Chair's statement on SES Water's half year performance for the six months ended 30 September 2022

I was delighted to take up the role as Chair of the Company from 24 March this year and am pleased to present the interim results for SES Water for the six months ended 30 September 2022.

With the rise in cost-of-living, higher operational costs and drought being declared in the South East it continues to be a challenging time for our customers, colleagues, suppliers and the water sector as a whole. However, the Company has continued to supply high-quality, wholesome water to our customers with no temporary usage restrictions during this difficult period.

We are acutely aware that supply chain issues and inflation, originating from disruption caused by COVID-19, have been exacerbated by the war in Ukraine and are causing a cost-of-living crisis for both customers and businesses.

Despite these hardships we are doing all we can to strike the right balance between providing financial support for our customers, while also taking the necessary measures to strengthen our own financial resilience. We are closely monitoring payment trends and customer circumstances for any signs of increased difficulty to pay. We continue to work on community outreach to raise awareness of available financial support schemes and put appropriate arrangements in place for customers who need them, including payment breaks, discounts of up to 50 per cent and the option of capping tariffs for eligible customers.

During the past six months the water industry has rightly been under scrutiny by Government and our regulator due to the ongoing sewage discharge investigation. While we are a water-only Company, the issue affects the reputation of the whole sector and we remain in full compliance with all our water abstraction and discharge licences and are strongly committed to protecting our environment, both now and in the future.

The summer's record high temperatures and ensuing drought have also highlighted the urgent need for more action - on both climate change and delivering greater resilience across the water sector. We have recently published our draft Water Resources Management Plan for consultation, which looks 50 years ahead and allows us to plan how much water will be needed to supply the area's growing population, while also being ready for climate change. Our plan is also co-ordinated with Water Resources South East's (WRSE) draft plan, to provide a collaborative and regional approach to managing water resources.

We also continue to make good progress tackling leakage and have confidence our approaches to leakage reduction through our fully smart network, and improved processes, are driving the lower leakage levels we are reporting.

Unlike some of the neighbouring water companies we did not meet the trigger level in our Drought Plan to introduce a Temporary Use Ban in our area. However, we need average levels of rainfall in the coming winter to refill our groundwater resources and Bough Beech reservoir to avoid having to put restrictions in place next spring and summer.

I look forward to helping us develop our business targets for the next Price Review (PR24), the agenda for which has been set by our Long-Term Delivery Strategy. This strategy sets out our vision and ambition for the next 25 years and how we will adapt if things change, as detailed in our initial strategic consultation document published in October 2022.

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

Delivering what we've promised to our customers

- In the 2022 year to date, we have maintained our industry-leading water quality performance from 2021. We lead the way in the water sector for our Compliance Risk Index (CRI) score, with only one sample failure due to the presence of lead service pipework and one shown to be due to the condition of a householder tap. The CRI is a measure that assesses water quality compliance across water companies.
- We know our customers are being impacted by the rise in the cost of living, 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, as well as Water Support – a 50% reduction on some bills and WaterSure, a capped tariff for eligible customers

- We continue to make improvements to our overall customer service performance across a broad range of measures. In the Quarter 2 C-MeX report (Ofwat's sector-wide indicator of customer satisfaction) we ranked 12th. We are currently in 13th position for the year to date, which is up two places from our full year performance last year. While this is still not yet where we are aiming to be, this was the third quarter in five where we finished in 12th or above and we are determined to continue to improve our customers' satisfaction with our service. We have recently improved our dedicated service for bereaved customers, provided our field teams with braille passes and offered Dementia Friends training to our whole workforce
- For D-MeX (Ofwat's Developer Services measure of experience) our Quarter 1 overall score was 81.51% and, while a quarterly table is not published by Ofwat, we believe our overall position of 15th is slightly improved on last year. 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
- This year we have made good progress in collecting outstanding household debt and are using the interaction as an opportunity to understand more about our customers' financial circumstances. Currently 6.3% of customers are on our Priority Services Register, which continues to be above target. The register provides extra support to those who have health, access or communication needs. We have also recently provided our field teams with braille passes and offered Dementia Friends training to our whole workforce
- Around 85% of the water we supply comes from underground. We are unique in the industry in having a legal obligation to soften the majority of groundwater we treat and a performance commitment on the level of hardness in the water we distribute. Unfortunately, due to operational challenges, a number of our sites have fallen slightly short of meeting our softening Performance Commitment, for which we will receive a financial penalty
- The number of connected properties that aren't charged for any water (or 'voids') is currently 2.4% of the properties in our supply area and we have made significant progress reducing this from 4.12% last year. This is an important part of our work to make sure customers are paying fairly for the water they use.

Transforming our performance through being more digitally focused

- In September we launched MyAccount, an online platform accessed via our website so customers can more easily pay their bills, manage Direct Debits, see how much water they're using, order free water saving devices, and more – all at the click of a button. Since launch there have been more than 35,000 registrations to the platform
- 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. We are currently just above our target leakage level over the last six months, driven by the very dry weather conditions, but by the end of the regulatory year, hope to have reduced leakage by around 11% since March 2020.We continue to have confidence in our approach to leakage reduction, including through the use of our fully smart network to detect leaks 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 the response time to mitigate the impact of leaks and bursts by reducing the risk of supply interruptions to customers and volume of water lost
- We also continue to develop and provide the right data-led insights to our operational teams – everything from customer experience and debt management metrics to field-based job tracking and asset condition

Delivering for the environment and our community

- We received below average rainfall throughout the summer months, with July 2022 being the driest (and having the hottest day) on record, and this resulted in the Environment Agency officially declaring the region in drought. Throughout the summer we continued to support local chalk streams to make sure they continued to flow and managed our abstraction activities so as to mitigate our impact on the local environment. In triggering our Drought Plan, we worked closely with key stakeholders to make sure we balance our obligations to both our customers and the environment and remain ready to progress plans to take additional action if necessary, dependent on the levels of winter rainfall we receive across our region
- The South East region 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 in our universal metering programme, which aims to ensure 90% of our customers are connected to a metered supply by 2025. Currently we have installed meters for more than two thirds of our customers and are trialling smart meters within the next year to allow customers to better understand their water usage and help identify customer-side leaks far quicker

- In launching a consultation for our draft Long-Term Delivery Strategy in October we have set out our priorities in a new 25-year vision document entitled “Providing your water in a changing world – our long-term ambitions and priorities”. This document is our first step in sharing our thoughts with our customers and we have so far collected more than 170 responses
- We have continued to add to our fleet of electric vehicles and having already installed charging points at all 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 now comprises of just over 20% electric vehicles, with the aim to reach more than 30% by March 2023
- In May we partnered with Run Series to support Run Gatwick for the first time as the event’s official water provider, avoiding more than 2,000 single-use plastic water bottles from being given out 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. In September, we also partnered with Run Reigate for the second time, helping to avoid the same number of single-use plastic bottles from being distributed
- We have also supported several other community events in the past six months including Cowpie Country Show in Betchworth and the Carshalton EcoFair
- In May we held our largest cross departmental ‘Give A Day’ opportunity at The Orpheus Centre in Godstone, where 60 colleagues volunteered and helped to build a water efficient, sensory garden for the centre
- Our partnership with the Community Foundation for Surrey has continued into its fourth year and in July we provided a further £12,000 in funding towards two local charities. The Breck Foundation, which aims to protect young people from online grooming and exploitation, and The Leatherhead Youth Project, working to see positive social transformation among teenagers in deprived communities in Surrey
- Since August we have donated more than £10,000 in funding to support local water efficiency projects through our Every Drop Counts community fund. A total of 17 different groups have been supported, including: schools, scout groups, community gardens, sport clubs and allotments
- We have continued to see an increase in school visits to our Flow Zone education centre at Bough Beech Reservoir. Since April more than 1,200 adults and children have been able to attend the centre. We have also been able to deliver in-person water saving talks to 500 people

Targeted investment to ensure operational resilience

- In the past six months we have made significant progress and investment on several important mains replacement schemes across our supply area, including in Redhill where we have completed the laying of more than 1.5 kilometres of new water main to support the significant redevelopment and regeneration of the town centre
- We are currently above target for mains repairs on our network, due to an increase in bursts during the summer. The situation is recovering, however we will receive a financial penalty
- We are nearing completion of a 15-year resilience programme we have been progressing since 2010. This means by 2025 every property across our region can be supplied by more than one treatment works if, due to operational challenges, this is needed
- This work included the expansion of our treatment works at Bough Beech Reservoir and capacity increases at a number of strategic pumping stations. We are now nearing the end of the final phase of these projects, costing more than £11m. This will mean we are able to increase the amount of water we pump out to customers from 50 mega litres per day to 65 mega litres per day to the north of our region, which was previously completely reliant on groundwater supplies
- As part of this programme we are also laying the final sections of two new water mains, one in Langley Park, Sutton and the other planned for summer 2023 – along a major A-road – the A22 – in south London

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. During the challenges of the extreme weather throughout the summer months there have been countless examples of our people going above and beyond to make sure our customers receive the service they expect and rely upon

- We have launched a refreshed Company Purpose internally to not only do the right thing for our customers and our environment, but also for our colleagues as one team. The new purpose is: 'Harnessing the potential of water to enhance nature and improve lives', which will be at the forefront of every piece of work we do and every decision made
- The health and safety of our colleagues, contractors and members of the public remains a key priority for the Board. In total, 61 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 signage improvement actions. In the past six months we have had no lost time injuries
- We continue to recruit within our operational and customer facing teams, introducing new ways of reaching potential colleagues through our employee referral scheme, careers fairs and working with local job centres. We have also worked with local education providers to reach future talent about a career in the utilities sector
- We launched our Diversity and Inclusion Strategy by supporting National Inclusion Week with activities for our colleagues. Colleague data is now being gathered so more relevant communications, activities, support and facilities can be provided throughout the year, and hiring managers have been provided with information to better support colleagues and candidates with autism
- Our Mental Health First Aiders continue to provide support for any of our colleagues who want to discuss their mental health in a safe and confidential space. We have a team of 12 Mental Health First Aiders across the business, providing a ratio of one for every 12 colleagues
- We continue to run a series of internal training workshops to support the learning and development of our colleagues. These sessions include coaching for aspiring managers
- Our internal people management system has recently been upgraded to allow colleagues to more easily manage their own learning and development plans
- We are also in the process of upgrading the Company intranet, which will improve our colleagues' ability to find and access the documents they need

Financial performance and ensuring financial resilience

- The six months ended 30 September 2022 saw revenue increase by 4% (£1.4m) to £33.7m (2021: £32.3m). The increase in revenue was driven by higher summer demand from household customers, and continued recovery of non-household revenue post pandemic restrictions lifting, although this has not fully recovered to pre-COVID levels.
- Operating costs increased by 7% (£1.8m) in the period to £28.6m (2021: £26.8m) mainly due to higher run rates of network maintenance spend, increased volumes of electricity consumption and increased chemical spend. In addition, an increase to the bad debt provision was included in 2022 to reflect the challenges faced from the cost-of-living crisis on customers' ability to pay water bills.
- Other operating income fell by £2.0m (2021: £2.0m) due to one off monies received in 2021 for insurance receipts relating to a chemical spill at Elmer water treatment works that occurred in 2017
- Operating profit has reduced by 49% to £4.0m (2021: £7.8m) with the partial recovery of revenue offset by the one-off insurance monies received in 2021 and increased operating costs in the six months to 30 September 2022.
- Net financing costs have increased significantly to £14.3m (2021: £5.5m) due to unprecedented increases in inflation (RPI)
- The tax charge decreased by £15.5m to £2.5m (refund) (2021: £12.9m charge) due to the change in tax rate, effective from 2023/24, announced in the Spring budget increasing the provision for deferred tax that occurred in 2021.
- The Company reported a loss after tax of (£7.8m) (2021 loss: £10.6m)
- Net cash spent on operating activities of £1.5m increased from prior year (2021: £7.2m) due to increased operating and financing costs as noted above. Net cash spent on investing activities of £11.2m increased from prior period (2021: £9.7m) due to increase spend on the capital programme. Net cash from financing activities increased to £10.9m (inflow) of cash due to the increased borrowing on the Revolving Credit Facility to fund the capital programme (2021: £4.5m). In 2022 £10m drawdown on the Company's revolving credit facility was made.
- We were pleased to note that Moody's affirmed our credit rating and outlook (Baa2 stable) in October 2022

- The appointed dividend payable for the year-ending 31 March 2023 comprises of an interim dividend to be paid in December 2022 and a final dividend payable in May 2023. With respect to the former, an interim ordinary appointed dividend of £1.5m was declared for the period and will be paid in December 2022 and was considered appropriate and in line with the Company's dividend policy, taking into account Ofwat's allowed return in regulatory equity in the PR19 determination (3.77%) and the overall solid operational and customer performance of the Company in the first six months of 2022/23.

Risks and uncertainties

- With the region still officially classed as in drought by the Environment Agency, we continue to closely monitor our water resource levels. Despite this we have not met the trigger level required in our Drought Plan to introduce a hosepipe ban in our area. However, we need average levels of winter rainfall up to April to refill these resources and avoid having to put restrictions in place next spring and summer
- As the cost-of-living concerns continue we are closely monitoring our customers' ability to pay their bills, especially those who are financially vulnerable. We believe we are taking the right steps to manage this through our financial support schemes
- There continues to be 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 kept Ofwat informed about these issues and their impact on the delivery of our Business Plan.
- We continue to work on the financing of the business over the short term to the end of AMP 7 (2025) and will continue to develop our plans as we work through our operational and financial forecasts as we develop our PR24 strategies.

Our primary focus remains ensuring we perform as strongly as possible during the third year of this five-year regulatory period to make sure we meet the commitments we have made to our customers. We have also made good progress in preparing 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.

Dave Shemmans, Chair

Profit and loss for period ended

	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Revenue	5	33,701	32,270	62,953
Operating costs	6	(28,565)	(26,795)	(56,607)
Other operating income	7	6	1,976	3,358
Net impairment (losses)/ writebacks on financial and contract assets	15	(1,176)	377	449
Operating Profit		3,966	7,828	10,153
Finance income	8	380	190	368
Finance costs	8	(14,703)	(5,674)	(15,923)
Finance costs - net		(14,323)	(5,484)	(15,555)
(Loss)/ profit before income tax		(10,357)	2,344	(5,402)
Income tax charge/ (expense)	9	2,523	(12,985)	(11,935)
Loss for the period		(7,834)	(10,641)	(17,337)

Statement of comprehensive income for the period ended

	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
Loss for the year		(7,834)	(10,641)	(17,337)
Other comprehensive income/ (expense):				
Items that will not be classified to profit or loss				
Actuarial (loss)/ gain on pension scheme	19	(7,719)	(109)	5,658
Movement on deferred tax relating to pension scheme	18	1,539	207	(983)
Total comprehensive expense for the year		(14,014)	(10,543)	(12,662)

Balance Sheet as at				
	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
ASSETS				
Non-Current Assets				
Goodwill	10	3,087	3,087	3,087
Intangible assets	10	9,628	8,582	9,721
Property, plant and equipment	11	363,103	351,002	358,094
Right-of-use assets	11	544	469	623
Pension asset	19	18,582	20,489	26,265
		394,944	383,629	397,790
Current Assets				
Inventories	13	316	224	286
Trade and other receivables	14	38,994	39,290	25,184
Contract assets		5,961	4,712	5,594
Cash and cash equivalents		22,296	27,596	24,102
		67,567	71,822	55,166
Total Assets		462,511	455,451	452,956
LIABILITIES				
Non-Current Liabilities				
Borrowings	17	(255,578)	(221,119)	(234,304)
Lease liabilities	12	(174)	(317)	(412)
Provisions	18	(50,140)	(54,338)	(54,543)
Pension deficit	19	(815)	(1,026)	(972)
		(306,707)	(276,800)	(290,231)
Current Liabilities				
Trade and other payables	16	(52,322)	(47,565)	(38,968)
Contract liabilities		(5,636)	(9,220)	(5,723)
Lease liabilities	12	(378)	(151)	(212)
		(58,336)	(56,936)	(44,903)
Total Liabilities		(365,043)	(333,736)	(335,134)
Net Assets		97,468	121,715	117,822
EQUITY				
Called up share capital	20	51,489	51,489	51,489
Profit and loss account		45,979	70,226	66,333
Total Equity		97,468	121,715	117,822

Statement of Changes in Equity for the period ended 2022

	Note	Called up share capital £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 April 2021		51,489	82,511	134,000
Loss for the year		-	(17,337)	(17,337)
Actuarial gains on pensions scheme	19	-	5,658	5,658
Movement on deferred tax relating to pension scheme	18	-	(983)	(983)
Total Comprehensive expense for the period		-	(12,662)	(12,662)
Transactions with owners in their capacity as owners:				
Dividends	21	-	(3,516)	(3,516)
Transactions with owners recognised directly in equity		-	(3,516)	(3,516)
Balance at 31 March 2022		51,489	66,333	117,822
Loss for the year		-	(7,834)	(7,834)
Actuarial loss on pensions scheme	19	-	(7,719)	(7,719)
Movement on deferred tax relating to pension scheme	18	-	1,539	1,539
Total Comprehensive expense for the period		-	(14,014)	(14,014)
Transactions with owners in their capacity as owners:				
Dividends	21	-	(6,340)	(6,340)
Transactions with owners recognised directly in equity		-	(6,340)	(6,340)
Balance at 30 September 2022		51,489	45,979	97,468

Cash Flow Statement

Cash Flow statement for the period ended	30/09/2022	30/09/2021	31/03/2021
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Loss for the year	(7,834)	(10,641)	(17,337)
Adjustments for:			
Finance income	(380)	(190)	(368)
Finance costs	14,703	5,674	15,923
Proceeds from insurance claims	-	(1,967)	(1,970)
Depreciation of property, plant and equipment	6,207	5,812	11,901
Depreciation of right-of-use assets	113	54	149
Amortisation of intangible assets	441	215	660
Gain on disposal of property, plant and equipment	(6)	(9)	(1,283)
Loss on disposal of intangible assets	-	2	76
Decrease in inventories	(30)	(17,964)	(59)
Increase in trade and other receivables	(16,121)	16,450	(4,868)
Increase in trade and other payables	14,399	-	1,254
Increase in amounts due to related companies	204	12,985	(451)
Income tax expense	(2,523)	(3,184)	11,935
Interest paid	(3,429)	-	(5,846)
Income taxes paid	-	-	-
Net cash generated by operating activities	5,744	7,239	9,716
Investing activities			
Proceeds from insurance claims	-	1,967	2,225
Purchase of property, plant and equipment	(11,215)	(10,020)	(23,630)
Purchase of right-of-use assets	(34)	(255)	(504)
Purchase of intangible assets	(347)	(1,669)	(2,482)
Proceeds from sale of property, plant and equipment	6	17	1,324
Proceeds on disposal of intangible assets	-	77	-
Interest received	380	190	368
Net cash from investing activities	(11,210)	(9,693)	(22,699)
Financing activities			
Net proceeds of loan	10,000	6,000	15,000
Payment of obligations under finance leases	-	191	-
Dividends paid	(6,340)	(1,742)	(3,516)
Net cash from Financing activities	3,660	4,449	11,484
Net (decrease)/increase in cash and cash equivalents	(1,806)	1,995	(1,499)
Net cash and cash equivalents at the beginning of the year	24,102	25,601	25,601
Net cash and cash equivalents at the end of the year	22,296	27,596	24,102

Note 1

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 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.

Note 2

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

The accounting policies, presentation and methods of computation are consistent with those applied in the preparation of the year ended 31 March 2022 which were prepared in accordance with Financial Reporting Standards 101 Reduced Disclosure Framework (FRS 1010). The interim ac- counts have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union ("EU"), these condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Annual Performance Report for the year ended 31 March 2022.

2.1.1 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 2022 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.

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	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Unmeasured water revenue (household)	10,407	10,529	20,562
Measured water revenue (household)	16,240	14,935	28,461
Total household revenue	26,647	25,464	49,023
Wholesale revenue from retailers (non household)	4,650	3,880	7,726
Other water revenue	350	502	817
Non-water revenue	791	1,154	3,090
Non-appointed income	1,263	1,270	2,297
Total revenue	33,701	32,270	62,953

Note 6 - Operating Costs

Operating profit is stated after charging:

Period ended	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Wages and Salaries		5,952	5,785	11,960
Social Security Costs		914	726	1,504
Other Pension Costs	19	976	955	1,905
Staff costs		7,842	7,466	15,369
Power		3,236	3,305	6,617
Raw materials and consumables		2,011	1,447	3,285
Rates		1,733	1,728	3,467
Subcontractors		2,596	2,440	6,025
Insurance		490	493	987
Other operating costs		3,111	3,285	6,080
Depreciation charge on property, plant and equipment	11	6,209	5,970	11,901
Depreciation of right-of-use assets	11	113	54	149
Amortisation charge on intangible assets	10	441	70	660
Legal and professional fees (excluding auditor's fees)		720	537	1,639
Fees payable to the Company auditor for the audit of annual financial statements		63	-	309
Fees payable to the Company's auditors and associates for other services:				
- Audit of regulatory financial statements		-	-	50
- Other assurance services		-	-	69
Operating costs		28,565	26,795	56,607

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the period wages and salaries of £1,647,000 (2022: £2,125,580) were capitalised to fixed assets.

Net Operating Costs can be analysed as

	30/09/2022	30/09/2021	31/03/2022
	£'000	£'001	£'000
Cost of sales	20,513	18,651	36,549
Administration expenses	8,052	8,100	17,771
	28,565	26,751	54,320

Note 7 - Other Operating Income

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Proceeds from insurance claim	-	1,967	1,970
Other operating Income	-	-	105
Profit on sale of fixed assets	6	9	1,283
Other Operating Income	6	1,976	3,358

Note 8: Interest income and expense

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Finance income			
Expected return on pension scheme assets	1,571	1,141	2,227
Interest paid on post retirement liabilities	(1,226)	(956)	(1,862)
Other interest receivable	35	5	3
Total Finance Income	380	190	368
Finance expense			
Interest on Index Linked Bond	2,685	2,450	5,005
Indexation of Bond	11,056	2,664	6,628
Bond Fee amortisation	219	223	444
Other Interest expenses	743	337	3,846
Total Finance Expenses	14,703	5,674	15,923
Net finance cost	14,323	5,484	15,555

During the year the Company incurred £14.7m of finance costs (2022: £16m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £3.9m increase in indexation costs due to a rise in the current year of the RPI rate. In July 2021, the annual inflation change was 3.8%, in July 2022 it increased to 12.3%.

Note 9: Income Tax Expense

Period ended	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Tax charge included in the profit or loss:				
Current tax:				
UK corporation tax on profits for the year		-	-	-
Adjustments in respect of prior periods		-	-	(64)
Total current tax		-	-	(64)
Deferred tax:				
Origination and reversal of temporary differences - pension scheme		342	11	31
Origination and reversal of temporary differences - other		(1,301)	(622)	(1,017)
Impact of change in tax rate		(586)	13,596	13,182
Adjustments in respect of previous years		(978)	-	(197)
Total deferred tax		(2,523)	12,985	11,999
Income tax expense		(2,523)	12,985	11,935
Tax expense included in other comprehensive income/ (expense):				
Deferred tax:				
Movement in relation to pension scheme	18	1,539	(207)	(983)
Total tax (expense)/ income included in other comprehensive income		1,539	(207)	(983)

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017.

On Friday 14 October 2022, the government confirmed that the corporation tax will increase to 25% as already legislated in the UK Budget 2021.

Note 10 - Intangible Assets

	Goodwill	Software	Work in Progress	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 April 2022	19,454	11,979	1,404	13,383
Additions	-	-	348	295
Transfer	-	295	(295)	-
Disposals	-	-	-	-
As at 30 September 2022:	19,454	12,274	1,457	13,678
Accumulated amortisation and impairment				
At 1 April 2022	16,367	3,662	-	3,662
Amortisation	-	441	-	441
Impairment	-	-	-	-
Disposals	-	-	-	-
As at 30 September 2022:	16,367	4,103	-	4,103
Net book Value 30 September 2022	3,087	8,171	1,457	9,628
Net book Value 31 March 2022	3,087	8,317	1,404	9,721

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £478k (2022: £505k) and has a remaining amortisation period of 6.5 years (2022: 7) on a straight line basis. Aptumo our new billing system went live in October 21 and is used for all customer service operations and billing management. The asset is carried at £6.2m (2022: £6.4m) and has a remaining amortisation period of 14 years (2022: 15) on a straight line basis.

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
Cost:											
At 1 April 2022	5,074	2,533	136,270	260,546	155,907	3,554	7,350	21,624	592,858	849	849
Additions	-	-	-	-	-	-	-	11,219	11,219	34	34
Transfer	23	-	431	9,371	4,556	-	143	(14,525)	-	-	-
Disposals	-	-	-	-	-	(31)	-	-	(31)	-	-
As at 30 September 2022:	5,097	2,533	136,701	269,917	160,463	3,523	7,493	18,318	604,045	883	883
Accumulated amortisation and impairment											
At 1 April 2022	-	462	42,234	97,982	86,038	2,837	5,211	-	234,764	226	226
Depreciation charge	-	10	1,346	1,000	3,453	135	265	-	6,209	113	113
Impairment	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(31)	-	-	(31)	-	-
As at 30 September 2022:	0	473	43,579	98,982	89,491	2,941	5,476	0	240,942	339	339
Net book Value 30 September 2022	5,097	2,061	93,123	170,936	70,972	582	2,017	18,318	363,103	544	544
Net book Value 31 March 2022	5,074	2,071	94,036	162,564	69,869	717	2,139	21,624	358,094	623	623

Land comprises freehold land at £5,056k (2022: £5,033k) and long leasehold land at £41k (£2021: £41k).

Note 12 - Leases liabilities

The Company has lease contracts for Company vehicles the balances of which are included under ‘right-of-use assets’ on note 12.

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:

As at	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Right-of-use assets			
Vehicles	544	469	623
Total	544	469	623
Lease Liabilities			
Current	378	151	212
Non-Current	174	317	412
Total	552	468	624

Additions to the right-of-use assets during the period were £34k (2022: £504k).

Amounts recognised in profit and loss:

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

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
Depreciation charge of right-of-use assets:			
Vehicles	113	54	149
Interest expense (included in finance cost):			
Vehicles	6	3	34
Total	119	57	183

Other lease information

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
The total cash outflow for leases	107	88	164

Note 13 - Inventories

	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Raw materials and consumables	316	224	286
Total	316	224	286

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

Note 14 Trade and other receivables

	Note	30/09/2022	30/09/2021	31/03/2022
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Current:				
Gross trade receivables		41,762	40,092	26,928
Expected credit loss	16	(9,030)	(7,927)	(7,855)
Net trade receivables		32,732	32,164	19,073
Amounts due from group undertakings		244	176	658
Other receivables		2,077	2,715	2,240
Current tax asset		265	1,430	1,602
Prepayments		3,398	2,687	1,361
Group relief receivable		111	-	111
Other taxes and social security		167	116	139
		38,994	39,290	25,184

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:

	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Expected credit loss	7,855	8,304	8,304
Charge/ (credit) for bad and doubtful debts - charged against operating costs	1,176	(377)	(449)
Total	9,030	7,927	7,855

Note 16 Trade and other payables

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Trade payables	3,937	2,526	1,924
Amounts owed to group undertakings	971	1,398	1,181
Other creditors	38,363	35,204	24,936
Deposits from developers	352	342	344
Accruals	8,699	8,095	10,583
Total Current Liabilities	52,322	47,565	38,968

Note 17 Borrowings

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Non-Current:			
2.874% secured index-linked bond 2027	37,295	0	-
2.874% secured index-linked bond 2028-2031	149,181	171,017	175,202
3.25% irredeemable debentures	50	50	50
5.00% irredeemable debentures	52	52	52
Long term bank loans	69,000	50,000	59,000
Total Non-Current Liabilities	255,578	221,119	234,304

Amounts falling due within 5 years	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
Bank loans and borrowings *	37,295	-	-
Long term bank loans	69,000	50,000	59,000
Total Non-Current Liabilities	106,295	50,000	59,000

Amounts falling due after more than 5 years	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
Bank loans and borrowings	149,283	171,119	175,304
Total Non-Current Liabilities	149,283	171,119	175,304

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 exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

On 16 March 2022, the Company secured an additional 3 year RCF facility totalling £25m from Royal Bank of Scotland which hold a variable rate of interest at a margin above SONIA. On 29 March 2022, £9m was drawndown to meet the financial covenants at the year end date and another 10m was drawndown on 01 August 2022.

* The amount falling due within 5 years is based on the indexation at 30 September 2022 and therefore will fluctuate with movements in RPI.

Note 18 Provisions

	Corporation tax	Total
	£'000	£'000
At 1 April 2021	-	-
Current tax asset	265	265
At 31 March 2022	265	265

	Deferred tax	Total
	£'000	£'000
At 1 April 2022	54,543	54,543
Adjustment in respect of prior years	(978)	- 978
Deferred tax charge to profit and loss for the period	(1,886)	- 1,887
Charge to the statement of other comprehensive income	(1,539)	- 1,539
At 30 September 2022	50,140	50,140

Deferred tax		
Period ending	30/09/2022	31/03/2022
	£'000	£'000
Current deferred tax assets	-	-
Current deferred tax liabilities	-	-
Carrying amount at year end	-	-
Non-current deferred tax assets	-	-
Non-current deferred tax liabilities	50,140	54,543
Carrying amount at year end	50,140	54,543
Total carrying amount at year end	50,140	54,543

Deferred tax liabilities	Accelerated capital allowances	Relating to the pension deficit	Other	Total
	£'000	£'000	£'000	£'000
At 1 April 2021	37,902	3,699	(40)	41,561
Charged/ (credited) to the profit and loss	10,501	1,640	(142)	11,999
Charged directly to other comprehensive income	-	983	-	983
At 31 March 2022	48,403	6,322	(182)	54,543
Charged to the profit and loss	(2,523)	(341)	-	(2,864)
Credited directly to other comprehensive income	-	(1,539)	-	(1,539)
At 30 September 2022	45,880	4,442	(182)	50,140

The prior year adjustments on deferred tax relates to the pension and fixed assets timing differences.

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.

20.1 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 con- tribution schedules lies jointly with the Company and the board of trustees of the fund.

Total cost recognised as an expense in the Profit and Loss

Period ended	30-Sep-22	30-Sep-22	30-Sep-22	31-Mar-22	31-Mar-22	31-Mar-22
	£'000	£'000	£'000	£'000	£'000	£'000
	WCPS	Un-funded	Total	WCPS	Un-funded	Total
Employer’s part of current service cost						
Section expenses	(175)	-	(175)	(244)	-	(244)
Past service cost	-	-	-	-	-	-
Net interest credit/ (charge)	358	(13)	345	384	(19)	365
Net credit/ (expense) recognised in profit and loss account for pensions schemes	183	(13)	170	140	(19)	121

Total cost recognised as an expense in the Other Comprehensive Income

Period ended	30-Sep-22	30-Sep-22	30-Sep-22	31-Mar-22	31-Mar-22	31-Mar-22
	£'000	£'000	£'000	£'000	£'000	£'000
	WCPS	Un-funded	Total	WCPS	Un-funded	Total
Net actuarial gains / (losses) in the year due to						
Changes in financial assumptions	27,795	200	27,995	5,356	33	5,389
Changes in demographic assumptions	-	-	-	665	9	674
Experience adjustments on benefit obligations	(4,212)	(53)	(4,265)	(1,207)	(33)	(1,240)
Actual gain / (loss) on Section assets relative to interest on Section assets	(31,449)	-	(31,449)	835	-	835
Gain / (loss) to recognise outside profit and loss in other comprehensive income	(7,866)	147	(7,719)	5,649	9	5,658

Note 20 Called up Share capital

Ordinary shares of 10p each

Allotted and fully paid

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
514,894,370 (2021:514,894,370) 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	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Ordinary dividend paid in May	1,940	-	-
Ordinary dividend paid in June	-	1,742	1,742
Ordinary dividend paid in July	1,000	-	-
Ordinary dividend paid in August	3,400	-	1,774
Total Dividends paid	6,340	1,742	3,516

Dividends can be classified as follows:

Period ended	30/09/2022	30/09/2021	31/03/2022
	£'000	£'000	£'000
Final Dividend for FY21	-	1,742	1,742
Interim Dividend for FY22	6,340	-	1,774
Total Dividends paid	6,340	1,742	3,516

Note 22 Events after the reporting period

On 23 Nov 2022 an interim ordinary dividend of £1.5m was declared for the period and is payable to the immediate parent Company in December 2022.

Note 23 Controlling parties

The Company is a wholly owned subsidiary of UK SESW Holding Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent Company and the largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Ltd and the consolidated financial statements are available at Vintners' Place, 68 Upper Thames Street, London EC4V 3BJ. The intermediate parent Company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited is available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.