

**Company Registration No. 04771490**

**South East Water (Holdings) Limited**

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

# South East Water (Holdings) Limited

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# **South East Water (Holdings) Limited**

## **Officers and professional advisers**

### **Directors**

S Jordan (appointed 3 August 2018)

M Szczepaniak

### **Company Secretary**

N Truillet

### **Company's auditor**

Deloitte LLP, Statutory Auditor

Hill House

1 Little New Street

London

EC4A 3TR

United Kingdom

### **Company's bankers**

HSBC Bank plc

60 Queen Victoria Street

London

EC4N 4TR

### **Registered Office**

Rocfort Road

Snodland

Kent

ME6 5AH

Registered No. 04771490

Country of domicile and incorporation: England and Wales

# South East Water (Holdings) Limited

## Strategic report

The company is a wholly-owned subsidiary of Hastings Water (UK) Limited. This strategic report covers a review of the business and a description of the principal risks and uncertainties facing the company.

### Principal activities, business review and future developments

The company is a private company limited by shares. The company's principal activity during the year and for the foreseeable future is that of an intermediate holding company. Its principal subsidiaries are South East Water Limited ("SEWL") and South East Water (Finance) Limited ("SEWF") (see note 10).

The audited financial statements for the year ended 31 March 2019 are set out on pages 11 to 19. The profit after taxation, for the year was £19.2 million (2018: £10.1 million). The primary reason for the increase in profit was due to an increase in dividends received from its subsidiary. The directors consider the performance of the business to be satisfactory.

Dividends of £18.5 million (2018: £12.3 million) were paid during the year.

The company will be seeking to repay £54 million of its £190 million loan to its subsidiary South East Water Limited in September 2019. This loan repayment will be funded by issuing further ordinary share capital to its parent company Hastings Water (UK) Limited. Further details are given in note 16.

The directors expect the general level of activity to remain constant in the forthcoming year.

### Principal risks and uncertainties

The directors consider that liquidity risk is the principal risk facing the company. The company is financed by dividends paid by its subsidiary, South East Water Limited. The dividends are set at a level to ensure that interest payments are covered.

Our key financial performance indicators ("KPI") are dividends received and paid during the year, which are as follows:

KPI	Measure	2018/19	2017/18
Dividends Received	£m	28.0	18.0
Dividends Paid	£m	18.5	12.2

Dividend policy for the HDF (UK) Holdings Limited ("HDF") Group is set by the Group's Board. The aim of the policy is to fund the Group's payments of interest and expenses and to provide liquidity to the parent company.

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

## **South East Water (Holdings) Limited**

### **Strategic report**

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

#### **Approval**

Approved by the Board and signed on their behalf

A handwritten signature in black ink, appearing to read 'N Truillet', written in a cursive style.

**N Truillet**

Company Secretary

25 September 2019

# **South East Water (Holdings) Limited**

## **Directors' report**

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

### **Results and dividends**

The audited financial statements for the year ended 31 March 2019 are set out on pages 11 to 19. The profit on ordinary activities after taxation for the year was £19.2 million (2018: £10.1 million).

Dividends of £18.5 million (2018: £12.3 million) were paid during the year.

Details of the company's principal activities and principal risks are given in the strategic report on page 4.

### **Directors of the company**

The directors who held office at the date of signing the report are stated on page 3. During the year Stephen Jordan was appointed to the board as a non-executive director. Oliver Schubert resigned from the board.

### **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 is financed by dividends received from its subsidiary company, South East Water Limited, and is in a position of net assets and net current assets as at 31 March 2019. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

### **Auditor**

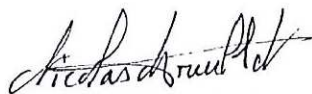
The directors who were members of the Board at the time of approving the Directors' Report are listed on page 3. Having made enquiries of fellow directors, each of these directors confirms that:

- 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.

This confirmation is given and should be interpreted in accordance with provisions of s.418 of the Companies Act 2006.

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

Approved by the Board and signed on their behalf



**N Truillet**

Company Secretary

25 September 2019

## South East Water (Holdings) 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 Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- 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.



**M Szczepaniak**

Director

25 September 2019

# **South East Water (Holdings) Limited**

## **Independent auditor's report to the members of South East Water (Holdings) Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the 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;
- the related notes 1 to 18, 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" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

#### **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.

#### **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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# **South East Water (Holdings) Limited**

## **Independent auditor's report to the members of South East Water (Holdings) 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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the 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.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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; or

## **South East Water (Holdings) Limited**

### **Independent auditor's report to the members of South East Water (Holdings) Limited**

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### **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.



**William Farren FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

27 September 2019

## South East Water (Holdings) Limited

### Statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Income from shares in other group undertakings	5	28,000	18,000
Finance income	6	1	-
Financing costs	7	(10,885)	(9,737)
<b>Profit before taxation</b>		<b>17,116</b>	<b>8,263</b>
Taxation	8	2,068	1,850
<b>Total comprehensive income for the year</b>		<b>19,184</b>	<b>10,113</b>

All income and expenses relate to continuing operations.

# South East Water (Holdings) Limited


## Statement of financial position

as at 31 March 2019

	Notes	31 March 2019 £000	31 March 2018 £000
<b>Non-current assets</b>			
Investments	10	<u>361,421</u>	<u>361,421</u>
		<b>361,421</b>	<b>361,421</b>
<b>Current assets</b>			
Trade and other receivables	11	<u>6,610</u>	<u>5,848</u>
Cash and cash equivalents		<u>43</u>	<u>71</u>
		<b>6,653</b>	<b>5,919</b>
<b>Total assets</b>		<u><b>368,074</b></u>	<u><b>367,340</b></u>
<b>Non-current liabilities</b>			
Loans and borrowing	12	<u>(272,165)</u>	<u>(272,165)</u>
<b>Total liabilities</b>		<u><b>(272,165)</b></u>	<u><b>(272,165)</b></u>
<b>Net assets</b>		<u><b>95,909</b></u>	<u><b>95,175</b></u>
<b>Equity</b>			
Share capital	13	<u>91,408</u>	<u>91,408</u>
Retained earnings	14	<u>4,501</u>	<u>3,767</u>
<b>Total equity</b>		<u><b>95,909</b></u>	<u><b>95,175</b></u>

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

The financial statements of South East Water (Holdings) Limited (Company number 04771490) on pages 11 to 19 were approved by the Board of Directors and were signed on its behalf by:



**M Szczepaniak**  
Director  
25 September 2019

## South East Water (Holdings) Limited

### Statement of changes in equity

as at 31 March 2019

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	91,408	5,904	97,312
Total comprehensive income for the year	-	10,113	10,113
Dividends ( <i>See note 9</i> )	-	(12,250)	(12,250)
Balance at 31 March 2018	91,408	3,767	95,175
Total comprehensive income for the year	-	19,184	19,184
Dividends ( <i>See note 9</i> )	-	(18,450)	(18,450)
<b>Balance at 31 March 2019</b>	<b>91,408</b>	<b>4,501</b>	<b>95,909</b>

# South East Water (Holdings) Limited

## Notes to the financial statements

for the year ended 31 March 2019

### 1. Basis of preparation

#### *Basis of preparation*

South East Water (Holdings) 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 and the Companies Act 2006.

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, related party transactions, and standard not yet effective is impairment of assets.

### 2. Key judgements and Key sources of estimation uncertainty

#### *Key judgements*

The preparation of financial statements requires the application of judgements by management which may affect the balances of assets and liabilities at the balance sheet date and income and expenditure for the year. The directors consider the recoverability of investments and intercompany receivables to be the key judgement and having assessed this at the year end consider these amounts to be 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.

### 3. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout both this year and the preceding year.

#### *Income from shares in group undertakings*

Dividends from subsidiary undertakings are recognised in the financial year they are received.

#### *Finance income*

Finance income is recognised using the effective interest rate method.

#### *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 substantively enacted by the balance sheet date.

#### *Dividends*

Dividends are recorded in the accounts in the year in which they are approved by the company's shareholders.

## South East Water (Holdings) Limited

### Notes to the financial statements

for the year ended 31 March 2019

#### 3. Accounting policies (*continued*)

##### *Investments*

##### *Investments in subsidiaries*

Investments are recognised at historical cost. Where the directors are of the opinion that there has been impairment in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

##### *Interest bearing loans and borrowings*

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the 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 costs are expensed in the income statement as incurred.

#### 4. Operating costs

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

There were no employees of the company during the current or prior year. No remuneration was paid to directors during the current or prior year in respect of services to the company.

#### 5. Income from shares in group undertakings

	2019 £000	2018 £000
Dividends from subsidiary undertakings	28,000	18,000

#### 6. Finance income

	2019 £000	2018 £000
Bank interest received	1	-
	1	-

# South East Water (Holdings) Limited

## Notes to the financial statements

for the year ended 31 March 2019

### 7. Finance costs

	2019 £000	2018 £000
On loans from immediate parent undertaking	5,580	5,233
On loans from subsidiary undertakings	5,305	4,504
	<u>10,885</u>	<u>9,737</u>

### 8. Taxation

	2019 £'000	2018 £'000
<i>(a) Analysis of tax credit for the year</i>		
<b>Current tax</b>		
UK Corporation tax credit on losses	<u>(2,068)</u>	<u>(1,850)</u>
<i>(b) Factors affecting tax for the year</i>		
Profit/(loss) on ordinary activities before tax	<u>17,116</u>	<u>8,263</u>
Profit/(loss) on ordinary activities multiplied by standard rate of tax of 19% (2018: 19%)	3,252	1,570
Effects of:		
Dividend income not chargeable to corporation tax	<u>(5,320)</u>	<u>(3,420)</u>
<b>Current tax credit for the year</b>	<u>(2,068)</u>	<u>(1,850)</u>

The tax credit is in respect of receipts at the statutory rate of corporation tax for group relief surrendered.

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

## South East Water (Holdings) Limited

### Notes to the financial statements

for the year ended 31 March 2019

#### 9. Dividends

	2019 £000	2018 £000
Equity dividends paid during the year:		
First interim dividend of 5.25p per ordinary share (2018: 3.34p)	4,800	3,050
Second interim dividend of 5.09p per ordinary share (2018: 3.39p)	4,650	3,100
Third interim dividend of 4.87p per ordinary share (2018: 3.39p)	4,450	3,100
Final dividend of 4.98p per ordinary share (2018: 3.28p)	4,550	3,000
	<b>18,450</b>	<b>12,250</b>

#### 10. Investments

	2019 £000	2018 £000
<i>Cost and net book value</i>		
At 1 April and 31 March	<b>361,421</b>	<b>361,421</b>

The company has the following investments:

	Holding	Principal activity
South East Water Limited	Ordinary voting	Supply and distribution of water
South East Water (Finance) Limited	Ordinary voting	Raising finance and lending to group companies

South East Water Limited is a wholly-owned subsidiary of the company, which owns 100% of the voting rights, and is incorporated in Great Britain and registered in England and Wales. Its registered address is Rocfort Road, Snodland, Kent ME6 5AH.

South East Water (Finance) Limited is wholly-owned by South East Water Limited, which owns 100% of the voting rights, and is incorporated and registered in the Cayman Islands. Its registered address is PO Box 309GT, Uglan House, South Church Street, Georgetown, Grand Cayman, Cayman Islands.

# South East Water (Holdings) Limited

## Notes to the financial statements

for the year ended 31 March 2019

### 11. Trade and other receivables

	2019 £000	2018 £000
Amounts owed by group undertakings	6,610	5,848

At 31 March 2019 amounts owed to group undertakings due within one year comprise of group tax relief.

### 12. Loans and borrowing

	2019 £000	2018 £000
<i>Non-current liabilities</i>		
Amounts due to group undertakings	272,165	272,165

The above balance comprises the following loans:

- £82,152,000 (2018: £82,152,000) due to the company's parent company, Hastings Water (UK) Limited, bearing interest at the rate of LIBOR plus 6% and due for repayment on 27 July 2053.
- £190,013,000 (2018: £190,013,000) due to the company's subsidiary, South East Water Limited, bearing interest at the rate of LIBOR plus 2% and due for repayment on 27 July 2034.

Both loans are unsecured and each may be redeemed earlier at the option of the company only.

### 13. Issued share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
91,407,527 ordinary shares of £1 each (2018: 91,407,527)	91,408	91,408

### 14. Retained earnings account

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

### 15. Financial commitments

Listed debt and interest rate swaps issued by the company's subsidiary South East Water (Finance) Limited, are secured against the assets of the group of companies headed by South East Water (Holdings) Limited.

## **South East Water (Holdings) Limited**

### **Notes to the financial statements**

for the year ended 31 March 2019

#### **16. Events after the balance sheet date**

Company has issued new ordinary shares on 09 September 2019 to its existing shareholder at par value in exchange of £54m consideration. Proceeds from the issue has subsequently be used to pay back £54 million of the loan from South East Water Limited of £190 million. All other terms of the loan has remained unchanged.

#### **17. 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.

#### **18. Parent company and ultimate controlling parties**

There are no ultimate controlling parties as none of the shareholders have over 50% of the share capital issue by the company.

The immediate parent company is Hastings Water (UK) Limited.

The smallest and largest group of companies into which results of the company are consolidated is that headed by HDF, a company which is incorporated in Great Britain and registered in England and Wales. The financial statements of HDF may be obtained from the company's registered office at Company Secretary, Rocfort Road, Snodland, Kent ME6 5AH.

