

Company Registration No. MC-136473

South East Water (Finance) Limited

**Annual Report and Financial Statements
for the year ended 31 March 2017**

South East Water (Finance) Limited

Contents	Page
Officers and professional advisers	2
Directors' report	3
Statement of directors' responsibilities	5
Independent auditor's report	6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Notes to the financial statements	10

South East Water (Finance) Limited

Officers and professional advisers

Directors

P Butler

A Farmer

M Szczepaniak (appointed 15 September 2016)

V Rosati (resigned 14 September 2016)

Company Secretary

N Truillet

Registered Office

P O Box 309GT
Ugland House
South Church Street
Georgetown
Grand Cayman
Cayman Islands

Auditor

Deloitte LLP Statutory Auditor
2 New Street Square
London
EC4A 3BQ
United Kingdom

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 2017.

Results and dividends

The audited financial statements for the year ended 31 March 2017 are set out on pages 7 to 15. The profit on ordinary activities, after taxation, for the year was £42,000 (2016: £41,000).

During the year no dividends were paid (2016: £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 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 and other group companies.

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, interest rate swaps, 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 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.

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 2. During the year, Marissa Szczepaniak was appointed to the board, and Valeria Rosati resigned from the board.

South East Water (Finance) Limited

Directors' Report

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 2017. 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 2. 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 have been re-appointed as auditor by agreement.

Approved by the Board and signed on their behalf

N Truillet

Company Secretary

14 July 2017

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
14 July 2017

South East Water (Finance) Limited

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

We have audited the non-statutory financial statements of South East Water Finance Limited for the year ended 31 March 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members 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 independent auditors' 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, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.



Deloitte LLP

London, United Kingdom

14 July 2017

South East Water (Finance) Limited

Statement of comprehensive income

for the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Operating costs	2	(3)	(2)
Operating loss		(3)	(2)
Finance income	3	46,342	27,253
Finance costs	4	(46,287)	(27,200)
Profit before taxation		52	51
Taxation	5	(10)	(10)
Profit for the year		42	41
Other comprehensive income		-	-
Total comprehensive income for the year		42	41

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 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Trade and other receivables	6	737,218	716,486
Current assets			
Trade and other receivables	6	7,513	7,412
Cash and cash equivalents	7	617	587
		8,130	7,999
Total assets		745,348	724,485
Current liabilities			
Trade and other payables	8	(6,766)	(6,677)
Non-current liabilities			
Loans and borrowings	9	(737,218)	(716,486)
Total liabilities		(743,984)	(723,163)
Net assets		1,364	1,322
Equity			
Share capital	10	-	-
Retained earnings	11	1,364	1,322
Total equity		1,364	1,322

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 7 to 15 were approved by the Board of Directors and were signed on its behalf by:



A Farmer
Director
14 July 2017

South East Water (Finance) Limited

Statement of changes in equity

as at 31 March 2017

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2015	-	1,281	1,281
Profit for the year	-	41	41
Balance at 31 March 2016	-	1,322	1,322
Profit for the year	-	42	42
Balance at 31 March 2017	-	1,364	1,364

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

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 (FRS 101) issued by the Financial Reporting Council.

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

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 2017. 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 *Reduced Disclosure Framework* 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

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 liabilities are removed from the statement of financial position when the related obligation is discharged, cancelled or expires.

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.

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.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

1. Accounting policies (*continued*)

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 and sources of estimation uncertainty

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 significant judgements which had a significant effect on the Company's financial statements.

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.

Cash flow statement

As a wholly-owned subsidiary of HDF, the Company has taken advantage of the exemption under FRS 101 *Reduced Disclosure Framework* not to provide a cash flow statement because the financial statements of HDF include a consolidated cash flow statement and are publicly available.

2. Operating costs

The fees for the audit of the Company amounted to £1,700 (2016: £2,050) 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 (2016: none). No directors received any remuneration for their services as directors of the Company during the year (2016: £nil).

3. Finance income

	2017 £'000	2016 £'000
Loans to group undertakings		
- interest	24,656	24,414
- indexation on listed bonds	7,041	3,430
- fair value movement on interest rate swap	13,690	(1,585)
Bank balances and short term deposits	12	10
Financing guarantee and other fees	943	984
	<hr/> 46,342	<hr/> 27,253

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

4. Finance costs

	2017 £'000	2016 £'000
Listed debt due in the second to fifth years inclusive	8,682	8,573
Listed debt due after five years	15,931	15,798
Indexation on listed bonds	7,041	3,430
Fair value movement on interest rate swap	13,690	(1,585)
Financing guarantee and other fees	943	984
	<u>46,287</u>	<u>27,200</u>

5. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

	2017 £'000	2016 £'000
Current tax		
UK Corporation tax charge on profits at 20% (2016: 20%)	10	10

(b) Factors affecting tax for the year

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	52	51
Profit on ordinary activities multiplied by standard rate of tax of 20% (2015: 21%)	10	10

For the year ended 31 March 2017 a UK corporation rate of 20% has been used as enacted by Finance Act 2013. A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) and 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.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

6. Trade and other receivables

	2017 £'000	2016 £'000
Amounts owed by group undertakings due after more than one year		
- Loans	636,302	629,260
- Fair value of interest rate swap	100,916	87,226
Total due after one year	737,218	716,486
Amounts due from group undertakings within one year	6,955	6,847
Prepayments and accrued income	558	565
Total due within one year	7,513	7,412
Total debtors	744,731	723,898

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.

	Loan due 2019 £'000	Loan due 2029 £'000	Loan due 2041 £'000	Loan due 2037 £'000	Total £'000
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
2016					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	87,226	-	-	-	87,226
Indexation on bonds	-	-	26,107	7,153	33,260
Loans to parent company	287,226	166,000	156,107	107,153	716,486

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.

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

7. Cash and cash equivalents

At 31 March 2017, £0.6 million (2016: £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, £0.5 million (2016: £0.5 million) was held on short term deposits.

8. Trade and other payables

	2017 £'000	2016 £'000
Amounts due to group undertakings	20	10
Accruals	6,746	6,667
	<u>6,766</u>	<u>6,677</u>

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

9. Loans and borrowings

	2017 £'000	2016 £'000
Listed debt due in the second to fifth years inclusive	300,916	287,226
Listed debt due after more than five years	326,365	322,107
Index-linked loans due after more than five years	109,937	107,153
	<u>737,218</u>	<u>716,486</u>

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 for listed bonds 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 reported 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, falling due for repayment on 3 June 2041.
- £100 million at a variable rate linked to inflation, 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.

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:

South East Water (Finance) Limited

Notes to the financial statements

for the year ended 31 March 2017

9. Loans and borrowings (continued)

	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
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
2016					
Original loan consideration	200,000	166,000	130,000	100,000	596,000
Fair value of interest rate swap	87,226	-	-	-	87,226
Indexation on bonds	-	-	26,107	7,153	33,260
Loans	287,226	166,000	156,107	107,153	716,486

10. Share capital

	2017 £	2016 £
Allotted, called up and fully paid		
100 (2016: 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 (UK) Holdings Limited at the balance sheet date, the Company has taken advantage of the exemption under FRS 101 *Reduced Disclosure Framework* not to provide information on related party transactions with other wholly-owned companies within the HDF (UK) Holdings Limited group.

13. Parent company and ultimate controlling parties

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 Company Secretary, Rocfort Road, Snodland, Kent ME6 5AH. During the year, one of the minority shareholders of HDF (UK) Holdings Ltd sold their shares which were acquired partly by an existing shareholder and partly by a new shareholder. This has had no impact on the ultimate controlling party of the group.