

South East Water (Finance) Limited

**Annual report and financial statements
for the period ended 31 March 2021**

South East Water (Finance) Limited

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South East Water (Finance) Limited

Company Information

Directors	A Farmer R Drew D Hinton A N Le Gal
Company secretary	N Truillet
Registered number	MC-136473
Registered office	P O Box 309GT Ugland House South Church Street Georgetown Grand Cayman Cayman Islands
Independent auditors	Deloitte LLP, Statutory Auditor Hill House 1 Little New Street London United Kingdom EC4A 3TR
Bankers	HSBC Bank plc 60 Queen Victoria Street London EC4N 4TR

South East Water (Finance) Limited

Directors' report for the year ended 31 March 2021

The directors present their report and the financial statements for the year ended 31 March 2021.

Principal activity

The company is a private company limited by shares. The company is domiciled and incorporated in the Cayman Islands and registered for tax in UK. The company raises external finance on behalf of the group of companies headed by HDF (UK) Holdings Limited 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.

Business review

The audited financial statements for the year ended 31 March 2021 are set out on pages 13 to 23. The profit after taxation for the year was £15,000 (2020: £29,000). During the current and prior year no dividends were paid.

The reduction in interest payable and interest receivable is due to the maturity of £200 million fixed rate bonds and the settlement of its associated interest rate swap and related inter-company loans on 30 September 2019.

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 UK Companies Act not to provide a Strategic report.

Going Concern

The directors have concluded that the Company has sufficient resources to meet its liabilities as they fall due, accordingly the financial statements have been prepared on a going concern basis. Further details are provided in note 1 to the financial statements. In reaching their decision, the directors have considered the impact of Covid-19 on the future performance of the Company

Directors

The directors who served during the year and to the date of signing were:

P Butler (resigned 31 July 2020)
A Farmer
R Drew
M Szczepaniak (resigned 19 June 2021)
D Hinton (appointed 5 March 2021)
A N Le Gal (appointed 19 June 2021)

Principal risks and uncertainties

The company's financial instruments comprise fixed and variable rate borrowings and loans and other amounts owed to and owed by other group undertakings.

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 undertakings. 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:

South East Water (Finance) Limited

Directors' report (continued) for the year ended 31 March 2021

Interest rate and cash flow risk

The company has raised finance through listed and unlisted fixed rate and variable rate loans. The finance raised has been on-lent to its parent company, £166 million at a fixed rate and £230 million at a floating rate linked to inflation, with the interest being charged on the floating rate loans at an interest rate of 0.01% higher than the associated external 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 the interest rates will be within the parameters that are considered acceptable by the company to meet its future liabilities.

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 exit of the UK from the European Union has been included in HDF group risk analysis. Management has considered the impact of Covid-19 and part of the company's considerations has been the impact of these actions on its parent company, South East Water Limited and any potential threat to the interest received from that company. Throughout the year South East Water Limited have been making contingency plans to ensure minimal impact on its customer service or its ability to pay interest.

It is, therefore the view of management that the impact of Covid-19 will have no material effect on the operations of the company.

Qualifying third party indemnity provisions

The company 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 UK Companies Act. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

Auditor

Due to the completion of ten years by Deloitte LLP as the statutory auditor for the company and the rest of the HDF Group, it was intended, as required by UK law, that a tender process for the appointment of statutory auditor be undertaken during 2020. However, due to the Covid-19 pandemic, the HDF Group sought and obtained permission from the Financial Reporting Council to extend the appointment of Deloitte LLP as statutory auditor for a further year.

Deloitte LLP have agreed to act in the capacity of auditor for the group for a further year.

The process for the new appointment of statutory auditor for the HDF Group has now begun with the appointment planned to be made in the middle of the financial year ending 31 March 2022.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

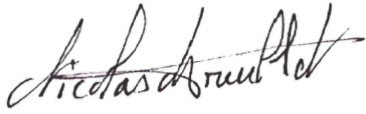
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the UK Companies Act.

South East Water (Finance) Limited

**Directors' report (continued)
for the year ended 31 March 2021**

This report was approved by the board and signed on its behalf.

A handwritten signature in black ink, appearing to read 'N Truillet', with a long horizontal stroke extending to the right.

N Truillet
Secretary
Date: 6 August 2021

South East Water (Finance) Limited

Directors' responsibilities statement for the year ended 31 March 2021

The directors are responsible for preparing the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including 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 to enable them to ensure that the financial statements comply with the UK Companies Act. 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 positions 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.

South East Water (Finance) Limited

Independent auditors' report to the members of South East Water (Finance) Limited

Report on the audit of the financial statements

1. 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 2021 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 UK Companies Act 2006.

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 related notes 1 to 15.

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" (United Kingdom Generally Accepted Accounting Practice).

2. 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.

3. Summary of our audit approach

Key audit matters The key audit matter that we identified in the current year was the recoverability of receivables from group undertakings.

Within this report, key audit matters are identified as follows:

-  Newly identified
-  Increased level of risk
-  Similar level of risk
-  Decreased level of risk

Materiality The materiality that we used in the current year was £3.2m which was determined on the basis of 0.7% of total borrowings.

Scoping Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach There are no changes in our approach in the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting relies on the evaluation completed for the going concern conclusion for the parent company South East Water Limited ("SEW"), as the company's ability to service its debt relies on the back to back financing from the parent company. Our procedures in respect of going concern included:

- obtaining an understanding of the relevant controls including management review controls and controls relating to the data integrity in the going concern model;
- analysing the SEW group financing facilities including nature of facilities, repayment terms and covenants;
- assessing the likelihood of new facilities in the SEW group due for renewal in the going concern period being secured, and in particular refinancing of the revolving credit facility held by SEW which has been approved by the lender;
- assessing the appropriateness of the assumptions taken by management in establishing their base case forecasts including comparison of growth forecasts with historical performance and market data;
- recalculating the forecast covenants and assessing management's evaluation of the headroom available against these covenants;
- evaluating the forecast liquidity position based on forecasts;
- challenging the appropriateness, and results of the sensitivity analysis performed by management through performing additional independent sensitivity testing;
- assessing the sophistication of the model used to prepare the forecasts and testing of clerical accuracy of those forecasts; and
- assessing the appropriateness of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. 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.

5.1. Recoverability of receivables from group undertakings

Key audit matter description	Receivables from group undertakings are stated in the balance sheet at £468.3m (2020: £464.0m).
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There is 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 7 to the financial statements.

How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following procedures:
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- 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 obtained an 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 continue as a going concern and therefore be able to repay these amounts; and
- assessed the historical accuracy of South East Water Limited group's management's forecasts by comparing the actual results to forecasts.

Key observations	Based on the work performed we concluded that receivables from group undertakings are appropriately stated.
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South East Water (Finance) Limited

Independent auditors' report to the members of South East Water (Finance) Limited

6. Our application of materiality

6.1. 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	£3.2m (2020: £3.2m)
Basis for determining materiality	0.7% of borrowings (2020: 0.7% of 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.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment;
- the limited number of changes to the business and the turnover of management and key accounting personnel during the year; and
- the history of no corrected or uncorrected misstatements identified in the audit of previous periods.

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.2m (2020: £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.

7. An overview of the scope of our audit

7.1. Scoping

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.

8. Other information

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

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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

South East Water (Finance) Limited

Independent auditors' report to the members of South East Water (Finance) Limited

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

9. 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.

10. 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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance;
- results of our enquiries of management and the Board of Directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including a tax specialist, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in,

South East Water (Finance) Limited

Independent auditors' report to the members of South East Water (Finance) Limited

focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board of Directors and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the UK Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

South East Water (Finance) Limited

Independent auditors' report to the members of South East Water (Finance) Limited

13.2. Directors' remuneration

Under the UK Companies Act we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

DocuSigned by:

E466468814454AD
Helen Burridge (Senior statutory auditor)

For and on behalf of

Deloitte LLP, Statutory Auditor

London
United Kingdom
6 August 2021

South East Water (Finance) Limited**Statement of comprehensive income
for the year ended 31 March 2021**

	Note	2021 £000	2020 £000
Operating costs	3	(5)	(22)
Operating loss		(5)	(22)
Interest receivable and similar income	4	21,889	32,345
Interest payable and expenses	5	(21,865)	(32,287)
Profit before tax		19	36
Tax on profit	6	(4)	(7)
Profit for the financial year		15	29

There was no other comprehensive income for 2021 (2020:£NIL).

The notes on pages 16 to 23 form part of these financial statements.

South East Water (Finance) Limited
Registered number:MC-136473

Statement of financial position
as at 31 March 2021

	Note	2021 £000	2020 £000
Fixed assets			
Non current assets			
Debtors falling due after more than one year	7	464,911	460,310
		464,911	460,310
Current assets			
Debtors: amounts falling due within one year	7	3,791	4,064
Cash at bank and in hand	8	176	-
		3,967	4,064
Creditors: amounts falling due within one year	9	(2,474)	(2,585)
Net current assets		1,493	1,479
Total assets less current liabilities		1,493	1,479
Creditors: amounts falling due after more than one year	10	(465,238)	(460,638)
		(463,745)	(459,159)
Net assets		1,166	1,151
Capital and reserves			
Profit and loss account	12	1,166	1,151
		1,166	1,151

The company's financial statements have been prepared in accordance with the provisions applicable to entities subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



A Farmer
 Director
 Date: 6 August 2021



R Drew
 Director

The notes on pages 16 to 23 form part of these financial statements.

South East Water (Finance) Limited**Statement of changes in equity
for the year ended 31 March 2021**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2020	-	1,151	1,151
Profit for the year	-	15	15
At 31 March 2021	-	1,166	1,166

The notes on pages 16 to 23 form part of these financial statements.

**Statement of changes in equity
for the year ended 31 March 2020**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2019	-	1,122	1,122
Profit for the year	-	29	29
At 31 March 2020	-	1,151	1,151

The notes on pages 16 to 23 form part of these financial statements.

South East Water (Finance) Limited

Notes to the financial statements for the year ended 31 March 2021

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the UK Companies Act.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going concern

The directors have formed a judgement that, at the time of approving the financial statements there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

The company is financed by interest received from its parent company, South East Water Limited. The directors have assessed the going concern review that has been completed for the wider HDF group and for the regulated business of the main trading entity, South East Water Limited. That assessment considered financial projections related to the impact of Covid-19 and reviewed appropriate downside scenarios, taking into account the potential impacts as a result of an extended pandemic and its expected macro-economic effects, as well as the impact on water consumption and cash collections. The directors are satisfied that South East Water Limited has the resources and finance facilities to meet its obligations as they fall due.

In view of the above and the nature of the business as a finance company without significant operating expenses, the impact of Covid-19 on the company is not expected to be significant. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

1.4 Interest income

Interest income is recognised in profit or loss using the effective interest method.

1.5 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1. Accounting policies (continued)

1.6 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

1.7 Debtors

Debtors are measured at transaction price, less any impairment. Impairments are calculated in accordance with the methodology stated below.

Impairment

At each reporting date an assessment is carried out to determine whether there is any indication of debtors may be impaired. If there is an indication of impairment, the recoverable amount of debtors or respective cash-generating unit is compared to the carrying amount. Where the recoverable amount is less than the carrying amount, the debtor value is reduced to the recoverable amount with an impairment loss recognised as an operating cost in the income statement in the year in which the respective assessment takes place.

1.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.9 Financial instruments

The Company's financial instruments comprise fixed and variable rate borrowings, 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 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

1. Accounting policies (continued)

1.9 Financial instruments (continued)

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.

2. Judgements in applying accounting policies 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 that there are no judgements which had a significant effect on the company's financial statements.

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.

The directors consider the recoverability of the intercompany receivables to be the key source of estimation uncertainty. Debtor recoverability relies almost wholly on the fact that SEWL continues as a going concern (see note 1). The interest risk in the year has increased given the economic backdrop due to Covid-19, but having performed inquiries as part of the going concern assessment, the directors are comfortable with South East Water Limited financial status and hence the recoverability of intercompany receivables in South East Water (Finance) Limited.

South East Water (Finance) Limited

Notes to the financial statements for the year ended 31 March 2021

3. Operating costs

The costs incurred by the company relates to legal and professional fees.

The fees for the audit of the financial statements of the company were borne by HDF (UK) Holdings Limited, Parent company.

The company had no employees during the year (2020: Nil). No directors received any remuneration for the services as directors of the company during the year (2020: Nil).

	2021 £000	2020 £000
Legal and professional	5	22
	<u>5</u>	<u>22</u>

4. Interest receivable and similar income

	2021 £000	2020 £000
Interest receivable from group companies	16,693	21,321
Indexation on listed bonds	4,600	7,392
Fair value movement on interest rate swap	-	2,713
Financing guarantee and other fees	595	894
Interest on short term deposits	1	25
	<u>21,889</u>	<u>32,345</u>

5. Interest payable and similar expenses

	2021 £000	2020 £000
Interest on listed debt	16,670	18,411
Index linked loan interest	-	2,877
Indexation on listed bonds	2,382	4,378
Indexation on index linked loans	2,218	3,014
Fair value movement on interest rate swap	-	2,713
Financing guarantee and other fees	595	894
	<u>21,865</u>	<u>32,287</u>

South East Water (Finance) Limited

Notes to the financial statements for the year ended 31 March 2021

6. Taxation

	2021 £000	2020 £000
Corporation tax		
Current tax on profits for the year	4	7
	<u>4</u>	<u>7</u>
	<u>4</u>	<u>7</u>
Total current tax	<u>4</u>	<u>7</u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2020: the same as) the standard rate of corporation tax in the UK of 19% (2020: 19%) as set out below:

	2021 £000	2020 £000
Profit on ordinary activities before tax	19	37
	<u>19</u>	<u>37</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	4	7
Effects of:		
	<u>4</u>	<u>7</u>
Total tax charge for the year	<u>4</u>	<u>7</u>

Factors that may affect future tax charges

For the year ended 31 March 2021, a UK corporation tax rate of 19% has been used as enacted under section 6(2) of the Finance Act 2020. The current rate of 19% is further extended by the Finance (No. 2) Bill, March 2021 to remain applicable for all the subsequent financial years to 31 March 2023. From 1 April 2023, the corporation tax rate increases to 25% (with nil expected tax impact on the company) as announced in the March 2021 National Budget and substantively enacted by Finance (No. 2) Bill, March 2021.

South East Water (Finance) Limited

**Notes to the financial statements
for the year ended 31 March 2021**

7. Debtors

	2021 £000	2020 £000
Due after more than one year		
Amounts owed by group undertakings	464,911	460,310
	<u>464,911</u>	<u>460,310</u>

	2021 £000	2020 £000
Due within one year		
Trade debtors	-	1
Amounts owed by group undertakings	3,416	3,687
Prepayments and accrued income	375	376
	<u>3,791</u>	<u>4,064</u>

8. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank and in hand	176	-
	<u>176</u>	<u>-</u>

9. Creditors: Amounts falling due within one year

	2021 £000	2020 £000
Amounts owed to group undertakings	4	7
Accruals and deferred income	2,470	2,578
	<u>2,474</u>	<u>2,585</u>

Amounts due to group undertakings are mainly in respect of group relief and is payable on demand.

South East Water (Finance) Limited

Notes to the financial statements for the year ended 31 March 2021

10. Loans

Analysis of the maturity of loans is given below:

	2021 £000	2020 £000
Amounts falling due after more than 5 years		
Listed debt	343,369	340,986
Index linked loans	121,869	119,652
	<u>465,238</u>	<u>460,638</u>

The effective terms of the listed and index linked loans are:

- £166 million at 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.

Indexation on the index linked loans as at 31 March 2021 and 31 March 2020 are:

- £47.4 million indexation on £130 million loan as at 31 March 2021 and £45.0 as at 31 March 2020.
- £21.9 million indexation on £100 million loan as at 31 March 2021 and £19.7 as at 31 March 2020.

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 recharged to South East Water Limited.

11. Share capital

	2021 £	2020 £
Allotted, called up and fully paid		
100 (2020: 100) Ordinary Shares shares of £1.00 each	<u>100</u>	<u>100</u>

12. Reserves

Profit and loss account

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

13. Related party transactions

As a wholly-owned subsidiary of HDF Holdings (UK) Limited 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.

South East Water (Finance) Limited

Notes to the financial statements for the year ended 31 March 2021

14. Post balance sheet events

There are no material post balance sheet events.

15. Controlling party

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia ("UTA"), NatWest Pensions Trustees Limited as Trustee for the NatWest Group Pension Fund ("NWPF"), Régime de Rentes du Mouvement Desjardins ("RRMD"), Desjardins Financial Security Life Assurance Company ("DFSL") and Certas Home and Auto Insurance Company ("Certas") are the company's joint ultimate holding companies. UTA is resident in Australia. NWPF is resident in the United Kingdom, RRMD, DFSL and Certas are resident in Canada. It is the directors' belief that there is no single ultimate controlling party and that the joint ultimate holding companies control the company jointly.

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.