

Company Registration No. MC-136473

South East Water (Finance) Limited

**Annual Report and Financial Statements
for the year ended 31 March 2018**

South East Water (Finance) Limited

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South East Water (Finance) Limited

Directors

P Butler
A Farmer
M Szczepaniak

Company Secretary

N Truillet

Company's auditor

Deloitte LLP, Statutory Auditor
2 New Street Square
London
EC4A 3BQ
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
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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 2018.

Results and dividends

The audited financial statements for the year ended 31 March 2018 are set out on pages 11 to 21. The profit on ordinary activities, after taxation, for the year was £41,000 (2017: £42,000).

During the year no dividends were paid (2017: £nil).

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

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

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 group undertakings, cash and short-term deposits. 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 group undertakings, £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.

Directors of the Company

The directors who held office throughout the year and up to 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 2018. 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

17 July 2018

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

17 July 2018

South East Water (Finance) Limited

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

We have audited the financial statements of South East Water (Finance) Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the notes 1 to 13 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 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 matters that were identified in the current year were in relation to

- recoverability of amounts owed by group undertakings ; and
- management override of controls.

Materiality

The materiality that we used in the current year was £3.46m which was determined on the basis of 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) Limited

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.

1) Recoverability of receivables from group undertakings

Key audit matter description: Receivables from group undertakings are stated in the balance sheet at £757.93m.

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 6 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 forecasts.

Key observations

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

2) Management override of controls

Key audit matter description: Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We planned our audit so that we had a reasonable expectation of detecting material misstatements to the financial statements and accounting records.

South East Water (Finance) Limited

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

In particular the risk of management override of control exists in relation to the manual adjustments processed in the course of preparing the financial statements. These manual adjustments take place outside the accounting software therefore creating a greater risk of management override. The adjustments relate mainly to the closing carrying value of the interest rate swap.

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

We substantively tested the material manual adjustments processed in the course of preparing the financial statements, and assessed the appropriateness of these adjustments. The manual adjustments were compared to prior periods for consistency and reviewed to assess whether transactions were appropriately recorded and within the normal course of business.

We also assessed the design and implementation of the company's controls over the preparation of its financial statements.

Key observations

Based on the work performed, we found no matters that were reportable to those charged with governance.

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: £3.46m

Basis for determining materiality: 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 Audit Committee that we would report to the Committee all audit differences in excess of £0.2m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee 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.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

South East Water (Finance) Limited

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

In connection with our audit of the financial statements, 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 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. We have nothing to report in respect of these matters.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.



Jacqueline Holden FCA

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

17 July 2018

South East Water (Finance) Limited

Statement of comprehensive income

for the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Operating costs	2	(3)	(3)
Operating loss		(3)	(3)
Finance income	3	38,638	46,342
Finance costs	4	(38,584)	(46,287)
Profit before taxation		51	52
Taxation	5	(10)	(10)
Profit for the year		41	42
Other comprehensive income		-	-
Total comprehensive income for the year		41	42

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

The accompanying notes are an integral part of this statement of comprehensive income.

South East Water (Finance) Limited

Statement of financial position

as at 31 March 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Trade and other receivables	6	749,744	737,218
Current assets			
Trade and other receivables	6	8,185	7,513
Cash and cash equivalents	7	218	617
		8,403	8,130
Total assets		758,147	745,348
Current liabilities			
Trade and other payables	8	(6,998)	(6,766)
Non-current liabilities			
Loans and borrowings	9	(749,744)	(737,218)
Total liabilities		(756,742)	(743,984)
Net assets		1,405	1,364
Equity			
Share capital	10	-	-
Retained earnings	11	1,405	1,364
Total equity		1,405	1,364

The accompanying notes are an integral part of this statement of financial position.

The financial statements of South East Water (Finance) Limited (Company number MC-136473) on pages 11 to 21 were approved by the Board of Directors and were signed on its behalf by:

A Farmer

Director

17 July 2018

South East Water (Finance) Limited

Statement of changes in equity

as at 31 March 2018

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2016	-	1,322	1,322
Total comprehensive income for the year	-	42	42
Balance at 31 March 2017	-	1,364	1,364
Total comprehensive income for the year	-	41	41
Balance at 31 March 2018	-	1,405	1,405

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

1. Accounting policies

The principal accounting policies are summarised below. The policies were applied consistently throughout the current and prior years.

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.

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 2018. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

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

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

1. Accounting policies *(continued)*

Recognition

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 liabilities 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.

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 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.

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 area of judgement that has the most significant effect on the amounts recognised in the financial statements relates to the recoverability of intercompany balances. An assessment of recoverability is performed through a review of the future cashflows of the intercompany counterparty to ensure the loans are recoverable.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities within the next financial year.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

2. Operating costs

The fees for the audit of the financial statements of the Company amounted to £1,700 (2017: £1,700) and were paid by the Company's parent company. The costs incurred by the Company relate to legal and professional fees.

The Company had no employees during the year (2017: none). No directors received any remuneration for their services as directors of the Company during the year (2017: £nil).

3. Finance income

	2018 £'000	2017 £'000
Loans to group undertakings		
- interest	25,160	24,656
- indexation on listed bonds	9,274	7,041
- fair value movement on interest rate swap	3,253	13,690
Bank balances and short term deposits	11	12
Financing guarantee and other fees	940	943
	<hr/> 38,638	<hr/> 46,342

4. Finance costs

	2018 £'000	2017 £'000
Listed debt due in the second to fifth years inclusive	8,959	8,682
Listed debt due after five years	13,442	13,291
Index linked loans due after five years	2,716	2,640
Indexation on listed bonds	5,680	4,258
Indexation on index linked loans	3,594	2,783
Fair value movement on interest rate swap	3,253	13,690
Financing guarantee and other fees	940	943
	<hr/> 38,584	<hr/> 46,287

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

5. Tax on profit on ordinary activities

	2018 £'000	2017 £'000
(a) Analysis of tax charge for the year		
Current tax		
UK Corporation tax charge on profits at 19% (2017: 20%)	10	10
(b) Factors affecting tax for the year		
Profit on ordinary activities before tax	51	52
Profit on ordinary activities multiplied by standard rate of tax of 19% (2017: 20%)	10	10

For the year ended 31 March 2018 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.

6. Trade and other receivables

	2018 £'000	2017 £'000
Amounts owed by group undertakings due after more than one year		
- Loans	645,575	636,302
- Fair value of interest rate swap	104,169	100,916
Total due after one year	749,744	737,218
Amounts due from group undertakings within one year	7,631	6,955
Prepayments and accrued income	554	558
Total due within one year	8,185	7,513
Total debtors	757,929	744,731

The amounts owed by group undertakings due after more than 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;
- £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.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

6. Trade and other receivables (continued)

	Loan due 2019 £'000	Loan due 2029 £'000	Loan due 2041 £'000	Loan due 2037 £'000	Total £'000
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
2017					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	100,916	-	-	-	100,916
Indexation on bonds	-	-	30,365	9,937	40,302
Loans to parent company	300,916	166,000	160,365	109,937	737,218

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.

7. Cash and cash equivalents

At 31 March 2018, £0.2 million (2017: £0.6 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, £null (2017: £0.5 million) was held on short term deposits.

8. Trade and other payables

	2018 £'000	2017 £'000
Amounts due to group undertakings	10	20
Accruals	6,988	6,746
	6,998	6,766

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

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

9. Loans and borrowings

	2018 £'000	2017 £'000
Listed debt due in the second to fifth years inclusive	304,169	300,916
Listed debt due after more than five years	332,045	326,365
Index-linked loans due after more than five years	113,530	109,937
	749,744	737,218

The effective terms of the listed and unlisted debt, having taken account of a related interest rate swap, are:

- £200 million at a variable rate linked to inflation via an interest rate swap arrangement, falling due for repayment by 30 September 2019. The interest rate swap arrangement in respect of the £200 million is with Deutsche Bank AG. This arrangement swaps the fixed rate of interest on the bond for a variable rate of interest which is linked to inflation as measured by the Retail Price Index.
- £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 2018

9. 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
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
2017					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	100,916	-	-	-	100,916
Indexation on bonds	-	-	30,365	9,937	40,302
Loans	300,916	166,000	160,365	109,937	737,218

10. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
100 (2017: 100) ordinary shares of £1 each	100	100

11. Retained earnings

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

12. 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.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2018

13. Parent company and ultimate controlling party

The ultimate holding company and ultimate controlling party is Utilities of Australia Pty Ltd as Trustee for the Utilities Trust of Australia, which is resident in Australia.

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.

