

## **DIVIDEND POLICY OF SOUTH EAST WATER LIMITED (THE “COMPANY”)**

1. This is the dividend policy of the Company adopted by the Board of the Company on 6 May 2020.
2. In defining this dividend policy the Board had regard to the principle of aligning the interests of the Company, management and investors to the interests of current and future customers.

### **Our dividend policy and approach to setting and authorising dividend**

3. The overarching objective of our dividend policy is that dividends should provide a suitable return to shareholders for their investment in the Company whilst ensuring that the Company is able to finance its functions and meet its obligations as a water undertaker without impairing its long-term financial resilience.
4. Dividends in respect of the non-appointed business and those in respect of the appointed business are assessed separately.

### **Principles applying to all dividends**

5. In setting and authorising all dividends (of any type and whether or not related to the appointed business) the board applies the following general principles.
6. Dividends should be set and paid at a level that enables the Company to maintain its long term financial resilience in the interest of shareholders, customers, employees and other stakeholders and subject to the Company (i) having adequate resources to meet its financial obligations and (ii) being able to comply with its obligations under the Companies Act 2006 relating to the declaration and payment of dividends.
7. In setting the level of appointed business base dividend and in considering the distribution of any dividend following the principles set out above the board has regard also to the following key considerations:

#### *Financial obligations and resilience*

- The obligation of the Company to maintain an investment grade credit rating under its instrument of appointment.
- Compliance with the Company’s financial covenants including specific credit ratios requirements.
- The need to maintain sufficient liquidity and to preserve the longer-term viability of the Company.
- The actual and forecast level of gearing and the ability of the Company to maintain its objectives relating to gearing maintenance or reduction.

#### *Interests of employees*

- The latest valuation of the Company’s pension schemes and of any deficit as well as any forecast deficit based on a reasonable assessment of the implementation of the Company’s strategy to fund any such deficit.

### **Dividend in respect of the appointed business**

8. Our policy is that the base level of ordinary dividend for the appointed business should be set and paid at a level that is within the allowed returns determined by Ofwat in the current price determination and does not exceed a nominal 4% yield on equity based on the actual financial structure of the Company.
9. In setting the base level of ordinary dividend and in considering any distribution of a dividend in respect of the appointed business the board ensures that the Company will have adequate resources to finance the appointed business and to fulfil its duties as a water undertaker. The board has also regard to the following key considerations:

#### *Need for future investment*

- The ability of the Company to finance current and future investment in the appointed business.

#### *Performance for customers*

- The performance commitments in the Company's current final determination to deliver service improvements for customers, taking account of the realistic level of financial risks in the form of ODI penalties associated with setting stretching performance targets and the need for adequate resilience.

10. The Board will also consider any proposed dividend in respect of the appointed business above a 4% nominal yield in light of:
  - Demonstrable improvements in overall performance levels measured by reference to the package of performance commitments set out in the Company's price determination, and
  - The overall financial performance (to include long term financial resilience) of the Company.

### **Dividend in respect of the non-appointed business and special dividend**

11. Dividends in respect of the non-appointed business are assessed separately and reflect the profitability of those activities and performance against specific commercial objectives set by the Board.
12. Special dividend may also be paid in relation to specific transactions or capital reorganisation.

### **Reporting and transparency**

13. This dividend policy will be published in the Company's annual performance reports together with explanations on how it was applied and the factors considered by the Board in authorising the distributions declared in the Company's annual reports.
14. The reasons for changes to our dividend policy will also be reported in the Company's annual performance report.