

Company Registration No. MC-136473

South East Water (Finance) Limited

**Annual Report and Financial Statements
for the year ended 31 March 2019**

South East Water (Finance) Limited

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South East Water (Finance) Limited

Directors

P Butler

A Farmer

O Schubert (Resigned: 3 August 2018)

S Jordan (Appointed: 3 August 2018)

M Szczepaniak (Appointed: 5 March 2019)

Company Secretary

N Truillet

Company's auditor

Deloitte LLP, Statutory Auditor

Hill House

1 Little New Street

London

EC4A 3TR

United Kingdom

Company's bankers

HSBC Bank plc

60 Queen Victoria Street

London

EC4N 4TR

Registered Office

P O Box 309GT

Ugland House

South Church Street

Georgetown

Grand Cayman

Cayman Islands

Registered No. MC-136473

Country of domicile and incorporation: Cayman Islands

South East Water (Finance) Limited

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2019.

Principal activities, business review and future developments

The company is a private company limited by shares. The company raises external finance on behalf of the group of companies headed by HDF (UK) Holdings Limited ("HDF") and lends monies to companies within that group. During the year the company received interest on loans made to other group undertakings and paid interest on loans raised from external sources.

The audited financial statements for the year ended 31 March 2019 are set out on pages 11 to 24. The profit after taxation, for the year was £45,000 (2018: £41,000). During the year no dividends were paid (2018: £nil).

The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future.

The company has taken advantage of the exemption provided under s.414B (b) of the Companies Act 2006 not to provide a Strategic report.

On 30 September 2019 the Group will repay £200 million of its long term funding. The maturing bond was originally issued at a fixed interest rate and swapped to an index linked rate via a derivative transaction. The total amount repayable on both the original loan and the derivative on 30 September is £311 million.

Treasury management and financial risk

The company's financial instruments comprise fixed and variable rate borrowings, an interest rate swap, loans and other amounts owed to and owed by other group undertakings. The company has entered into an interest rate swap linking part of its fixed rate borrowings to movements in the retail price index.

Derivative activity is undertaken by the company on behalf of the group headed by HDF, as determined by the Board of the company. The Board considers the overall risk profile of the group and enters into derivatives to mitigate or hedge any risks identified, as appropriate. No derivatives are undertaken for trading purposes or to benefit for speculative purposes.

The company's treasury operations are managed within parameters defined by the Board and its parent undertaking. It is the company's policy to minimise liquidity risk within an acceptable range of interest rates. The company does not use foreign currency financial instruments.

The main risks arising from the company's financial instruments are interest rate, cash flow and credit risk:

Interest rate and cash flow risk

The company has raised finance through listed and unlisted fixed rate and variable rate loans. Of the fixed rate loans issued, £200 million has been linked to inflation through the use of an interest rate swap. The finance raised has been on-lent to another group undertaking, £166 million at a fixed rate and £430 million at a floating rate linked to inflation, with interest being charged on the floating rate loans at an interest rate of 0.01% higher than the associated loans.

The company is not exposed to short-term interest rate risk as its operating costs and interest charges are met by the interest earned on the loans to its parent company. It is the view of the company that long-term fluctuations in interest rates will be within the parameters that are considered acceptable by the company to meet its future liabilities.

South East Water (Finance) Limited

Directors' Report

Credit risk

The company's financial assets comprise long-term loans owed by group undertakings, cash and short-term deposits which represent the company's maximum exposure to credit risk in relation to financial assets. The management of these risks is performed at a group level and is disclosed within the HDF UK (Holdings) Limited statutory accounts.

The exit of the UK from the European Union has been included in our risk analysis. Part of the company's considerations has been the impact of this action on its parent company, South East Water Limited, and any potential threat to the interest's received from that company. Throughout the year South East Water Limited have been making contingency plans for this evolving issue to ensure the consequences of the various exit scenarios has minimal impact on its customer service or its ability to pay interest.

It is, therefore, the view of management that this action will have no material effect on the operations of the company.

Directors of the Company

The directors who held office at the date of this report are stated on page 3.

Directors' indemnities

The Group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company's financing costs are reimbursed by the company's parent company through a back to back arrangement and it is in a position of net current assets and net assets as at 31 March 2019. For these reasons the directors continue to adopt the going concern basis in preparing the financial statements.

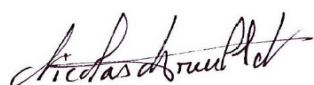
Auditor

The directors who were members of the Board at the time of approving the Directors' Report are listed on page 3. Having made enquiries of fellow directors, each of these directors confirms that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps a director ought to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

In the absence of a general meeting, Deloitte LLP has been re-appointed as auditor by agreement.

Approved by the Board and signed on their behalf



N Truillet

Company Secretary

25 September 2019

South East Water (Finance) Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework*. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.



A Farmer

Director

25 September 2019

South East Water (Finance) Limited

Independent Auditor's report to the members of South East Water (Finance) for the year ended 31 March 2019

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of South East Water (Finance) Limited (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006 that would have applied were the company incorporated in the United Kingdom.**

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the notes 1 to 16 to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (The Financial Reporting Standard applicable in the UK and Republic of Ireland) (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matter that was identified in the current year was in relation to <ul style="list-style-type: none">• expected credit loss on receivables from group undertakings
Materiality	The materiality that we used in the current year was £3.37m (2018:£3.46m) which was determined on the basis of 0.7% (2018:0.5%) of total borrowings.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

South East Water (Finance) Limited

Independent Auditor's report to the members of South East Water (Finance) for the year ended 31 March 2019

Significant changes in our approach

In the prior year, we reported on management override of controls as a key audit matter. This was not identified as a key audit matter in the current year. There has been no significant changes in our approach apart from the change in key audit matters.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit loss on receivables from group undertakings

Key audit matter description



Receivables from group undertakings are stated in the balance sheet at £770.2m (2018:£757.9m).

There is significant judgement involved in determining the recoverability of these receivables from group undertakings based on the financial position and future prospects of the South East Water Limited group. This takes into consideration a range of factors such as the trading performance of the group, the ability of the group to secure future financing and the group's ability to respond to changing demands of the regulated market.

For further details please see note 8 to the financial statements.

How the scope of our audit responded to the key audit matter

We challenged the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest audited financial information of South East Water Limited and considering our understanding of the future trading performance of the South East Water Limited group in order to assess the ability of the South East Water group to repay these amounts.

We also reviewed the historical accuracy of South East Water Limited Group's management's forecasts by comparing the actual results to

South East Water (Finance) Limited

Independent Auditor's report to the members of South East Water (Finance)

for the year ended 31 March 2019

forecasts.

Key observations Based on the work performed we concluded that receivables from group undertakings are appropriately stated.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£3.37m (2018:£3.46m)
Basis for determining materiality	0.7% (2018:0.5%) of total borrowings.
Rationale for the benchmark applied	The primary purpose of the company is to raise funding from external sources and provide funding to South East Water Limited. We have therefore used total borrowings as the benchmark. The applied materiality is capped at the component materiality determined as part of the South East Water Limited group audit.

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.2m (2018: £0.2m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so,

South East Water (Finance) Limited

Independent Auditor's report to the members of South East Water (Finance) for the year ended 31 March 2019

consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by our engagement letter

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report have been prepared in accordance with applicable legal requirements that would apply were the company incorporated in the United Kingdom.

In the light of the knowledge and understanding of the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

South East Water (Finance) Limited

Independent Auditor's report to the members of South East Water (Finance) for the year ended 31 March 2019

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under our engagement letter we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under our engagement letter we are also required to report if in our opinion certain disclosures of directors' remuneration that would apply were the company incorporated in the United Kingdom have not been made.

We have nothing to report in respect of this matter.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Disclosure Transparency Rules (DTR) 4.1. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



William Farren FCA

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 September 2019

South East Water (Finance) Limited

Statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
Operating costs	4	<u>(4)</u>	(3)
Operating loss		(4)	(3)
Finance income	5	38,977	38,638
Financing costs	6	<u>(38,917)</u>	(38,584)
Profit before taxation		56	51
Taxation	7	<u>(11)</u>	(10)
Profit for the year		45	41
Other comprehensive income		<u>-</u>	-
Total comprehensive income for the year		45	41

The profit on ordinary activities after taxation is generated entirely from continuing operations.

South East Water (Finance) Limited

Statement of financial position

as at 31 March 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Trade and other receivables	8	<u>452,918</u>	749,744
Current assets			
Loans and borrowings	8	308,836	-
Trade and other receivables	8	8,457	8,185
Cash and cash equivalents	9	<u>197</u>	218
		<u>317,490</u>	8,403
Total assets		<u>770,408</u>	758,147
Current liabilities			
Loans and borrowings	10	(308,836)	-
Trade and other payables	10	(7,204)	(6,998)
Non-current liabilities			
Loans and borrowings	11	<u>(453,246)</u>	(749,744)
Total liabilities		<u>(769,286)</u>	(756,742)
Net assets		<u>1,122</u>	1,405
Equity			
Share capital	12	-	-
Retained earnings	13	<u>1,122</u>	1,405
Total equity		<u>1,122</u>	1,405

The accompanying notes are an integral part of these financial statements.

The financial statements of South East Water (Finance) Limited (Company number MC-136473) on pages 11 to 24 were approved by the Board of Directors and were signed on its behalf by:



A Farmer

Director

25 September 2019

South East Water (Finance) Limited

Statement of changes in equity

as at 31 March 2019

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	-	1,364	1,364
Total comprehensive income for the year	-	41	41
Balance at 31 March 2018	-	1,405	1,405
Change in accounting policy IFRS 9 (see note 3)	-	(328)	(328)
Balance at 1 April 2018	-	1,077	1,077
Total comprehensive income for the year	-	45	45
Balance at 31 March 2019	-	1,122	1,122

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

1. Basis of preparation

Basis of preparation

South East Water (Finance) Limited meets the definition of a qualifying entity under Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") issued by the Financial Reporting Council.

These financial statements have been prepared in accordance with FRS 101 and under the historical cost convention modified to include certain items at fair value.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

2. Key judgements and Key sources of estimation uncertainty

Key judgements

The preparation of financial statements requires the application of judgements by management which may affect the balances of assets and liabilities at the balance sheet date and income and expenditure for the year.

The directors consider the recoverability of intercompany receivables to be the key judgement and having assessed this at the year end, it was concluded that the risk of non-recovery of the intercompany loan is considered very small (see note 3).

Key sources of estimation uncertainty

Estimates are required to be made by management when preparing the financial statements. These estimates affect the value of assets and liabilities at the balance sheet date. The estimates and underlying assumptions are reviewed on an ongoing basis with any revisions to accounting estimates recognised in the period in which the estimate is revised and future periods where the revision affects both current and future periods. The actual results may differ from those arrived at based on management's estimates.

In calculating the expected credit loss for the intercompany loan receivables, the methodology includes the estimation of the present value of future cash flows by way of a discounted cashflow model, relying on the directors' expectations of future inflation rates.

3. Accounting policies

The principal accounting policies adopted by the company are set out below. These policies have been consistently applied in both the current and prior years, except for those changes required due to the mandatory adoption of new reporting standards, specifically IFRS 9 *Financial Instruments* ("IFRS9").

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

3. Accounting policies (*continued*)

New standards and interpretations adopted

In the current year, the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for accounting periods beginning on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

On 1 April 2018, the company adopted IFRS 9. IFRS 9 specifies how the company should classify and measure financial assets and liabilities.

When considering the classification of financial instruments, IFRS 9 has three classifications for financial assets, being:

- Amortised cost - an asset is measured at amortised cost if:
 - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and
 - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

IFRS 9 does not change the classifications of financial liabilities from the current IAS 39 requirements. IFRS 9 requires all financial liabilities to be measured at amortised costs, except for financial liabilities through profit or loss. Liabilities measured at fair value through profit or loss include:

- Derivative financial instruments;
- Liabilities held for trading and
- Liabilities an entity designates as fair value through profit or loss.

An entity may, at initial recognition, designate a liability at fair value through profit or loss if doing so would eliminate or substantially reduce a measurement or recognition inconsistency. After initial recognition, an entity cannot reclassify a financial liability.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

3. Accounting policies (*continued*)

When measuring a financial asset, any impairment of the asset should be recognised in stages:

- On initial recognition of a financial instrument, 12-month expected credit losses are recognised in the profit or loss and a provision for the loss is established. This serves as a proxy for the initial expectations of credit losses. Interest revenue is calculated on the original amount of the asset;
- Where the credit risk significantly increases on an asset and is no longer considered low, full lifetime expected credit losses are recognised in the profit or loss. Interest revenue is calculated on the original amount of the assets and liabilities an entity designates as fair value through profit or loss;
- Where the credit risk increases to the point that an asset is considered impaired, full lifetime expected credit losses are recognised in the profit or loss. Interest revenue is calculated on the amortised cost being the original value of the asset less the provision for expected credit losses.

In adopting the Standard, the company has assessed the classification of its financial instruments and reclassified its financial assets as follows:

Financial asset	IAS 39 classification	IFRS 9 classification
Trade receivables	Loans and receivables	Measured at amortised cost
Loans and Borrowings	Loans and receivables	Measured at amortised cost

There were no changes to the classification of the company's financial liabilities.

The company has considered the credit risk of its financial assets and concluded that the risk of non-recovery of the company's parent loan is considered very small. In accordance with the requirements of IFRS 9, management has assessed the risk and recognised an allowance on transition for credit loss of £328,000 in its opening retained earnings. A provision for this allowance has been created and offset against the carrying value of the relevant asset in the company statement of financial position.

Finance costs

Borrowing costs are recognised as an expense when incurred (see note 4).

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Financial instruments

The Company's financial instruments comprise fixed and variable rate borrowings, interest rate swaps, loans and other amounts owed to and owed by group undertakings, cash and short term deposits.

As a wholly-owned subsidiary company, advantage has been taken of the exemption available under FRS 101 and no disclosures under IFRS 7 have been included in these financial statements in respect

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

3. Accounting policies (*continued*)

of the Company's financial instruments. This information is incorporated into its parent company's consolidated financial statements.

Recognition and derecognition of financial instruments

Financial instruments are recognised in the statement of financial position when the company becomes party to the contractual provisions of the instrument. The Group determines the classification of its financial instruments at initial recognition.

Financial assets are removed from the statement of financial position when the rights to the cash flows from the asset expire, or when the risks and rewards of ownership of the asset are transferred or when control of the asset is transferred. Financial liabilities are removed from the statement of financial position when the related obligation is discharged, cancelled or expires.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received or paid, net of issue costs associated with the loan or borrowing.

Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Interest income and costs are credited or expensed in the income statement as they accrue.

Interest is recognised on financial assets in accordance with the three stages of impairment detailed above.

In accordance with IFRS 9, a provision for expected credit loss on financial assets has been offset against the carrying values in the statement of financial position. As this provision relates only to existing assets, the charge has been taken to equity on 1 April 2018 as allowed by the accounting standard.

Embedded derivatives

Financial instruments that are not carried at fair value through the income statement are reviewed to determine if they contain embedded derivatives. Embedded derivatives are accounted for separately as derivative financial instruments when the economic characteristics and risks are not closely related to the respective host financial instrument.

Derivative financial instruments

The company uses derivative financial instruments such as an interest rate swap to hedge its risks associated with interest rate fluctuations. This use does not qualify for hedge accounting. Derivative financial instruments are recognised initially and subsequently in the statement of financial position at fair value through the profit or loss, with any movements during the year charged or credited to the income statement. The fair value is determined by reference to market values for similar instruments.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

4. Operating costs

	2019 £'000	2018 £'000
Legal & Professional fee	4	(3)

The fees for the audit of the financial statements of the company amounted to £1,700 (2018: £1,700) and were paid by the company's parent company. The costs incurred by the company relates to legal and professional fees.

The company had no employees during the year (2018: none). No directors received any remuneration for the services as directors of the company during the year (2018: £nil).

5. Finance income

	2019 £'000	2018 £'000
Loans to group undertakings		
- interest	25,684	25,160
- indexation on listed bonds	7,671	9,274
- fair value movement on interest rate swap	4,668	3,253
Bank balances and short term deposits	17	11
Financing guarantee and other fees	937	940
	38,977	38,638

6. Financing costs

	2019 £'000	2018 £'000
Listed debt due within one year	9,274	-
Listed debt due in the second to fifth years inclusive	-	8,959
Listed debt due after five years	13,569	13,442
Index linked loans due after five years	2,799	2,716
Indexation on listed bonds	4,564	5,680
Indexation on index linked loans	3,107	3,594
Fair value movement on interest rate swap	4,667	3,253
Financing guarantee and other fees	937	940
	38,917	38,584

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

7. Tax on profit on ordinary activities

	2019 £'000	2018 £'000
(a) Analysis of tax charge for the year		
Current tax		
UK Corporation tax charge on profits at 19% (2018: 19%)	11	10
(b) Factors affecting tax for the year		
Profit on ordinary activities before tax	56	51
Profit on ordinary activities multiplied by standard rate of tax of 19% (2018: 19%)	11	10

For the year ended 31 March 2019 a UK corporation rate of 19% has been used as enacted by Finance Act 2015. A reduction in the UK corporation tax rate to 18% (effective 1 April 2020) was substantively enacted 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016.

8. Trade and other receivables

	2019 £'000	2018 £'000
Amounts owed by group undertakings due within one year		
- Loans	200,000	-
- Fair value of interest rate swap	108,836	-
Total due after one year	308,836	-
Amounts owed by group undertakings due after more than one year		
- Loans	453,246	645,575
- Expected credit loss	(328)	-
- Fair value of interest rate swap	-	104,169
Total due after one year	452,918	749,744
Amounts due from group undertakings within one year	7,895	7,631
Sundry debtors	6	-
Prepayments and accrued income	556	554
Total due within one year	8,457	8,185
Total debtors	770,211	757,929

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

8. Trade and other receivables (*continued*)

The amounts owed by group undertakings due within one year comprise loans as follows:

- £200 million at a variable rate linked to inflation via an interest rate swap arrangement, falling due for repayment by 30 September 2019.

The amounts owed by group undertakings due after more than one year comprise loans as follows:

- £166 million at a fixed effective rate of 5.5834%, falling due for repayment by 29 March 2029;
- £130 million at a variable rate index linked to inflation, falling due for repayment on 3 June 2041; and
- £100 million at a variable rate index linked to inflation, falling due for repayment 1 December 2037.

	Loan due 2019 £'000	Loan due 2029 £'000	Loan due 2041 £'000	Loan due 2037 £'000	Total £'000
2019					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	108,836	-	-	-	108,836
Indexation on bonds	-	-	40,608	16,638	57,246
Expected credit loss IFRS 9 (See note 3)	-	(106)	(136)	(86)	(328)
Loans to parent company	308,836	165,894	170,472	116,552	761,754
2018					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	104,169	-	-	-	104,169
Indexation on bonds	-	-	36,045	13,530	49,575
Loans to parent company	304,169	166,000	166,045	113,530	749,744

The amounts owed by group undertakings due within one year comprises interest on inter-company loans and the prepayments comprises fees in respect of external loans.

9. Cash and cash equivalents

At 31 March 2019, £0.2 million (2018: £0.2 million) of restricted cash was held in designated accounts in order to meet interest and associated swap payments falling due in respect of the debt. Of this balance, £0.2 million (2018: £nil) was held on short term deposits.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

10. Trade and other payables

	2019 £'000	2018 £'000
Listed debt due within one year	308,836	-
Amounts due to group undertakings	11	10
Accruals	7,193	6,988
	<hr/>	<hr/>
	316,040	6,998

Amounts due to group undertakings are mainly in respect of group relief and can be paid on demand.

11. Loans and borrowings

	2019 £'000	2018 £'000
Listed debt due in the second to fifth years inclusive	-	304,169
Listed debt due after more than five years	336,608	332,045
Index-linked loans due after more than five years	116,638	113,530
	<hr/>	<hr/>
	453,246	749,744

The effective terms of the listed and unlisted debt are:

- £166 million at a fixed effective rate of 5.5834%, falling due for repayment on 29 March 2029.
- £130 million at a variable rate linked to inflation as measured by the Retail Price Index, falling due for repayment on 3 June 2041.
- £100 million at a variable rate linked to inflation as measured by the Retail Price Index, falling due for repayment on 1 December 2037.

The debt is secured against the assets of the Company, against the assets of its immediate parent company, South East Water Limited (as far as allowed by the Water Industry Act 1991 and South East Water Limited's licence) and against the assets of South East Water Limited's immediate parent company, South East Water (Holdings) Limited.

South East Water (Finance) Limited is in a cross guarantee arrangement with South East Water Limited.

Issue costs for this debt have been borne by South East Water Limited.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

11. Loans and borrowings (continued)

The amounts due on listed and unlisted debt are stated at the original consideration plus fair value of the interest rate swap and accrued indexation at the balance sheet date as follows:

	Index-linked listed debt due between 2 and 5 years £'000	Fixed rate listed debt due after more than 5 years £'000	Index-linked listed debt due after more than 5 years £'000	Index linked loan due after more than 5 years £'000	Total £'000
2019					
Original loan consideration	-	166,000	130,000	100,000	396,000
Fair value of interest rate swap	-	-	-	-	-
Indexation on bonds	-	-	40,608	16,638	57,246
Loans	-	166,000	170,608	116,638	453,246
2018					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	104,169	-	-	-	104,169
Indexation on bonds	-	-	36,045	13,530	49,575
Loans	304,169	166,000	166,045	113,530	749,744

12. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
100 (2018: 100) ordinary shares of £1 each	100	100

13. Retained earnings

Retained earnings represent cumulative profits and losses, net of dividends paid and other adjustments.

14. Events after the balance sheet date

The Company is due to repay part of its long term funding on 30 September 2019 with the maturity of its £200 million listed bond. The bond was originally issued at a fixed interest rate and swapped to an index linked rate via a derivative transaction, also maturing on 30 September 2019. The total amount repayable on both the original loan and the derivative is approximately £311 million.

At the same time the related loan to SEWL will also be repaid to the company together with the accreted indexation on the loan. The amount received from this repayment will be £311 million and will be used to repay the company's maturing debt.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2019

15. Related party transactions

As a wholly-owned subsidiary of HDF at the balance sheet date, the Company has taken advantage of the exemption under FRS 101 not to provide information on related party transactions with other wholly-owned companies within the HDF group.

16. Parent company and ultimate controlling party

There are no ultimate controlling parties as none of the shareholders have over 50% of the share holdings.

The immediate parent company is South East Water Limited.

The smallest group of companies into which results of the Company are consolidated is that headed by South East Water Limited, a company which is incorporated in Great Britain and registered in England and Wales. The largest group of companies into which results of the Company are consolidated is that headed by HDF (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The financial statements of South East Water Limited and HDF (UK) Holdings Limited may be obtained from the registered address of both companies at Company Secretary, Rocfort Road, Snodland, Kent ME6 5AH.