation	(108.7)	-	(108.7)
Unamortised costs	5.5	-	5.5
Bank loans	(20.0)	-	(20.0)
Net pension liability	25.1	-	25.1
<b>Net assets</b>	<b>637.8</b>	<b>(361.3)</b>	<b>276.5</b>
<b>Capital and reserves</b>			
Called up share capital	140.7	(49.3)	91.4
Revaluation reserve	253.8	-	253.8
Profit and loss account b/fwd.	229.1	(312.1)	(83.0)
Profit/(Loss) for period	14.2	0.1	14.3
<b>Capital employed</b>	<b>637.8</b>	<b>(361.3)</b>	<b>276.5</b>

Appendix *continued***South East Water (Holdings) Limited****Consolidated movement in the profit and loss reserve for the period ended 30 September 2018**

	Companies £m	Eliminations £m	Group £m
At 1 April 2018	229.1	(312.1)	(83.0)
Profit for the year	33.8	(13.9)	19.9
Pension scheme in STRGL	1.3	-	1.3
Dividends	(23.5)	14.0	(9.5)
Movement through reserves	2.6	-	2.6
	14.2	0.1	14.3
At 30 September 2018	243.3	(312.0)	(68.7)