

Company Registration No. 04771490

South East Water (Holdings) Limited

**Annual Report and Financial Statements
for the year ended 31 March 2016**

South East Water (Holdings) Limited

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South East Water (Holdings) Limited

Officers and professional advisers

Directors

P Dixon

O Fortin

J-P Ouellet

V Rosati

Company Secretary

N Truillet

Registered Office

Rocfort Road

Snodland

Kent

ME6 5AH

Auditor

Deloitte LLP Chartered Accountants and Statutory Auditor

2 New Street Square

London

EC4A 3BQ

United Kingdom

South East Water (Holdings) Limited

Strategic report

The company is an intermediate holding company within the group of companies owned by Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia, which is resident in Australia and Caisse de depot et placement du Quebec, which is resident in Canada (See note 15). This strategic report covers a review of the business and a description of the principal risks and uncertainties facing the company.

Principal activities

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 7).

Performance of the company during the financial year

The audited financial statements for the year ended 31 March 2016 are set out on pages 7 to 16. The profit on ordinary activities, after taxation, for the year was £0.7 million (2015: £19.1 million). The primary reason for the decrease in profit was due to a reduction in dividends received from its subsidiary.

During the year dividends totalling £0.8 million were paid (2015: £16.9 million).

Position of the business at the year end.

The Company is in a position of net assets and net current assets as at 31 March 2016.

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 dividends paid during the year, which are as follows:

KPI	Measure	2015/16	2014/15
Dividends Received	£m	9.0	27.1
Dividends Paid	£m	0.8	16.9

Dividend policy for the 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 forecast for dividends received and paid in the forthcoming year are £16.0 million and £6.6 million respectively.

Future Developments

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

Events after the balance sheet date

There have been no significant events since the balance sheet date.

Approval

Approved by the Board and signed on their behalf

N Truillet

Company Secretary
15 July 2016

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 2016.

Results and dividends

The audited financial statements for the year ended 31 March 2016 are set out on pages 7 to 16. The profit on ordinary activities, after taxation, for the year was £0.7 million (2015: £19.1 million).

During the year dividends totalling £0.8 million were paid (2015: £16.9 million).

Details of the Company's principle activities and principle risks are given in the strategic report on page 3.

Directors of the Company

The directors who held office throughout the year and up to the date of the report are stated on page 2.

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 as it 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 2016. 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 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.

This confirmation is given and should be interpreted in accordance with provisions of s418 of the Companies Act 2006. 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
15 July 2016

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.

V Rosati

Director

15 July 2016

South East Water (Holdings) Limited

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

We have audited the financial statements of South East Water (Holdings) Limited for the year ended 31st March 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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.

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 31st March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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
- 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.

Jacqueline Holden FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

15 July 2016

South East Water (Holdings) Limited

Statement of comprehensive income

for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Income from shares in other group undertakings	3	9,000	27,144
Finance costs	4	(10,323)	(10,223)
(Loss)/profit before taxation		(1,323)	16,921
Taxation	5	2,064	2,147
Profit for the year		741	19,068
Other comprehensive income		-	-
Total comprehensive income for the year		741	19,068

The income and expenditure all relate to continuing activities.

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

South East Water (Holdings) Limited

Statement of financial position

as at 31 March 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
Non-current assets			
Investments	7	<u>361,421</u>	<u>361,421</u>
		361,421	361,421
Current assets			
Trade and other receivables	8	<u>8,021</u>	<u>8,151</u>
Cash and cash equivalents		<u>62</u>	<u>18</u>
		8,083	8,169
Total assets		<u>369,504</u>	<u>369,590</u>
Current liabilities			
Trade and other payables	9	<u>-</u>	<u>(37)</u>
		-	(37)
Non-current liabilities			
Trade and other payables	9	<u>(272,165)</u>	<u>(272,165)</u>
Total liabilities		<u>(272,165)</u>	<u>(272,202)</u>
Net assets		<u>97,339</u>	<u>97,388</u>
Equity			
Share capital	10	<u>91,408</u>	<u>91,408</u>
Retained earnings	11	<u>5,931</u>	<u>5,980</u>
Total equity	12	<u>97,339</u>	<u>97,388</u>

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

The financial statements of South East Water (Holdings) Limited (Company number 04771490) on pages 7 to 16 were approved by the Board of Directors and were signed on its behalf by:

V Rosati
Director
15 July 2016

South East Water (Holdings) Limited

Statement of changes in equity

as at 31 March 2016

	Issued share capital £000	Retained earnings £000	Total equity £000
Balance at 1 April 2014	91,408	3,842	95,250
Profit for the year	-	19,068	19,068
Dividends	-	(16,930)	(16,930)
Balance at 31 March 2015	91,408	5,980	97,388
Profit for the year	-	741	741
Dividends	-	(790)	(790)
Balance at 31 March 2016	94,408	5,931	97,339

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

1. Accounting policies

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

Basis of preparation

South East Water (Holdings) Limited meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices.

These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' and under the historical cost convention and the Companies Act 2006.

The prior year financial statements were restated for material adjustments on adoption of FRS 101 in the current year. For more information please see below.

In accordance with FRS 101 *Reduced Disclosure Framework* group accounts have not been prepared since the Company is a wholly-owned subsidiary of HDF (UK) Holdings Limited, a company registered in England and Wales and which has prepared financial statements that consolidate the results of the Company.

Company transition to Financial Reporting Standard 101

This is the first year that the Company has presented its financial statements under FRS 101. The last financial statements under a previous GAAP (pre-2015 UK GAAP) were for the year ended 31 March 2015 and the date of transition to FRS 101 was therefore 1 April 2014.

The analysis below shows a reconciliation of equity at both 1 April 2014 and 31 March 2015 and the total recognised gains for the year ended 31 March 2015 as reported under UK GAAP to the revised equity and total comprehensive income under FRS 101 reported in these financial statements.

Reconciliation of the Company's statement of comprehensive income for the year ended 31 March 2015

	UK GAAP £'000	Adjustments on first time adoption of FRS 101 £'000	Restated under FRS 101 £'000
Income from shares in group undertakings	27,144	-	27,144
Finance costs	(10,223)	-	(10,223)
Profit before taxation	16,921	-	16,921
Taxation	2,147	-	2,147
Profit for the year	19,068	-	19,068
Other comprehensive income	-	-	-
Total comprehensive income for the year	19,068	-	19,068

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

1. Accounting policies *(continued)*

Reconciliation of the Company's statement of financial position at 1 April 2014

	UK GAAP £'000	Adjustments on first time adoption of FRS 101 £'000	Restated under FRS 101 £'000
Non-current assets			
Investments	361,421	-	361,421
Current assets			
Trade and other receivables	5,990		5,990
Cash and cash equivalents	4	-	4
	5,994	-	5,994
Total assets	367,415	-	367,415
Non-current liabilities			
Trade and other payables	(272,165)	-	(272,165)
Total liabilities	(272,165)	-	(272,165)
Net assets	95,250	-	95,250
Equity			
Share capital	91,408	-	91,408
Retained earnings	3,842	-	3,842
Total equity	95,250	-	95,250

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

1. Accounting policies (*continued*)

Reconciliation of the Company's statement of financial position at 31 March 2015

	UK GAAP £'000	Adjustments on first time adoption of FRS 101 £'000	Restated under FRS 101 £'000
Non-current assets			
Investments	361,421	-	361,421
Current assets			
Trade and other receivables	8,151	-	8,151
Cash and cash equivalents	18	-	18
	8,169	-	8,169
Total assets	369,590	-	369,590
Current liabilities			
Trade and other payables	(37)	-	(37)
Non-current liabilities			
Trade and other payables	(272,165)	-	(272,165)
Total liabilities	(272,202)	-	(272,202)
Net assets	97,388	-	97,388
Equity			
Share capital	91,408	-	91,408
Retained earnings	5,980	-	5,980
Total equity	97,388	-	97,388

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 as it 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 2016. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Judgements and key 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 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.

Income from shares in group undertakings

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

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

1. Accounting policies (*continued*)

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 recognised as a distribution when paid.

Investments

Investments are recorded 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.

Cash flow statement

As a wholly-owned subsidiary of HDF (UK) Holdings Limited, 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 (UK) Holdings Limited include a consolidated cash flow statement and are publicly available.

2. Operating costs

The fees for the audit of the Company amounted to £2,050 (2015: £1,400) and were borne by South East Water Limited.

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.

3. Income from shares in group undertakings

	2016 £'000	2015 £'000
Dividends from subsidiary undertakings	9,000	27,144

4. Finance costs

	2016 £'000	2015 £'000
On loans from immediate parent undertaking	5,415	5,380
On loans from subsidiary undertakings	4,908	4,843
	10,323	10,223

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

5. Taxation

	2016 £'000	2015 £'000
Analysis of tax credit for the year		
Current tax		
UK Corporation tax credit on losses	(2,064)	(2,147)
(a) Factors affecting tax for the year		
	2016 £'000	2015 £'000
(Loss)/profit on ordinary activities before tax	(1,323)	16,921
(Loss)/profit on ordinary activities multiplied by standard rate of tax of 20% (2015: 21%)	(264)	3,553
Effects of:		
Dividend income not chargeable to corporation tax	(1,800)	(5,700)
Under provision in previous years on group balances	-	-
Current tax credit for the year	(2,064)	(2,147)

For the year ended 31 March 2016 a UK corporation rate of 20% has been used as enacted by Finance Act 2013. The Finance (No.2) Act 2015, which was substantively enacted on 26 October 2015, provides for a reduction in the main rate of UK corporation tax to 19% effective from 1 April 2017 and 18% from 1 April 2020. The rate is expected to further reduce to 17% from 1 April 2020, although this reduction was not substantively enacted at the balance sheet date.

6. Dividends

	2016 £'000	2015 £'000
Equity dividends paid during the year:		
First interim dividend of 0.13p per ordinary share (2015: 4.65p)	120	4,250
Second dividend of 0.32p per ordinary share (2015: 4.63p)	290	4,230
Third dividend of 0.20p per ordinary share (2015: 4.59p)	180	4,200
Final dividend of 0.22p per ordinary share (2015: 4.65p)	200	4,250
	790	16,930

7. Investments

	2016 £'000	2015 £'000
Cost		
At 1 April and 31 March	361,421	361,421
Net book value		
At 1 April and 31 March	361,421	361,421

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

7. Investments (continued)

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.

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.

8. Trade and other receivables

	2016 £'000	2015 £'000
Amounts owed by group undertakings	8,021	8,151

The amounts owed by group undertakings are in respect of group tax relief and are payable on demand.

9. Trade and other payables

Current liabilities

	2016 £'000	2015 £'000
Amounts due to group undertakings	-	37

The amounts owed by group undertakings in 2015 were in respect of group tax relief.

Non-current liabilities

	2016 £'000	2015 £'000
Amounts due to group undertakings	272,165	272,165

The above balance comprises the following loans:

- £82,152,000 (2015: £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 (2015: £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.

South East Water (Holdings) Limited

Notes to the financial statements

for the year ended 31 March 2016

10. Issued share capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
91,407,527 ordinary shares of £1 each (2015: 91,407,527)	91,408	91,408

11. Retained earnings account

	Notes	£'000
At 1 April 2015		5,980
Profit for the year		741
Dividends	6	(790)
At 31 March 2016		5,931

12. Reconciliation of movements in equity shareholder's funds

	Notes	2016 £'000	2015 £'000
At 1 April		97,388	95,250
Profit for the year		741	19,068
Dividends	6	(790)	(16,930)
At 31 March		97,339	97,388

13. 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.

14. 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.

15. Parent company and ultimate controlling parties

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia ("UTA"), Caisse de dépôt et placement du Québec ("CDP") and Desjardins Employees Pension Funds ("DEP") are the Company's joint ultimate holding companies. UTA is resident in Australia. CDP and DEP are resident in Canada. It is the directors' belief that they control the Company jointly.

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 (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The financial statements of HDF (UK) Holdings Limited may be obtained from the Company Secretary, Rocfort Road, Snodland, Kent ME6 5AH.