<u>Chairman's statement on SES Water's half year performance for the six months ended 30 September 2021</u>

I am pleased to present the interim results for SES Water for the six months ended 30 September 2021. With the ongoing impact of COVID-19, it continues to be a challenging time for our customers, employees, suppliers and the water sector as a whole. However, the Company has continued to ensure the treatment and distribution of high-quality water to our customers through this difficult period.

With COP26 highlighting the urgent need for action on climate change, the Company is making good progress in bringing to life its environmental, social and governance strategy, not least in launching its Net Zero Carbon routemap back in June. The routemap clearly sets out how the Company plans to achieve net zero carbon emissions by 2030.

Unfortunately, it was necessary to issue a precautionary boil notice to our customers living in the Oxted area at the start of October, following a positive result for E-coli from one sample at our Westwood Water Treatment Works. The boil notice was lifted within 48 hours after urgent tests across that part of our supply network found no evidence of further contamination. We have investigated the event and sent our report to the Drinking Water Inspectorate (DWI), who will in turn review it in line with their usual procedure. While it was the right thing to do, as we had to make sure the drinking water was safe, I am very sorry for the inconvenience and concern this will have caused those of our customers impacted by the boil notice. It is however important all customers are confident their health is our priority when drinking the water we supply.

On a personal note I am delighted the transition plan for the new Chair of the Company is underway, following the announcement in July 2021 that Dave Shemmans, one of our current non-executive directors, will take on that role with effect from 1 April 2022. That will coincide with the end of my third and final term as Chair of the Company. I have been extremely privileged to serve SES Water and its customers over the last 9 years, and I have no doubt Dave will be an outstanding Chair and guide the Company successfully through the remainder of the current AMP and the next Price Review (PR24). As a reminder, the current AMP refers to the Asset Management Plan for the five-year period 2019-2024, as agreed with Ofwat.

As a water-only company that does not collect or treat wastewater/sewage, we have not been directly impacted by the recent sewage discharge investigation that has been initiated by Ofwat and remain strongly committed to protecting our environment, both now and in the future.

Over the last 6 months, some specific developments within key areas of focus for the Company are as follows:

Delivering what we've promised to our customers

- In September we launched our new customer billing system, Aptumo, which represents the largest change we have made to this area of our business in more than 20 years, and the largest technology investment in our history. The new system will enable us to provide our customers with a more timely and accurate service to better manage their bills online, as well as reducing the complexity in our systems to allow our teams to spend more time focused on engaging with our customers. It will also modernise and improve our billing and revenue processes, which are important to ensure the ongoing financial resilience for the Company. Initial feedback from employees using Aptumo has been extremely positive and we have been pleased with the smooth transition to the new system
- Throughout the pandemic our top priority has remained the health and wellbeing of our employees and customers and we have continued to provide support to both groups. We've

increased the number of Mental Health First Aiders who have run virtual coffee and chat sessions as well as providing one-to-one support for our employees. Likewise, we know our customers have been impacted in many different ways, which is why we're continuing to provide 'Here For You' – our financial support programme, which includes 'Breathing Space', a payment pause scheme, for people struggling financially

- In May we re-commenced activity to collect outstanding household debt, having paused this activity at the start of the pandemic. We are adopting a flexible and segmented approach to this work, using the interaction as an opportunity to understand more about our customers' financial circumstances and offer affordable payment plans and other means of support where required. Customers on our Priority Services Scheme continues to be above target, currently at 4.7%
- We continue to make improvements to our overall customer service performance across a broad range of measures but we know there is much more work we need to do. In the Quarter 2 C-MeX report (Ofwat's sector-wide indicator of customer satisfaction) we ranked 11th, up from 16th in the previous quarter, and are currently in 15th position for the year to date. While this is not where we want to be, the improvement was driven by a stronger result in the reputational element of the survey, where we ranked 10th, and an improvement in our ranking on satisfaction with water enquiries, while our billing performance remained unchanged. With the launch of Aptumo we are confident we will be able to improve our score for billing, while we also have a focused plan in place to improve our performance across the wider business
- For D-MeX (Ofwat's Developer Services measure of experience) our Quarter 1 overall score was 77.16 and, while a quarterly table is not published by Ofwat, using Water UK dashboards our position is shown to be 14th, improved from 16th. As with C-MeX, we know there is much more work to be done in this area and we are taking action to respond more quickly to developer applications, keep them updated on progress and better tailor our service to meet their individual needs
- Around 85% of the water we supply comes from underground and we are unique in the industry in having a legal obligation to soften the vast majority of groundwater we treat and a performance commitment on the level of hardness in the water we distribute. We have recently completed the challenging project refurbishing much of our softening process at Elmer Treatment Works. This allows us to more resiliently meet softened water targets for the site, which supplies over 150,000 people daily
- The number of vacant properties (or 'voids') where customers are connected to our network but not charged for any water is currently 4.17% of the properties in our supply area, against a regulatory target cap of 2.7%. Unfortunately, we incurred a financial penalty for the number of voids we had last year but we have a plan in place to reduce this number across both household and non-household properties. This includes door-to-door visits to residential properties and work with Developer Services to ensure we are able to bill new homes more promptly

Delivering for the environment and our community

- We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited water resources, which is why we have a target to reduce the amount of water per person we need to take from the environment. To help achieve this we have made progress on our programme to install meters for 90% of our customers without one by 2025. Since September we have started the next phase of our universal metering programme with the installation of meters to the remaining 3,500 of our customers in the Ewell area. As part of this work, we are trialling the impact of messaging around the environmental impact of metering supplies, since water supplied in this area is abstracted from groundwater sources that also feed important local chalk streams. We plan to roll out the wider programme across our supply area next year using learnings from both the Ewell trial and previous work we have undertaken to achieve over 60% meter penetration across our customer base

- Ahead of COP26, we recently launched our Net Zero Carbon routemap, which outlines our ambition of achieving net zero carbon by 2030 in the most affordable and resilient way. When producing the routemap we consulted with both our customers and our Environmental Scrutiny Panel to provide an independent voice on our plans. We have also joined the UN-backed ‘Race to Zero’ campaign to further our commitment to reaching zero carbon by the end of the decade
- We have continued to add to our fleet of electric vehicles, which now stands at 30, and having already installed charging points at every one of our operational sites, we continue to install home charging kits for our employees to use our electric and plug-in hybrid vans and company cars. Our vehicle fleet will comprise around 25% electric vehicles by the end of the current year.
- In the last six months we have completed a preliminary ecological assessment and biodiversity site management plan at our Fetcham Springs site and are working towards achieving The Wildlife Trusts’ Biodiversity Benchmark, which we already have for our Elmer Treatment Works. We are also working towards achieving this at our Bough Beech site by 2025
- In September, for the first time, we partnered with Run Reigate as the event’s official water provider, helping to save 24,000 plastic bottles from being used at the event. Instead, we provided participants with our water directly from mains below the running route and in biodegradable cups at the various drinking stations and from our branded tanker in the runners’ village
- Our partnership with the Community Foundation for Surrey has continued and in July we provided a further £13,500 in funding towards two local charities. Delight, a group based in Caterham helps disadvantaged children in Surrey overcome the barriers of poverty by improving their wellbeing, and Patchworking Garden Project, which is a social horticultural project based in Dorking helping people with physical or mental health conditions learn about gardening and crafting
- Our education programme has been shortlisted in the ‘communication and education’ category of The Better Society Awards 2021, designed to recognise commercial organisations helping to create a better and more sustainable world for all. The decision will be made in early December
- With COVID-19 restrictions having eased in the last six months, we have been able to resume school visits to our new education centre at Bough Beech Reservoir. Since May more than 750 adults and children have been able to attend, which has included 24 school visits. We have also been able to deliver in-person water saving talks to 385 people
- In September we successfully prosecuted a company for nine offences for illegally taking water from fire hydrants through the use of unauthorised standpipes. The company received fines totalling £4,500 which we added to our grant fund with the Community Foundation for Surrey

Transforming our performance through being more digitally focused

- Data technologies, science and processes are re-writing the rules of business for many organisations and propelling them toward digital transformation. Global spending on digital transformation technologies is huge and is making us all radically re-think how we can embrace such technology to better meet customer expectations. At the foundation of this radical re-thinking is the intelligent management of the proliferation of data through the organisation. We see data as the key enabler for our digital transformation, and as result we are investing in improving our data skills and capabilities across the Company. We have now established a centralised data team, which is helping to build awareness around the value of data as well providing practical help in data management techniques and gaining insights from integrating data from multiple sources. Businesses like SES Water, intent on digital transformation, must first look at our data and how we can quickly cleanse, review and blend business-critical data from different systems across the Company

- Managing leakage is one of our customers' top priorities and an ever-present focus for us too. We have one of the lowest levels in the industry. Our aim is to more than halve the water lost from our network and our customers' pipes by 2045. At the half-year point during this current year, our reported leakage was slightly behind the target, however this still represents a very good achievement following a very challenging 18 months dealing with the impacts of COVID-19, which has resulted in us needing to effectively achieve two years' worth of leakage savings in one year. We know we have a very stretching regulatory target to reach for the 2021/22 report year, which will require us to achieve a reduction in leakage significantly ahead of the cumulative reduction of the last five years. At the half year mark we are on track to achieve this
- Given this challenging target, we are investing in innovative technology and real-time data solutions with key partners such as Vodafone and Royal HaskoningDHV, and will soon be the first UK water company with a totally 'smart' network. This means the network will be able to recognise and highlight issues in real-time
- Using newly implemented software, data is sent from sensors on the pipes in our network directly to our operational teams and speeds up their response time to prevent leaks and bursts and reduce the amount of supply interruptions for our customers
- The ground-breaking technology is also better for the environment, with less risk of pollution incidents, less unnecessary site visits and lower carbon emissions by targeting where our field teams look for leaks

Targeted investment to ensure operational resilience

- In the past six months we have made significant investment (£1.9m) on several important mains replacement schemes across our supply area, including in Redhill where we have laid more than 1.5 kilometres of new water main to support the significant new building development in the town
- After a challenging first year in this five-year cycle, we are now making good headway towards completing a resilience programme we have been progressing since 2010, to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. Work commenced in late September to begin laying the last new strategic main to connect areas of our supply that were previously separate, alongside the commencement of the third and final phase of work to upgrade the capacity of our Bough Beech site and a number of strategic pumping stations. This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages. Subject to our ability to upsize a section of strategic main on a major A-road in south London, we hope to complete the programme nearly two years early in mid-2023
- During the first half of the year, we have invested £1.4m into upgrading our Treatment Works at Bough Beech Reservoir so we will be able to increase the amount of water we pump out to customers from 50 mega litres per day to 65 mega litres (1 mega litre is the equivalent of 1 million litres) and the laying of 2.4 kilometres of new water main in Langley Park, Sutton, which will allow us to carry a greater volume of water from Bough Beech to our customers in the north of our supply area

Financial performance and ensuring financial resilience

- The six months ended 30 September 2021 saw revenue increase by 3% (£1.0m) to £32.3m (2020: £31.2m). The increase in revenue was driven by the partial recovery post COVID-19 and associated lockdown restrictions increasing the volume of wholesale water, although this has not fully recovered to pre-COVID levels
- Operating costs increased by 4% (£1.1m) in the year to £26.8m (2020: £25.7m) mainly due to higher run rates of network maintenance spend and increased volumes of electricity consumption
- Other operating income remained broadly consistent with prior year at £2.0m (2020: £2.2m) due to monies received for insurance receipts relating to a chemical spill at Elmer water treatment works that occurred in 2017
- Operating profit has increased by 5.1% to £7.8m (2020: £7.7m) due to the partial recovery of revenue and the one-off insurance monies but offset by increased operating costs. There has been an improvement in latest cash collection rates seen within the region and as a result a £0.5m reduction to the bad debt provision has been made within the half year accounts
- Net financing costs have remained at a similar level of £5.5m (2020: £5.4m) however increasing inflation (RPI) costs will increase financing costs for the year ending 31 March 2022
- The tax charge increased by £12.5m to £12.9m (2020: £0.4m) due to the change in tax rate, effective from 2023/24, announced in the Spring budget increasing the provision for deferred tax. Due to this increased tax charge the Company reported a loss after tax of (£10.6m) (2020 Profit: £1.7m)
- Net cash from operating activities of £7.2m decreased from prior year (2020: £10.9m) due to increased operating and financing costs as noted above. Net cash from investing activities of £9.7m increased from prior year (2020: £8.6m) due increase spend on the capital programme mainly with the completion of the new billing system. Net cash from financing activities increased to £7.3m inflow of cash (2020: £3.0m outflow). In 2021 £6m drawdown on the Company's revolving credit facility was made. The Board considered that a final interim dividend related to the year-ended 31 March 2021 could be declared and paid after its consideration of our performance across a number of factors including service to customers, compliance with statutory obligations, as well as financial performance against regulatory assumptions and internal targets.
- In the last 6 months we commenced a series of financing-related activities to both continue to enhance our financial resilience and address our funding requirements for the rest of this AMP. This has included removing certain pre-funding requirements associated with our long-dated bond ahead of required repayments commencing 2027, which has been economically beneficial for the company and also improved our ability to access further debt funding if required. In addition, we are in the process of raising the remaining AMP 7 debt to fund our capital programme activity through to 2025

Our People

- Our people will always be our greatest asset and their commitment and determination to deliver a consistently high level of service for our customers can always be counted on. Despite the challenges of the past 18 months there have been countless examples of our people going above and beyond to ensure our customers receive the service they expect and rely upon

- Throughout the pandemic, we have closely followed the Government's guidance on COVID-19 safety restrictions. As these restrictions have been eased on a national level, we have also started to lift some measures to allow those of our workforce who have been able to work from home to gradually return to work, albeit in a hybrid capacity
- Our phased 'Together Again' programme will allow our employees to enjoy the benefits of working together in person for the majority of the working week, while also having the option of working remotely when needed. Precautions remain in place in our workplaces to reduce the risk of COVID-19 transmission and will be continually kept under review and adjusted as necessary in line with Government advice
- In October we received the results from this year's Employee Engagement Survey, for which 77% of our workforce took the time to share their opinions. This is a higher percentage than in previous years and from a larger employee base. Our overall engagement score is also up from 61 points in 2019 to 64.9 points this year.
- The top scores from the survey indicate our employees feel the workplace is a safe, healthy and comfortable place to work, with a receptive management team and a caring culture. Meanwhile, areas flagged as in need of improvement included career progression, recognition, resources and collaboration across the business. The Board and the Executive leadership team are committed to learning more about these concerns and are already working to address these as part of an action plan in the coming months
- We continue to work on reducing our gender pay gap and our 2021 mean pay gap is 12.3% - down from 15.1% the previous year. Some of the actions we are taking to reduce this further include creating a Company Diversity and Inclusion group for the Company, giving managers recruitment training and making sure our job adverts attract a wide range of people with the help of specialist copy writers. These actions, together with new recruitment processes, form part of our plan to help increase representation of women and other under-represented groups, at all levels, within the Company
- The health and safety of our employees, contractors and members of the public remains a key priority for the Board. In total, 37 Potential Hazard Early Warnings (PHEW) have been reported since April, all of which are being fully investigated and the majority already resolved. The key findings from senior management inspections across our sites in the past six months relate to general site maintenance and a number of security improvement actions
- With COVID-19 changing our ways of working, we moved our health and safety training to an e-learning programme and virtual classrooms, enabling us to mitigate any health risk to our employees and also ensure we remained compliant in providing the mandatory training. Now restrictions have eased we have been able to resume to in-person delivery of the training programme
- Since April the Company has, for the first time, piloted an 'Aspiring Managers' training programme. The series of six workshops was delivered internally by the Learning and Development team to provide learning opportunities for those in the business preparing to take the next steps in leading and managing teams. The programme has been well received by all those who have completed it and the Company is already planning to roll out the training again to the next cohort of employees

Risks and uncertainties

- The global COVID-19 pandemic continues to impact the country on a number of levels, which we and the rest of the water industry have also been affected by. The health and safety of our employees and customers remains our number one priority and there are a number of

mitigating actions that we have taken, and continue to take, to manage the impact while taking care to abide by the latest Government advice throughout
- Senior management continues to hold meetings each week to discuss and assess the latest situation, both on a national and local level. These regular meetings have ensured we have been able to plan effectively and remain flexible to mitigate any risk
- The speed at which the global economy has restarted since the COVID-19 pandemic hit is certainly encouraging and to be welcomed on the one hand but it has created, and continues to create, significant disruption to global supply chains due to an imbalance in supply and demand. This is being felt in both the cost and availability of everything from construction materials to vehicles. We are working closely with our colleagues from across the sector via our trade body Water UK to understand and mitigate impacts, along with lobbying Government departments to ensure the importance of maintaining supplies to the water sector is appropriately prioritised, with varying degrees of success. Having already mitigated through early purchasing the impact of electricity cost increases, we are focusing on mitigation strategies to counter cost increases now being seen in chemicals and other materials. At present, the duration of this disruption, and the associated cost challenges, is unknown. However, we have alerted Ofwat to these issues early and committed to keeping them informed of their impact on the delivery of our Business Plan over the coming months. Ofwat has recently confirmed regulatory penalties of circa £1.1m in respect of performance for the year-ended 31 March 2021, which will be reflected in our allowed revenues in 2022/23. This is in line with our expectations and – in accordance with Ofwat's guidance – excludes adjustments associated with per capita consumption performance

Our primary focus remains ensuring we perform as strongly as possible during the second year of this five-year regulatory period to make sure we meet the commitment we have made to our customers. We are also starting to gear up for the next price review (PR24) and I'm confident that with the dedication and commitment of our employees and supply chain partners, we can rise to the challenges before us and provide our customers with the best possible service.

Jeremy Pelczer, Chairman

Profit and loss for Period ended

	Note	30/09/2021	30/09/2020	31/03/2021
		£'000	£'000	£'000
		Unaudited	Unaudited (restated)*	Audited
Revenue	5	32,270	31,250	65,819
Operating costs	6	(26,795)	(25,706)	(54,320)
Other operating income	7	1,976	2,164	2,202
Net impairment gains/ (losses) on financial and contract assets	15	377	(264) *	(2,589)
Operating profit		**7,828**	**7,444**	**11,112**
Finance income	8	190	95	706
Finance costs	8	(5,674)	(5,440)	(7,950)
Finance costs – net		**(5,484)**	**(5,345)**	**(7,244)**
Profit before income tax		**2,344**	**2,099**	**3,868**
Income tax expenses	9	(12,985)	(448)	(236)
(Loss)/ profit for the financial period		**(10,641)**	**1,651**	**3,632**

Comprehensive income for the Period ended

	Note	30/09/2021	30/09/2020	31/03/2021
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Profit/(loss) for the period		**(10,641)**	**1,651**	**3,632**
Other comprehensive income/ (expense):				
Items that will not be classified to profit or loss				
Actuarial loss on pension scheme	19	(109)	(13,561)	(7,184)
Movement on deferred tax relating to pension scheme	18	207	2,476	1,365
Total comprehensive loss for the period		**(10,543)**	**(9,434)**	**(2,187)**

***Restatements**

The 'Net impairment losses on financial contract assets' has been disclosed separately in these financial statements. Previously it was included in 'Operating costs'. There has been no impact on the operating profit or statement of financial position.

Balance Sheet as at	Note	30/09/2021	30/09/2020	31/03/2021
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
ASSETS				
Non-current assets				
Goodwill	10	3,087	3,087	3,087
Intangible assets	10	8,582	5,109	7,204
Property, plant and equipment	11	351,002	338,689	346,407
Right-of-use assets	12	469	155	268
Pension asset	19	20,489	13,846	20,476
		383,629	**360,886**	**377,442**
Current assets				
Inventories	13	224	306	226
Trade and other receivables	14	39,290	33,224	21,447
Contract assets		4,712	830	4,696
Cash and cash equivalents	22	27,596	24,996	25,601
		71,822	**59,356**	**51,970**
Total assets		**455,451**	**420,242**	**429,412**
LIABILITIES				
Non-current liabilities				
Borrowings	17	(221,119)	(198,806)	(212,232)
Lease liabilities	12	(317)	(104)	(192)
Provisions	18	(54,338)	(40,808)	(41,561)
Pension deficit	19	(1,026)	(1,123)	(1,006)
		(276,800)	**(240,841)**	**(254,991)**
Current liabilities				
Trade and other payables	16	(47,565)	(46,201)	(31,030)
Contract liabilities		(9,220)	(4,500)	(9,306)
Lease liabilities	12	(151)	(47)	(85)
		(56,936)	**(50,748)**	**(40,421)**
Total liabilities		**(333,736)**	**(291,589)**	**(295,412)**
Net assets		**121,715**	**128,653**	**134,000**
EQUITY				
Called up share capital	20	51,489	51,489	51,489
Profit and loss account		70,226	77,164	82,511
Total equity		**121,715**	**128,653**	**134,000**

The financial statements on pages x to xx were approved by the Board of Directors on xxx xxx and signed on its behalf by

TBC TBC

Company registered number: 02447875.
Registered in England and Wales.

Statement of Changes in Equity for the Period ended 2021

	Note	Called up share capital £'000	Profit and Loss account £'000	**Total Equity £'000 Unaudited**
Balance at 1 April 2020		51,489	89,608	141,097
Profit for the year		-	3,632	3,632
Actuarial losses on pensions scheme	19	-	(7,184)	(7,184)
Movement on deferred tax relating to pensions scheme	18	-	1,365	1,365
Total comprehensive loss for the year		**-**	**(2,187)**	**(2,187)**
Transactions with owners in their capacity as owners:				
Dividends	21	-	(4,910)	(4,910)
Transactions with owners recognised directly in equity		**-**	**(4,910)**	**(4,910)**
Balance at 31 March 2021		**51,489**	**82,511**	**134,000**
Loss for 6 months		-	(10,641)	(10,641)
Actuarial losses on pensions scheme	19	-	(109)	(109)
Movement on deferred tax relating to pension scheme	18	-	207	207
Total comprehensive loss for 6 months		**-**	**(10,543)**	**(10,543)**
Transactions with owners in their capacity as owners:				
Dividends	21	-	(1,742)	(1,742)
Transactions with owners recognised directly in equity		**-**	**(1,742)**	**(1,742)**
Balance at 30 September 2021		**51,489**	**70,226**	**121,715**

Cash Flow Statement

Period ended	30/09/2021 £'000 Unaudited	30/09/2020 £'000 Unaudited	31/03/2021 £'000 Audited
Loss for the period	**(10,641)**	**1,651**	**3,632**
Adjustments for:			
Finance income	(190)	(95)	(706)
Finance costs	5,674	5,440	7,950
Proceeds from insurance claims	(1,967)	-	(1,675)
Depreciation of property, plant and equipment	5,812	5,323	10,877
Depreciation of right-of-use assets	54	20	50
Amortisation of intangible assets	215	173	363
Gain on disposal of property, plant and equipment	(9)	(2,164)	(527)
Decrease in inventories	2	2	82
Increase in trade and other receivables	(17,964)	(13,104)	(4,137)
Increase in trade and other payables	16,450	14,910	4,415
Increase in amounts due to related companies	-	1,132	902
Income tax expense	12,985	448	236
Interest paid	(3,184)	(2,661)	(5,182)
(Decrease)/Increase in provisions and employee benefits	-	306	-
Income taxes paid	-	(432)	(1,332)
Net cash generated by operating activities	**7,239**	**10,949**	**14,948**
Investing activities			
Proceeds from insurance claims	1,967	-	1,675
Purchase of property, plant and equipment	(10,020)	(10,344)	(22,547)
Purchase of right-of-use assets	(255)	-	(50)
Purchase of intangible assets	(1,669)	(445)	(3,405)
Proceeds from sale of property, plant and equipment	17	2,188	-
Proceeds on disposal of intangible assets	77	-	-
Interest received	190	28	706
Net cash from investing activities	**(9,693)**	**(8,573)**	**(23,067)**
Financing activities			
Net proceeds of loan	6,000	-	13,000
Payment of obligations under finance leases	191	-	-
Dividends paid	(1,742)	(3,010)	(4,910)
Net cash from financing activities	**4,449**	**(3,010)**	**8,090**
Net increase/(decrease) in cash and cash equivalents	1,995	(634)	(29)
Net cash and cash equivalents at the beginning of the period	25,601	25,630	25,630
Net cash and cash equivalents at the end of the period	**27,596**	**24,996**	**25,601**

1. General information

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its licence and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ.

According to the licence conditions under which the Company operates as a water only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:

- Paragraph 79(a)(iv) of IAS 1
- Paragraph 73(e) of IAS 16, 'Property, plant and equipment'
- Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).

The following paragraphs of IAS 1, 'Presentation of financial statements':

- 16 (statement of compliance with all IFRS)
- 38B-D (additional comparative information)
- 40A (requirements for a third balance sheet)
- 111 (statement of cash flows information)
- 134-136 (capital management disclosures)

Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).

The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The following paragraphs of IFRS 15, 'Revenue from contracts with customers':

- 110 (disclosure requirements)
- 113(a) (separate sources of revenue)
- 115 (disaggregated of revenue)
- 118 (explanation of changes in contract assets and liabilities)
- 120 to 121 (transaction price allocated to the remaining performance obligations)
- 129 (practical expedients)

2.1.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create volatility in demand for water.

No repayments of the Company's long-dated bond are due within the next 12 months, and the directors continue to consider any further reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the ongoing potential effect of COVID-19 and the removal of furlough support on customers' ability to pay, were assessed against the long-dated bond financial covenants. The Company complied with such covenants under base case and downside scenarios, using a number of mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

The Directors, having considered the financial position of the Company, have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For going concern the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 30 September 2021 that have a material impact on the Company's financial statements.

2.2 Consolidation

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly-owned subsidiary of SESW Holding Company Ltd, which in turn is a wholly-owned by East Surrey Holdings Ltd, and of which Sumisho Osaka Gas Water UK Ltd is the ultimate parent company. It is included in the consolidated financial statements of East Surrey Holdings Ltd which are publicly available from its registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It is also included in the consolidated financial statements of Sumisho Osaka Gas Water UK Ltd which are publicly available from its registered office, Vinters Place, 68 Upper Thames Street, London, EC4V 3BJ.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The financial statements are presented in 'pounds sterling' (£), which is also the Company's functional currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 Property, plant and equipment

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant and equipment:

Land

Collections reservoir

This is the Company's primary reservoir for collecting fresh water.

Buildings, including service reservoirs and boreholes

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

Mains network

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement. Provided the mending of a burst main is limited to the replacement of no more than one length of pipe, then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

The relining of a main is the work needed to keep a main in good condition and is maintenance, so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

Plant and machinery (heavy)

Heavy plant and machinery consist of heavy plant used on the course of construction such as excavators, as well as water treatment equipment and water pumps.

Motor vehicles

This balance includes those motor vehicles such as cars and vans.

Sundry plant

Sundry plant consists of small tools used in construction as well as the Company's IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which is incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) and the Company must then use that item, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised as property, plant and equipment are included within 'Purchase of property, plant and equipment' within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the profit and loss account.

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in IAS23 'Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs:

1. **The project needs to go on for longer than a year**

Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

2. **The project must be more than £0.3m of a £30m capital programme per year**

For the asset to be significant enough to be considered a qualifying asset it must cost at least £0.3m (c.1% of our capital programme). Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were drawdown facilities not available.

3. **Ongoing programmes in the ordinary course of business are excluded (i.e. metering and directly managed spend such as network maintenance activity)**

Much of the Company's in the ordinary course of business expenditure qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

4. **Must not include developer services capital expenditure as that is separately funded**

As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Land	n/a
Collections reservoirs	140-150
Buildings including boreholes and service reservoirs	5-100
Mains network	100
Plant and machinery (heavy)	3-100
Motor vehicles	5
Sundry plant	3-50

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see Note 2.6).
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

2.5 Intangible assets

2.5.1 Software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

1. It is technically feasible to complete the software product so that it will be available for use
2. Management intends to complete the software product and use or sell it
3. There is an ability to use or sell the software product
4. It can be demonstrated how the software product will generate probable future economic benefits
5. Adequate technical, financial and other resources to complete the development and to use or sell the software product are available
6. The expenditure attributable to the software product during its development can be reliably measured

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.
Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.
Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between three and ten years.

2.5.2 Internally generated intangible assets – Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale
2. The intention to complete the intangible asset and use or sell it
3. The ability to use or sell the intangible asset
4. How the intangible asset will generate probable future economic benefits
5. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
6. The ability to measure reliably the expenditure attributable to the intangible asset during its development

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account in the period in which it is incurred.
Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. Impairment reviews are carried out if there is an indication that impairment may have occurred, or to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is added to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

Financial liabilities are initially measured at cost and subsequently at amortised cost using the effective interest method.

2.8 Financial assets

Financial assets can be classified as all being held at:

1. Amortised cost
2. Fair value through profit or loss (FVTPL)
3. Fair value through other comprehensive income (FVOCI).

The classification depends on the purpose for which the financial assets were acquired, i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 Financial assets at amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

The asset is held within a business model whose objective is to collect the contractual cash flows

The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the profit or loss under 'net impairment losses on financial and contract assets'.

2.9 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see Note 2.11.

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted, or the cost of recovery is considered to be disproportionate to the value of the debt.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The cost is the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Management recognise a provision for obsolete stock as follows:

1. Between one and two years – 50%
2. Two years and older – 100%

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore recognises them initially as current assets at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers but not yet invoiced have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short-term highly liquid investments with maturities of less than three months, and bank overdrafts.

Included in the cash and cash equivalents is a restricted cash balance (Note 25) owned by the Company relating to the secured index-linked bond.

2.13 Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 Provisions

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

1. The Company has a present legal or constructive obligation as a result of past events
2. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
3. The amount has been reliably estimated.

No such provision was required in FY21 or FY20.

Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company’s activities are described in detail below.

The core principles of IFRS 15 'Revenue from Contracts with Customers' are:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Company considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (Note 3.5).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six-monthly in arrears (see Note 3.1).

The Company has applied this framework to its revenue streams as follows:

2.19.1 Water revenue (appointed income) – household and wholesale revenue

The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company's customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers consumption water.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (measured supply) or not (unmeasured supply). In certain specific circumstances, usually when the customer has requested a water meter, but we are physically unable to fit one to the customer's property, a customer may be placed on an assessed tariff (unmeasured supply). The process for revenue recognition for customers on an assessed tariff is the same as that for unmeasured customers.

For unmeasured supply of water services the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see Note 3.1). Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see Note 3.1).

2.19.2 Empty properties – household revenue

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third-party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

2.19.3 Developer services (appointed income) – other water revenue

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of developer services charges are available on the Company's website and described below:

2.19.3.1 Network extensions

Network extensions relate to the Company laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

2.19.3.2 Service connections

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken.

Customers are required to pay in advance for a connection, thus creating a contract liability (see Note 2.24) for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the tariff, with the Company's performance commitment being to connect the property to the Company's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Company's network and revenue is recognised when this connection made.

2.19.3.3 Diversions

Diversions are when the Company moves our assets at the request of a developer or another party. These are contractual arrangements with the Company's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

2.19.3.4 Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network, based on a tariff. The charges are designed to cover the cost of network reinforcement work to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Company considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for the infrastructure charge is between the Company and the developer who is not necessarily the party that will ultimately benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Company expects to receive based on the tariff rate.

It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when all the new connections are made and so revenue is recognised at that point.

2.19.4 Commission income – non-appointed income

Commission revenue from other regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when the Company collects monies from customers on behalf of the other regulated companies. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other company. The commission is paid based on the amount of debt collected and then transferred, with the Company recognising the revenue when the performance obligation is satisfied (the cash being transferred).

2.19.5 Garage revenue – non-appointed income

The Company receives a revenue for the servicing, repair and MOT facilities to third parties by the Company's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

2.20 Interest income/expense

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 Leases

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of five years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

fixed payments (including in-substance fixed payments), less any lease incentives receivable;

variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

amounts expected to be payable by the Company under residual value guarantees;

the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and

payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

1. the amount of the initial measurement of lease liability;
2. any lease payments made at or before the commencement date less any lease incentives received;

3. any initial direct costs; and
4. restoration costs.

To determine the incremental borrowing rate, the Company:

1. where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
2. uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing; and
3. makes adjustments specific to the lease, e.g. term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.
Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.
Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

2.24 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

2.25 Insurance receipts

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.
To identify classification in the cash flow management consider the nature of the transaction.
Insurance receipts relating to damaged PPE represent 'in substance' a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.26 Managing Risk

2.26.1 Credit Risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meet it obligations.

2.26.2 Interest Risk

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.
The £100.0m long-dated inflation linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company.
The bond was issued on 21 March 2001, carrying a AAA rating, and is secured upon the shares of Sutton and East Surrey Water Plc. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.
Unamortised issue costs of £4.2m (30/09/20: £4.6m, 30/03/21: £4.4m) are netted against the carrying value of the bond, and included within the effective interest charge.
The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate. The other long-term borrowings are charged at a margin above LIBOR.
The Company also has access to borrowings in the form of a current account overdraft and access to a revolving credit facility (RCF). Overdraft interest rates are at a variable rate above base rate, and RCF interest is at a margin above LIBOR.

3. Critical judgement in applying the entity's accounting policies.

The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required in the preparation of these financial statements are:

3.1 Estimate – unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer.
The impact of COVID-19 though, has disrupted normal consumption patterns in 2020-21 resulting in significantly higher short-term household consumption and therefore increasing risk of error associated with this estimate. In order to mitigate this risk management have performed further analysis of consumption patterns throughout the year and compared this to our historic modelling to ensure the model is adjusted to consider the impact of COVID-19 on consumption.

3.2 Judgement – Defined benefit pension scheme

The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets. The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in Note 20.

3.3 Estimate – Provision for doubtful debt

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write off history. The actual level of receivables collected may differ either favourable or negatively from those estimates given. All debts over three years are 100% provided for.

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects. Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where the customer has not paid their bills for a period of at least two years.

Note 4 – Segmental information

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker (‘CODM’) of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in Note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey West Sussex West Kent and South London). Management considers the UK to be the geographical location of business.

Note 5 - Revenue

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Unmeasured water revenue (household)	10,529	11,024	21,551
Measured water revenue (household)	14,935	15,192	31,058
Total household revenue	**25,464**	**26,216**	**52,609**
Wholesale revenue from retailers (non-household)	3,880	3,150	7,360
Other water revenue	502	377	742
Non-water revenue	1,154	569	2,952
Non-appointed income	1,270	938	2,156
Total revenue	**32,270**	**31,250**	**65,819**

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale) customers.

During the 6 months to 30 September 2021 the impact of the pandemic was still reflected in the ratio of water sold to household and non-household customers. In the accounts for the year ended 31/3/21 it was noted that significant changes in consumption patterns occured across household and non-household customers, with more household customers working from home as a result of lockdowns. Government guidance has softened but this trend has not been entirely reversed by the gradual return to the office. Other industries which would drive sales of Wholesale (non-household) Revenue, such as hospitality, have also started to cautiously re-open. This has meant we have seen a small reduction, year on year, in household revenue and an increase in non-household water revenue, although not to pre pandemic levels. Unmeasured household water is charged at a fixed rate so consumption has no impact on revenue. The trend of a fall in revenue is driven by households slowly moving from being on an unmeasured tariff to having a water meter.

Note 6 - Operating Costs

Operating profit is stated after charging:

Period ended	Note	30/09/2021	30/09/2020	31/03/2021
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Wages and Salaries		5,785	5,335	11,284
Social Security Costs		726	665	1,443
Other Pension Costs	19	955	800	1,694
Staff costs		**7,466**	**6,800**	**14,421**
Power		3,305	3,759	7,400
Raw materials and consumables		1,447	1,321	2,886
Rates		1,728	1,739	3,397
Subcontractors		2,440	2,241	5,472
Insurance		493	365	924
Other operating costs		3,285	3,233	6,361
Depreciation charge on property, plant and equipment	11	5,970	5,475	10,877
Depreciation of right-of-use assets	12	54	20	50
Amortisation charge on intangible assets	10	70	22	363
Legal and professional fees (excluding auditor fees)		537	730	1,848
Fees payable to the Company's auditor for the audit of the annual financial statements		-	-	250
Fees payable to the Company's auditors and associates for other services: Audit of regulatory accounts		-	-	48
Other assurance services		-	-	23
Operating costs		**26,795**	**25,705**	**54,320**

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the period wages and salaries of £0.9m (31/3/21: £2,2m) were capitalised to fixed assets .

Net Operating Costs can be analysed as

	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
Cost of sales	18,651	17,376	36,549
Administration expenses	8,100	8,323	17,771
	26,751	**25,699**	**54,320**

Note 7 - Other Operating Income

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Proceeds from insurance claim	1,967	1,675	1,675
Profit on sale of fixed assets	9	488	527
Other Operating Income	1,976	2,164	2,202

During the period to 30 September the company recognised £2.0m (YE 31/3/21: £1.7m) in insurance proceeds relating to damage at one of its water treatment facilities which occurred in 2017.

Note 8: Interest income and expense

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Finance income			
Expected return on pension scheme assets	1,141		2,772
Interest paid on post-retirement liabilities	(956)		(2,164)
Other interest receivable	5	95	98
Total Finance Income	**190**	**95**	**706**
Finance expense			
Interest on Index-Linked Bond	2,450	2,454	4,700
Indexation of Bond	2,664	2,547	2,756
Bond Fee amortisation	223	218	435
Other Interest expenses	337	221	59
Total Finance Expenses	**5,674**	**5,440**	**7,950**
Net finance cost	**5,484**	**5,345**	**7,244**

During the period the Company incurred £5.6m of finance costs (30/09/20: £5.4m, 31/03/21: £8.0m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

The cost of indexation is increasing due to the recent rise in RPI rate .

Note 9: Income Tax Expense

Period ended	note	30/09/2021 £'000 Unaudited	30/09/2020 £'000 Unaudited	31/03/2021 £'000 Audited
Tax (credit)/expense included in the profit or loss:				
Current tax:				
UK corporation tax on profits for the period		-	(243)	-
Adjustments in respect of prior periods		-	-	(97)
Total current tax		-	**(243)**	**(97)**
Deferred tax:				
Origination and reversal of temporary differences – pension scheme		11	52	55
Origination and reversal of temporary differences – other		(622)	639	282
Impact of change in tax rate		13,596	-	–
Adjustments in respect of previous years		-	-	(4)
Total deferred tax		**12,985**	**691**	**333**
Tax on profit		**12,985**	**448**	**236**
Tax expense included in other comprehensive income:				
Deferred tax:				
Movement in relation to pension scheme	19	(207)	(2,476)	(1,365)
Total tax income included in other comprehensive income		**(207)**	**(2,476)**	**(1,365)**

Note 10 - Intangible Assets

	Goodwill	Software	Work in Progress	**Total**
	£'000	£'000	£'000	**£'000**
				Unaudited
Cost:				
At 1 April 2021	19,454	6,804	6,162	**12,966**
Additions	-		1,669	**1,669**
Transfer	-	6,376	(6,376)	**-**
Disposals	-	(2,836)	-	**(2,836)**
As at 30 September 2021:	**19,454**	**10,344**	**1,456**	**11,799**
Accumulated amortisation and impairment				
At 1 April 2021	16,367	5,762	-	**5,762**
Amortisation	-	215	-	**215**
Disposals	-	(2,760)	-	**(2,760)**
As at 30 September 2021:	**16,367**	**3,217**	**-**	**3,217**
Net book Value 30 September 2021	**3,087**	**7,126**	**1,456**	**8,582**
Net book Value 31 March 2021	3,087	1,042	6,162	7,204

The software included in the Company's balance sheet primarily relates to two projects – OneServe and our new customer billing software 'Aptumo' which was ready for use in September and transferred out of Work In Progress.

OneServe is used to track all our projects from network repairs to large capital projects. The asset is carried at £418k (31/03/21: £360k) and has a remaining amortisation period of five years (30/09/20: na, 31/03/21: five years) on a straight-line basis.

Aptumto is used for customer management, billing, debt and collections and meter data related processes. The asset is carried at £6,168k (31/03/21: £5,155k - WIP) and has a remaining amortisation period of five years (30/09/20: na, 31/03/21: na) on a straight-line basis. OneServe went live on 27/9/21.

There are no other individually material software assets.

Intangible assets amortisation is recorded in operating expenses in the profit and loss.

Note 11 - Property Plant and Equipment & right-of-use Assets

	Land	Collection reservoir	Buildings (inc. boreholes & service reservoirs)	Mains network	Plant and Machinery (heavy)	Motor vehicles	Sundry plant	Assets under construction	**Total**	Right-of-use assets	**Total**
	£000	£000	£'000	£000	£000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
									Unaudited		**Unaudited**
Cost											
At 1 April 2021	5,087	2,533	131,435	255,383	135,402	3,780	6,844	29,451	**569,915**	345	**345**
Additions	-	-	-	-	-	-	-	10,417	**10,417**	255	**255**
Transfer	-	-	3,434	2,283	16,846	198	425	(23,186)	-	-	-
Disposals	-	-	-	-	-	(323)	-	-	**(323)**	-	-
As at 30 September 2021:	**5,087**	**2,533**	**134,869**	**257,666**	**152,249**	**3,656**	**7,269**	**16,681**	**580,008**	**600**	**600**
Accumulated amortisation and impairment											
At 1 April 2021	-	442	39,601	96,080	79,588	2,911	4,886	-	**223,508**	77	**77**
Depreciation charge	-	10	1,289	939	3,125	174	276	-	**5,813**	54	**54**
Disposals	-	-	-	-	-	(315)	-	-	**(315)**	-	-
As at 30 September 2021:	**-**	**452**	**40,891**	**97,019**	**82,713**	**2,770**	**5,161**	**-**	**229,006**	**131**	**131**
Net book Value 30 September 2021	**5,087**	**2,081**	**93,977**	**160,646**	**69,535**	**885**	**2,107**	**16,681**	**351,002**	**469**	**469**
Net book Value 31 March 2021	5,087	2,091	91,833	159,303	55,814	869	1,958	29,451	**346,407**	268	268

Land comprises freehold land at £5,046k (31/03/21: £5,048k) and long leasehold land at £41k (£31/03/21: £41k).

Note 12 - Leases

The company has lease contracts for company vehicles the balances of which are included under 'right-of-use assets' on note 11.

The amounts recognised in the financial statements in relation to the leases are as follows:

The balance sheet shows the following amounts relating to leases:

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
right-of-use assets			
Vehicles	469	155	268
Total	**469**	**155**	**268**
Lease Liabilities			
Current	151	47	85
Non-Current	317	104	192
Total	**468**	**151**	**277**

Additions to the right-of-use assets during the period were £255k (31/3/21 £143k).

Amounts recognised in profit and loss:
The profit and loss account shows the following amounts relating to leases:

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Depreciation charge of right-of-use assets:			
Vehicles	54	20	50
Interest expense (included in finance cost):			
Vehicles	4	1	4
Total	**57**	**21**	**54**

Other lease information

Period ended	30/09/2021	30/09/2020	2020
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
The total cash outflow for leases	88	22	50

Note 13 - Inventories

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Raw materials and consumables	224	306	226
Total	**224**	**306**	**226**

Inventory is made up critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators

Note 14 Trade and other receivables

Period ended	**Note**	30/09/2021 £'000 Unaudited	30/09/2020 £'000 Unaudited	31/03/2021 £'000 Audited
Current				
Gross trade receivables		40,092	36,053	24,923
Expected credit loss	15	(7,927)	(5,965)	(8,304)
Net trade receivable		32,164	30,088	16,619
Amounts due from group undertakings		176	867	536
Other receivables		2,715	1,240	1,441
Current tax asset		1,430	(78)	1,430
Prepayments		2,687	1,037	1,334
Other taxes and social security		116	70	87
		39,290	**33,224**	**21,447**

Note 15 - Expected Credit losses on financial assets

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100 per cent against all receivables over 3 years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

		2021
		£'000
		Unaudited
At 1 April		8,304
(Credit) / Charge for bad and doubtful debts - recognised against operating costs		(377)
At 30 September	**Total**	**7,927**

Note 16 Trade and other payables

Period ended	30/09/2021	30/09/2020		31/03/2021
	£'000	£'000		£'000
	Unaudited	Unaudited		Audited
Trade payables	2,526	2,056		1,630
Amounts owed to Group undertakings	1,398	1,519		1,344
Other creditors	35,204	33,960		16,974
Deposits from developers	342	380		322
Accruals	8,095	8,286		10,705
Current tax and Group relief payable	-	-	-	55
Total Current Liabilities	**47,565**	**46,201**		**31,030**

Note 17 Loans and other borrowing

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Non-Current:			
2.874% secured index-linked bond 2027-2031	171,017	167,704	168,130
3.25% irredeemable debentures	50	50	50
5.00% irredeemable debentures	52	52	52
Long-term bank loans	50,000	31,000	44,000
Total Non-Current Liabilities	**221,119**	**198,806**	**212,232**

Amounts falling due after more than 5 years	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Bank loans and overdrafts	171,119	167,806	168,232
Total Non-Current Liabilities	**171,119**	**167,806**	**168,232**

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The company does not have a material exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

Fair values

The fair values together with their carrying amounts are shown in the balance as follows

	30/09/2021	
	Carrying amount	Fair value
	£'000	£'000
	Unaudited	Unaudited
2.874% secured index-linked bond 2027-2031	**171,017**	**238,381**

Note 18 Provisions

	Deferred tax £'000	**Total £'000 Unaudited**
At 1 April 2021	41,561	**41,561**
Adjustment in respect of prior years	-	**-**
Adjustments in respect of changes in rate	12,777	**12,777**
At 30 September 2021	**54,338**	**54,338**

Deferred tax **Period ended**	**30/09/2021** £'000 Unaudited	**30/09/2020** £'000 Unaudited	**31/03/2021** £'000 Audited
Current deferred tax assets	-	-	-
Current deferred tax liabilities	-	-	-
Carrying amount at year end	-	-	-
Non-current deferred tax assets	-	-	-
Non-current deferred tax liabilities	54,338	40,808	41,561
Carrying amount at year end	54,338	40,808	41,561
Total carrying amount at year end	**54,338**	**40,808**	**41,561**

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other £'000	**Total £'000 Unaudited**
At 31 March 2021	37,902	3,699	(40)	**41,561**
Charged to the profit and loss	–	–	12,777	**12,777**
Credited directly to other comprehensive income	–	–	–	**-**
At 30 September 2021	**37,902**	**3,699**	**12,737**	**54,338**

Note 19 - Post employment benefits

The company participates in both a defined contribution scheme 'Group Personal Pension Plan' (GPPP) which is available for all employees and a defined benefit scheme 'the Water Companies Pension Scheme' (WCPS) for qualifying employees providing retirement benefits on the basis of the member's final salary.

19.1 Defined Benefit scheme

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the company and the board of trustees of the fund.

The company's own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g. liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in Bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

Guaranteed Minimum Pension (GMP)

On 26 October 2018 a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2020 £400k); this was consulted with the scheme actuary.

Valuation

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 31 March 2019 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

Period ended	**30/09/2021 Unaudited**
Retail price inflation	3.80%
Consumer price inflation	3.30%
Discount rate	1.90%
Life expectancy of male aged 60 in 2021	26.7
Life expectancy of a male aged 60 in 2046	28.6
Weighted average duration	16.0

Reconciliation of scheme assets and liabilities:

	Assets	Liabilities	Carrying Amount
	£'000	£'000	£'000
			Unaudited
At 1 April 2021	119,642	(99,166)	**20,476**
Interest on benefit obligations	1,141	(947)	**194**
Actuarial gains/(losses) due to:			**0**
changes in financial assumptions		(3,995)	**(3,995)**
changes in demographic assumptions		-	-
experience adjustments on obligation		-	-
Past service		-	-
Benefits paid	(2,060)	2,060	-
Interest on section assets	(105)		**(105)**
Actual return less interest on plan assets	3,919		**3,919**
Expenses			-
At 30 September 2021	122,537	(102,048)	**20,489**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

Period ended	**30/09/2021**
	£'000
	Unaudited
Changes in assumptions	
Change in inflation rate (+0.1%)	1,400
Change in inflation rate (-0.1%)	(1,400)
Change in discount rate (-0.1%)	(1,600)
Change in discount rate (-0.1%)	1,600
Change in life expectancy (+1 year)	5,100
Change in life expectancy (-1 year)	(5,100)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

Total cost recognised as an expense in the Profit and Loss

Period ended	30/09/2021	30/09/2021	**30/09/2021**
	£'000	£'000	**£'000**
	WCPS	Unfunded	**Total**
			Unaudited
Employer's part of current service cost	-	-	-
Section credits/(expenses)	(105)		**(105)**
Past service credit	-	-	-
Net interest credit/(charge)	194	9	**203**
Net credit/(expense) recognised in profit and loss account for pensions schemes	89	9	98

Total cost recognised as an expense in the Other Comprehensive Income

Period ended	30/09/2021	30/09/2021	**30/09/2021**
	£'000	£'000	**£'000**
	WCPS	Unfunded	**Total**
			Unaudited
Net actuarial (gains)/losses in the year due to			
Changes in financial assumptions	(3,995)	(29)	**(4,024)**
Changes in demographic assumptions	-		-
Experience adjustments on benefit obligations	-	(4)	**(4)**
Actual (gain)/loss on Section assets relative to interest on Section assets	3,919	-	**3,919**
(Gain)/loss to recognise outside profit and loss in other comprehensive income	(76)	(33)	(109)

Changes in net liabilities recognised in the balance sheet

	30/09/2021	30/09/2021	**30/09/2021**
	£'000	£'000	**£'000**
	WCPS	Unfunded	**Total**
			Unaudited
Balance sheet asset/(liability) at 1 April 2021	20,476	(1,006)	**19,470**
Amount recognised in profit and loss	89	(9)	**80**
Amount recognised in other comprehensive income	(76)	(33)	**(109)**
Company contributions paid		22	**22**
Balance sheet asset/(liability) at period end	20,489	(1,026)	**19,463**

Fair value of plan assets

period ended	**30/09/2021**
	£'000
	Unaudited
Liability driven investments	96,804
BMO Global Absolute Return Bond Fund	24,507
Cash	12,254
Total	

19.2 Defined Contribution Scheme

Following the closure of the defined benefit scheme to new entrants, the company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Period ended	**30/09/2021**
	£'000
	Unaudited
Current year contributions*	987

Note 20 Called up Share capital
Ordinary shares of 10p each

Allotted and fully paid
As at

	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
514,894,370 (2020: 514,894,370) ordinary shares of £0.10 each	51,489	51,489	51,489

All shares rank pari passu in all respects.

Note 21 Dividends
Dividends paid to immediate parent company

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Ordinary dividend paid in June	1,742	3,008	3,008
Ordinary dividend paid in February			1,902
Total Dividends paid	**1,742**	**3,008**	**4,910**

Dividends can be classified as follows:

Period ended	30/09/2021	30/09/2020	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Final Dividend for FY20		3,008	3,008
Interim Dividend for FY21			1,902
Interim Dividend for FY22	1,742		
Total Dividends paid	**1,742**	**3,008**	**4,910**

Note 22 Cash and cash equivalents

Within liquid resources there is £5.8 (30/09/20: £5.7, 31/03/21: £:5.5m) of restricted cash relating to the secured index linked bond.

Note 23 Events after the reporting period

During the period ended 30/09/21 management entered into negotiations with the underwriter of the Collateral Deed which provides security to the bold holders over the companies £100m index linked bond. This was to remove the need to put cash aside into a ring fenced bank account each year, a requirement which has become less relevant and unnecessarily restrictive since issued in 2001. The amount payable to the underwriter is £4.0m which is payable over 10 years with a compounded interest rate of 3%. Under IFRS 9 this is recognised as a non substantial modification to bond cashflows and therefore the bond liability will be increased by the difference between the pre modification discounted cashflows and the post modification discounted cashflows. This will result in a charge to the statement of gains and losses £3.5m on 5/11/21 and the difference between the charge on that date, and the total cash paid to the underwriter over 10 years will be charged to the PL on a straight-line basis over the 10 year remaining life of the bond. This charge will be £0.1m a year.

During the period ended 30/09/21 the company settled with its insurers the final balance receivable in respect of a claim for damage to one of the water treatment plants. A receivable was already recognised for £0.25m and this has increased to £1.85m at the period end. The cash was all received in two instalments, made in October and November 2021.

Note 24 Controlling parties

The company is a wholly owned subsidiary of UK SESW Holding Company Ltd which in turn is wholly owned by East Surrey Holdings Ltd of which the ultimate parent is Sumisho Osaka Gas Water UK Limited. It is included in the consolidated financial statements of East Surrey Holdings Ltd which are publicly available from their registered office 66-74 London Road Redhill Surrey RH1 1LJ. It is also included in the consolidated financial statements of Sumisho Osaka Gas Water UK Limited which are publicly available from their registered office Vinters Place 68 Upper Thames Street London EC4V3BJ.