

Chair's statement on SES Water's half year performance for the six months ended 30 September 2023

I am pleased to present the interim results for SES Water for the six months ended 30 September 2023.

With the ongoing impact from high cost-of-living, supply chain issues and inflation, it remains a challenging time for our customers, colleagues, suppliers and the water sector as a whole. Despite this, we've continued to provide high-quality water throughout and I'm proud of the way everyone in the Company has worked together to overcome these challenges.

We've continued to provide financial support for our customers struggling to pay their bills, which is even more important given the cost-of-living pressures we're all continuing to experience. It's important we keep up this support in the year ahead and make sure our customers know we are here to help them. We have some great schemes in place under our 'Here For You' programme, including payment breaks and discounts of up to 50 per cent, and we've heard directly from some of our customers that these have helped make a difference to them.

The current economic climate continues to be a challenge for our business. While inflation levels have slightly reduced since earlier in the year, economic pressure remains on our supply chain costs (such as the cost of chemicals used in our water treatment processes). It has also substantially increased the financing costs of our large index-linked bond. As a result, we remain focused on implementing resilient financing and making sure we're as efficient as possible with our operational and capital expenditure, while still delivering our performance commitments for our customers.

In September we submitted an ambitious business plan to our regulator for the first five years of a broader 25-year strategy, outlining long-term goals to deliver more for our customers, the environment and the local community. This is a significant and important piece of work for the business and sets out how we will continue to be among the best in the industry in areas that matter most to our customers, including water quality, leakage reduction, supply resilience and environmental sustainability.

Between 2025 and 2030 the Company plans to spend £413m, an increase of £13.3m per year compared to the 2020 to 2025 period. During this period some of the key schemes in our plan include beginning a 20-year programme of additional targeted water mains replacement to further reduce leaks, mains bursts and water supply interruptions, finishing our smart meter roll out by 2032 and continuing to replace lead pipes in premises such as community venues and sports clubs.

We continue to make good progress tackling leakage and the combination of the investment we have made in our intelligent network, our early alert systems and the skill of our operational teams to manage them, has been effective in driving lower leakage levels.

It has been well documented that our shareholders have engaged financial advisors to undertake a strategic review of the Group business. External advisors have been appointed to look at the entire East Surrey Holdings portfolio, including SES Water. While the strategic review is ongoing, our focus remains on delivering for our customers, our communities, and our people.

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

Delivering what we've promised to our customers

- For 2023 year to date, we are reporting a provisional water quality compliance risk index score of 0.01, which places us as one of the top-ranking companies for water quality in the Drinking Water Inspectorate's online performance tracker.
- In the Quarter 2 C-MeX report (Ofwat's sector-wide indicator of customer satisfaction) we came fifth out of all water companies for the Customer Experience Survey and 14th for the Customer Service Survey, putting us 11th overall in Q2 and 13th for the year to date. This continues our long-term trend of improvement in this important area. We've been having conversations with teams across the business to help them understand the importance of great customer service and have launched a review to improve our end-to-end customer journeys to improve these
- 7.8% of our customers are on our Priority Services Register, which helps us provide extra support to those who have health, access or communication needs. This is well ahead of our target of 6.2% for the year and puts us on track to deliver our target for next year too
- We've reduced the number of connected properties with no billing account to just 2% on average across the year, meaning more customers are paying for the water they are using. This is down from an average of 4.12% in the 2021/22 financial year

- For D-MeX (Ofwat's Developer Services measure of experience) our Quarter 1 overall score was 85.67% and our overall position of 12th for Quarter 1 is improved on last year. As with C-MeX, we know there is 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

Transforming our performance through being more digitally focused

- Almost 70,000 customers have now registered for MyAccount, our online customer portal, which is up from 56,000 in March 2023. The portal allows customers to: 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. To date 13,000 customers have set-up to pay by Direct Debit since the portal since went live
- We started the new reporting year in a strong position with leakage reducing for the first two months followed by a modest but expected rise in the summer. Reduced burst main outbreaks due to favourable weather conditions has helped us with this performance
- Our efforts are now on driving leakage down again ahead of winter to build headroom against our target, protecting us against the risks of a colder than average winter
- We continue to have confidence in our approaches to leakage reduction through our strategic projects and improved capabilities as our smart network is helping us find and fix leaks quicker than ever before

Delivering for the environment and our community

- Our business plan for 2025 to 2030 addresses the challenges we face from climate change and meet the needs of a growing population in what is already a seriously water-stressed region
- Alongside our business plan we also published our revised draft Water Resources Management Plan, which sets out how we'll continue to supply high-quality drinking water to our customers between 2025 and 2075
- We have a target to reduce the amount of water per person we need to take from the environment. Our current target (based on a three-year rolling average) is 141.31 litres per person per day and we reported 150.8 litres per person per day at the end of 2022/23. To help us achieve this target we have made further progress in our universal metering programme, which aims to ensure 90% of our customers are served by a metered supply by 2025. Currently we have fitted meters for 75% of our customers and are trialling smart meters to allow customers to better understand their water use and help identify customer-side leaks far quicker
- We have added to our fleet of electric vehicles, with each electric car helping to save around 2-3 tonnes of CO₂e per year, as well as reducing the impact on local air quality. Our vehicle fleet now comprises just over 30% of electric and hybrid vehicles, with the aim to reach 100% by 2030
- In May we partnered with Run Series to support Run Gatwick for the second time as the event's official water provider, avoiding more than 24,000 single-use plastic water bottles from being given out at the event. Instead, we provided participants with water from our branded tanker (the 'Quenchinator') in the runners' village. In September, we also partnered with Run Reigate for the third time, helping to avoid the same number of single-use plastic bottles from being distributed
- We have also taken the Quenchinator to provide our water for people at the YMCA Fun Run and Feasty Fest – both local events in Surrey
- We have expanded our charity partnership programme by partnering with The Orpheus Centre in Godstone, The Lucy Rayner Foundation and The Wildlife Aid Foundation
- We have also supported several other community events in the past six months including: Orphest, Pride In Surrey, and the Carshalton EcoFair
- In August we held our first garden centre road show, taking our event trailer to four local centres to speak to customers about the importance of saving water and provide them with water saving devices
- We have continued to see an increase in school visits to our Flow Zone education centre at Bough Beech Reservoir. Since April more than 1,300 adults and children have been able to attend the centre. We have also been able to deliver in-person water saving talks to more than 300 people

Targeted investment to ensure operational resilience

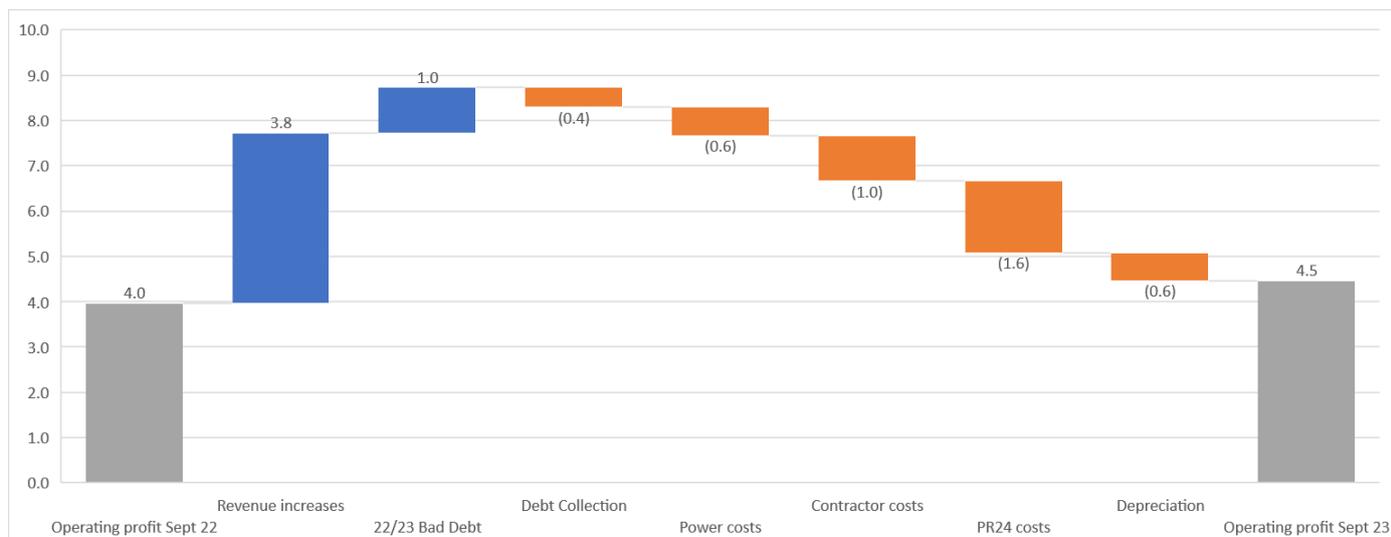
- In the past six months we have progressed a number of key mains replacement schemes across our supply area to make sure we are able to continue to deliver a reliable supply that contributes to reducing leakage and minimises the risks of supply interruptions and the potential for resultant water quality incidents
- We are nearing completion of a £45m programme of investment over a 15-year period from 2010 to 2025. This means by 2025 every property across our region can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages.
- Once the investment programme is complete we will be the first UK water company to have achieved this interconnectivity across our network. As part of this programme, in the first half of this year, we have successfully finished laying two new strategic water mains, one in Langley Park, Sutton, and the other along a major A-road – the A22 in South London
- The A22 scheme was one of the most complex schemes the Company has worked on and was completed a week early and within budget. The scheme directly benefits 27,000 properties in Purley and the surrounding area and vastly improves the resilience of the water supply network in the area
- Some planned interruptions to supply are unavoidable as we work to improve the long-term resilience of our mains network; however, our performance in the past six months has been within our target to keep interruptions to a minimum

Our People

- Our team remains the cornerstone of our success, with their unwavering dedication and drive to consistently provide exceptional service to our customers
- In total 480 days of training were delivered and completed from April to October 2023
- We have increased our focus as a business on developing skills and capability of our management team with internal management development programmes such as: Aspiring Managers, team building workshops and recruitment and selection
- 85% of needs identified through training analysis have had a solution provided and are either to be completed or already completed
- Apprenticeships are currently offered for the roles of Systems Technician, Payroll and IT and all vacancies with other early career opportunities are under review
- Eight of our colleagues are completing professional development qualifications in fields such as Level 2 Diploma in Operations, CIMA qualification and coaching
- 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 28 Mental Health First Aiders across the business, providing a ratio of one for every 12 colleagues
- We also continue to look after the physical wellbeing of our colleagues, providing annual health checks for all, as well as flu vaccinations
- The health and safety of our colleagues, contractors and members of the public remains a key priority for the Board. In total, 45 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 housekeeping, trip and slip hazards
- The Company has also gone 12 months without a recorded lost time accident, which is a great achievement and demonstrates how all colleagues care about protecting themselves and others

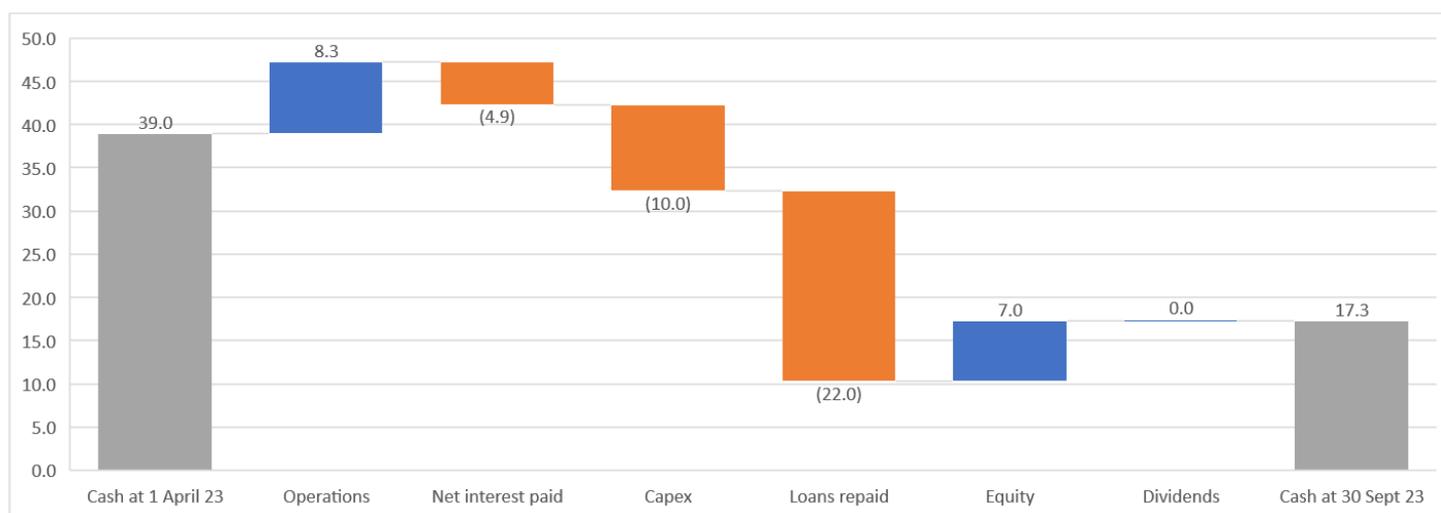
Financial performance and ensuring financial resilience

Operating profit for the six months ended 30 September 2023 increased by £0.5m to £4.5m compared to £4.0m in the six months to 30 September 2022. The movements in operating profit between the two periods are shown in the graph below:



- Revenue increased by £3.8m (c11%) to £37.5m (2022: £33.7m) mainly driven by the 23/24 tariff rise and higher levels of consumption by non-household customers
- Operating costs increased by 15% (£4.2m) in the period to £32.8m (2022: £28.6m) mainly increased power costs, increased contractor spend, increased debt collection costs and assurance and support costs incurred in the first half of 2023/24 that won't be repeated in the second half on our price review (PR24) submission to Ofwat.
- In the first half of 22/23 a £1m increase to the bad debt provision was included due to the impact of the cost of living crisis meaning more customers were unable to pay their bills, given the focus on cash collection in 23/24 to customers who can pay their bills, the provision has remained at consistent levels.
- Net financing costs remained at similar levels to 2022 as inflation (RPI) remains very high increasing the value of our long-term index linked bond. Similar to 2022/2023, given the losses before tax (mainly driven by financing costs) a tax credit of £2.3m (2022: £2.5m) was recognised in the period.
- Overall, the Company reported a loss after tax of (£7.5m) (2022 loss: £7.8m)

Movements in cash are summarised in the graph below, resulting in a cash balance at 30 September 2023 of £17.3m



- Funds from operations generated £8.3m in the period to 30 September 2023 an increase of £5.0m from Sept 2022 of £2.3m.
- We paid £4.9m on interest charges primarily relating to our long term index linked bond and interest on our revolving credit facility in the 6 months to September 2023. This was £1.9m higher than interest charges in the 6 months to September 2022 due to the higher floating rate interest.
- We spent £10.0m on capital expenditure in the first 6 months to September 23, a reduction of £1.5m (2022: £11.5m)

- £22m short term borrowings taken out at the end of the financial year were repaid in the first half of the 2023/24.
- Equity injections of £7m were received from shareholders in August 2023, with a further £15m expected to be received by 31 March 2024
- As no final dividend was declared for 2022/23, no dividend has been paid in the six months ended 30 September 2023, and no interim dividend for 2023/24 has been declared.
- In November 2023, the Company successfully completed a new private debt placement of £40m with maturities of nine and 10 years through a single UK institutional investor. The first tranche of £10m of the private placement offering was drawn down by SES Water on 28 November 2023 and the second tranche of £30m is expected to be drawn down on 28 March 2024. The weighted average coupon of the borrowing is 5.71%. The notes have been wrapped by Assured Guaranty and will carry a AA rating from Standard & Poor's

We were pleased to note that in October Moody's affirmed our credit rating and outlook (Baa2 stable) reflecting the new and expected future equity

Risks and uncertainties

- While inflation levels have reduced since March 2023, economic pressure remains on the operational and supply chain costs of the business, financing costs and levels of bad debt as customers continue to be adversely impacted by the overall impact on the cost-of-living issues
- As we saw in the first half of 2023/24 although revenue increased (due to tariff increases) volumes of household consumption were lower than seen in 2022/23 mainly driven by the wetter conditions in 23/24 compared to the long hot summer in 22/23. Weather conditions can cause variations in water demand from the long term average resulting in fluctuations in revenue.
- We may experience loss of data (including personal data), ransomware issues or interruptions to our key operational control systems as a result of a cyber-attack. Among a number of measures we have put in place to counter-act this risk, we carry out network penetration testing every six months where third party security professionals carry out controlled hacking attempts on our network. This identifies and tests any weaknesses that could be exploited by cyber criminals
- We may experience a shortage of human resources, leading to an inability to operate effectively, due to an event that is outside of Company control, such as the COVID-19 pandemic, to factors that result in high levels of employee turnover. We have measures in place to ensure the Company is monitoring any emerging concerns and adopting appropriate event management that may include enhanced communications with colleagues, access to mental health first aiders, ensuring employees are equipped for home working and provision of personal protective equipment
- With the reset of the global economy post COVID-19, and with the compounding impacts of Brexit and the conflict in Ukraine, demand is outstripping supply, causing issues with goods and materials availability and hence price. SES Procurement captures intelligence from across the sector on supply chain impacts on a fortnightly basis and work is also progressing to identify ways in which our demand for these goods can either be reduced or delayed through operational adjustments of planning of work to a later date (when supply/demand is back in balance)

Our primary focus remains ensuring the Company performs strongly during the fourth year of this five-year regulatory period to meet the commitments we have made to our customers. We have also prepared and submitted an ambitious business plan for the next price review (PR24). I would like to thank all of our colleagues for their continued hard work and dedication during this very demanding period. Despite the challenging landscape we are operating in I have full confidence we can deliver our commitments, empower our customers and work with our communities to enhance nature and improve lives.

Dave Shemmans, Chair

Profit and loss for period ended				
		30/09/2023	30/09/2022	31/03/2023
	Note	£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Revenue	5	37,466	33,701	67,446
Operating costs	6	(32,831)	(28,565)	(62,818)
Other operating income	7	74	6	1,097
Net impairment losses on financial and contract assets	15	(228)	(1,176)	(1,458)
Operating Profit		4,481	3,966	4,267
Finance income	8	399	380	855
Finance costs	8	(14,629)	(14,703)	(30,612)
Finance costs - net		(14,230)	(14,323)	(29,757)
Loss before income tax		(9,749)	(10,357)	(25,490)
Income tax credit	9	2,316	2,523	5,979
Loss for the financial period		(7,433)	(7,834)	(19,511)

Statement of comprehensive income for period ended

		30/09/2023	30/09/2022	31/03/2023
	Note	£'000	£'000	£'000
Loss for the period		(7,433)	(7,834)	(19,511)
Other comprehensive income/ (expense):				
Items that will not be classified to profit or loss				
Actuarial loss on pension scheme	19	(185)	(7,719)	(17,248)
Movement on deferred tax relating to pension scheme	18 & 9	46	1,539	4,312
Total comprehensive expense for the period		(7,572)	(14,014)	(32,447)

Balance Sheet				
	Note	30/09/2023	30/09/2022	31/03/2023
		£'000	£'000	£'000
ASSETS				
Non-Current Assets				
Goodwill	10	3,087	3,087	3,087
Intangible assets	10	10,026	9,628	9,659
Property, plant and equipment	11	371,065	363,103	369,840
Right-of-use assets	11	972	544	816
Pension asset	19	8,937	18,582	9,211
		394,087	394,944	392,613
Current Assets				
Inventories	13	428	316	377
Trade and other receivables	14	46,060	38,994	27,758
Contract assets		6,064	5,961	5,862
Cash and cash equivalents		17,394	22,296	38,957
		69,946	67,567	72,954
Total Assets		464,033	462,511	465,567
LIABILITIES				
Non-Current Liabilities				
Borrowings	17	(232,162)	(255,578)	(272,853)
Lease liabilities	12	(530)	(174)	(530)
Provisions	18	(42,949)	(50,140)	(43,724)
Pension deficit	19	(768)	(815)	(802)
		(276,409)	(306,707)	(317,909)
Current Liabilities				
Borrowings	17	(50,000)	-	(22,000)
Trade and other payables	16	(55,126)	(52,322)	(42,710)
Contract liabilities		(5,336)	(5,636)	(5,366)
Lease liabilities	12	(459)	(378)	(307)
		(110,921)	(58,336)	(70,383)
Total Liabilities		(387,330)	(365,043)	(388,292)
Net Assets		76,703	97,468	77,275
EQUITY				
Called up share capital	20	58,489	51,489	51,489
Profit and loss account		18,214	45,979	25,786
Total Equity		76,703	97,468	77,275

Statement of Changes in Equity

	Note	Called up share capital £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 31 March 2022 (audited)		51,489	66,333	117,822
Loss for the period		-	(19,511)	(19,511)
Actuarial loss on pensions scheme	19	-	(17,248)	(17,248)
Movement on deferred tax relating to pension scheme	18	-	4,312	4,312
Total comprehensive expense for the year		-	(32,447)	(32,447)
Transactions with owners in their capacity as owners:				
Dividends	21	-	(8,100)	(8,100)
Transactions with owners recognised directly in equity		-	(8,100)	(8,100)
Balance at 31 March 2023 (audited)		51,489	25,786	77,275
Loss for the period		-	(7,433)	(7,433)
Actuarial loss on pensions scheme	19	-	(185)	(185)
Movement on deferred tax relating to pension scheme	18	-	46	46
Total comprehensive expense for the period		-	(7,572)	(7,572)
Transactions with owners in their capacity as owners:				
Issue of shares	20	7,000	-	-
Dividends	21	-	-	-
Transactions with owners recognised directly in equity		7,000	-	7,000
Balance at 30 September 2023 (unaudited)		58,489	18,214	76,703

On 12 July 2023 and 11 August 2023, the Company issued 20 million and 50 million ordinary shares of 10p each to SESW Holding Company Limited for a total cash consideration of £2m and £5m, respectively.

Cash Flow Statement

Cash Flow statement for the period ended	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Loss for the period	(7,433)	(7,834)	(19,511)
Adjustments for:			
Finance income	(399)	(380)	(855)
Finance costs	14,629	14,703	30,612
Net impairment losses on financial and contract assets	228	1,176	1,458
Depreciation of property, plant and equipment	6,643	6,207	12,497
Depreciation of right-of-use assets	180	113	252
Amortisation of intangible assets	556	441	899
Gain on disposal of property, plant and equipment	(74)	(6)	(79)
Section Expenses	283	-	365
Increase in inventories	(50)	(30)	(92)
Increase in trade and other receivables	(15,546)	(17,297)	(5,483)
Increase in trade and other payables	14,006	14,399	1,554
(Increase)/decrease in amounts due from related companies	(1,981)	204	(777)
Income tax credit	(2,316)	(2,523)	(5,979)
Interest paid	(5,320)	(3,429)	(8,174)
Income taxes paid	(445)	-	1,512
Net cash generated by operating activities	2,961	5,744	8,199
Investing activities			
Purchase of property, plant and equipment	(8,826)	(11,215)	(22,499)
Principal elements of lease payments	(183)	(34)	(246)
Purchase of intangible assets	(1,011)	(347)	(776)
Proceeds from sale of property, plant and equipment	98	6	105
Interest received	399	380	172
Net cash from investing activities	(9,524)	(11,210)	(23,244)
Financing activities			
Proceeds of RCF	-	10,000	20,000
Proceeds from issue of shares	7,000	-	-
(Repayment)/Proceeds of shareholders loan	(7,000)	-	7,000
Repayment of RCF	-	-	(4,000)
Dividends paid	-	(6,340)	(8,100)
Net cash from Financing activities	-	3,660	14,900
Net decrease in cash and cash equivalents	(6,563)	(1,806)	(145)
Net cash and cash equivalents at the beginning of the period	23,957	24,102	24,102
Net cash and cash equivalents net of overdraft	17,394	22,296	23,957

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 2023 which were prepared in accordance with Financial Reporting Standards 101 Reduced Disclosure Framework (FRS 1010). The interim accounts have been prepared in accordance with IAS 34 "Interim Financial Reporting", 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 2023.

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 2023 that have a material impact on the Company's financial statements.

Note 3 – 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	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Unmeasured water revenue (household)	10,703	10,407	20,850
Measured water revenue (household)	18,253	16,240	31,476
Total household revenue	28,956	26,647	52,326
Wholesale revenue from retailers (non household)	5,675	4,650	9,662
Other water revenue	157	350	778
Non-water revenue	1,236	791	2,303
Non-appointed income	1,442	1,263	2,377
Total revenue	37,466	33,701	67,446

Note 6 - Operating Costs

Operating profit is stated after charging:

Period ended	Note	30/09/2023	30/09/2022	31/03/2023
		£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Wages and Salaries		5,647	5,952	11,835
Social Security Costs		877	914	1,781
Other Pension Costs	19	1,180	976	2,006
Staff costs		7,704	7,842	15,622
Power		3,866	3,236	6,821
Raw materials and consumables		2,328	2,011	4,030
Rates		1,618	1,733	3,468
Subcontractors		3,187	2,596	6,875
Insurance		398	490	1,064
Other operating costs		4,282	3,111	8,388
Depreciation charge on property, plant and equipment	12	6,643	6,209	12,497
Depreciation of right-of-use assets	12	180	113	252
Amortisation charge on intangible assets	11	556	441	899
Legal and professional fees		2,069	783	2,902
Operating costs		32,831	28,565	62,818

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the period wages and salaries of £1,651,210 (2022: £1,647,000) were capitalised to fixed assets.

In the 6 months to September 2023 £1.6m of costs associated with our submission of our PR24 business plan were incurred, this is considered as one-off in nature.

Net Operating Costs can be analysed as

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Cost of sales	22,717	20,513	45,709
Administration expenses	10,114	8,052	17,109
	32,831	28,565	62,818

Note 7 - Other Operating Income

Period ended	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Other operating Income	-	-	1,018
Profit on sale of fixed assets	74	6	79
Other operating income	74	6	1,097

Note 8: Interest income and expense

Period ended	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Finance income			
Expected return on pension scheme assets	1,832	1,571	3,124
Interest paid on post retirement liabilities	(1,628)	(1,226)	(2,441)
Other interest receivable	195	35	172
Total finance income	399	380	855
Finance expense			
Interest on Index Linked Bond	3,068	2,685	5,547
Indexation of Bond	9,090	11,056	22,111
Bond Fee amortisation	285	219	569
Other Interest expenses	2,186	743	2,385
Total finance expenses	14,629	14,703	30,612
Net finance cost	14,230	14,323	29,757

During the year the Company incurred £14.2m of net finance costs (2022: £14.3m) mainly relating to accretion of the index linked bond, interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £2m decrease in indexation charge between September 2022 and September 2023 due to lower RPI inflation. In July 2022, the annual inflation change was 12.3%, in July 2023 it dropped to 9.0%. However the decrease in indexation charge was offset by an increase in interest expense on the index-linked bond (due to high inflation increasing the bond value that interest is charge on) and increase on the interest rate (due to economic conditions) charged on the RCF

Note 9: Income Tax Credit

Period ended	Note	30/09/2023 £'000 Unaudited	30/09/2022 £'000 Unaudited	31/03/2023 £'000 Audited
Tax charge included in the profit or loss:				
Current tax:				
UK corporation tax on profits for the period		(1,587)	-	-
Adjustments in respect of prior periods		-	-	528
Total current tax		(1,587)	-	528
Deferred tax:				
Origination and reversal of temporary differences - pension scheme		(14)	342	69
Origination and reversal of temporary differences - other		(758)	(1,301)	(2,207)
Tax losses		43	-	(2,664)
Impact of change in tax rate		-	(586)	(1,495)
Adjustments in respect of previous years		-	(978)	(210)
Total deferred tax		(729)	(2,523)	(6,507)
Income tax credit		(2,316)	(2,523)	(5,979)
Tax credit included in other comprehensive income/ (expense):				
Deferred tax:				
Movement in relation to pension scheme	19	46	1,539	4,312
Total tax credit included in other comprehensive income		46	1,539	4,312

Note 10 - Intangible Assets

	Goodwill	Software	Work in Progress	Total
	£'000	£'000	£'000	£'000
Cost:				
At 1 April 2023	19,454	13,854	366	14,220
Additions	-	-	923	923
Transfer	-	295	(295)	-
Disposals	-	-	-	-
As at 30 September 2023:	19,454	14,149	994	15,143
Accumulated amortisation and impairment				
At 1 April 2023	16,367	4,561	-	4,561
Amortisation	-	556	-	556
Impairment	-	-	-	-
Disposals	-	-	-	-
As at 30 September 2023:	16,367	5,117	-	5,117
As at 30 September 2023:	3,087	9,032	994	10,026
Net book Value 31 March 2023	3,087	9,293	366	9,659

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 £405k (31 March 2023: £441k) and has a remaining amortisation period of 5.5 years (31 March 2023: 6) 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 £6.6m (31 March 2023: £6.9m) and has a remaining amortisation period of 13.5 years (31 March 2023: 14) 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 2023	5,097	2,534	137,154	278,070	174,984	3,315	7,507	8,229	616,890	1,294	1,294
Additions	-	-	-	-	-	-	-	7,892	7,892	335	335
Transfer	7	-	18	5,905	5,501	31	83	(11,545)	-	-	-
Disposals	-	-	-	-	-	(184)	-	-	(184)	-	-
As at 30 September 2023:	5,104	2,534	137,172	283,975	180,485	3,162	7,590	4,576	624,598	1,629	1,629
Accumulated amortisation and impairment											
At 1 April 2023	-	485	44,932	100,021	93,020	2,871	5,721	-	247,050	478	478
Depreciation charge	-	10	1,338	1,099	3,862	103	231	-	6,643	180	180
Impairment	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(161)	-	-	(161)	-	-
As at 30 September 2023:	-	495	46,270	101,120	96,882	2,814	5,952	-	253,534	658	658
Net book Value 30 September 2023	5,104	2,039	90,902	182,855	83,603	348	1,638	4,576	371,065	972	972
Net book Value 31 March 2023	5,097	2,049	92,222	178,049	81,964	444	1,786	8,229	369,840	816	816

Land comprises freehold land at £5,065k (2023: £5,056k) and long leasehold land at £41k (£2023: £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 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:

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Right-of-use assets			
Vehicles	972	544	816
Total	972	544	816
Lease Liabilities			
Current	459	378	307
Non-Current	530	174	530
Total	989	552	837
Additions to the right-of-use assets during the period were £335k (31 March 2023: £445k).			
Amounts recognised in profit and loss: The profit and loss account shows the following amounts relating to leases:			
	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Depreciation charge of right-of-use assets:			
Vehicles	180	113	252
Interest expense (included in finance cost):			
Vehicles	10	6	28
Total	190	119	280
Other lease information			
	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
The total cash outflow for leases	183	34	246

Note 13 - Inventories

As at period ending	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Raw materials and consumables	428	316	377
Total	428	316	377

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

		30/09/2023	30/09/2022	31/03/2023
	Note	£'000	£'000	£'000
		Unaudited	Unaudited	Audited
Current:				
Gross trade receivables		45,698	41,762	31,400
Expected credit loss	15	(9,541)	(9,030)	(9,313)
Net trade receivables		36,157	32,732	22,087
Amounts due from group undertakings		2,620	244	1,235
Other receivables		2,461	2,077	2,844
Current tax asset		1,587	265	-
Prepayments		3,023	3,398	1,560
Group relief receivable		-	111	-
Other taxes and social security		212	167	32
		46,060	38,994	27,758

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:

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Expected credit loss	9,313	7,854	7,855
Charge for bad and doubtful debts - charged against operating costs	228	1,176	1,458
Total	9,541	9,030	9,313

Note 16 Trade and other payables

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Trade payables	3,049	3,937	4,514
Amounts owed to group undertakings	401	971	999
Other creditors	39,378	38,363	24,757
Deposits from developers	348	352	373
Accruals	11,950	8,699	11,641
Current tax and group relief payable	-	-	426
Total Current Liabilities	55,126	52,322	42,710

Note 17 Borrowings

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Non-Current:			
2.874% secured index-linked bond 2027-2028	82,824	37,295	38,060
2.874% secured index-linked bond 2029-2031	124,236	149,181	159,691
3.25% irredeemable debentures	50	50	50
5.00% irredeemable debentures	52	52	52
Long term bank loans	25,000	69,000	75,000
Total Non-Current Liabilities	232,162	255,578	272,853
Amounts falling due within 5 years	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Bank loans and borrowings *	82,824	37,295	38,060
Long term bank loans	25,000	69,000	75,000
Total	107,824	106,295	113,060
Amounts falling due after more than 5 years	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Bank loans and borrowings	124,338	149,283	159,793
Total	124,338	149,283	159,793
Amounts falling due less than one year	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Bank loans and borrowings	50,000	-	22,000
Total	50,000	-	22,000

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.

As at 31 March 2023 and 30 September 2023, the £50m and £25m RCF were fully drawn down by the Company. The £50m RCF is due for repayment in July 2024 and therefore it is reclassified as current liability as at 30 September 2023.

* The amount falling due within 5 years is based on the indexation at 30 September 2023 and therefore will fluctuate with movements in RPI.

Note 18 Provisions

	Corporation tax			Total
	£'000			£'000
At 1 April 2023			-	-
Current tax asset			1,587	1,587
At 30 September 2023			1,587	1,587
	Deferred tax			Total
	£'000			£'000
At 1 April 2023			43,724	43,724
Adjustment in respect of prior years			-	-
Deferred tax charge to profit and loss for the period			(729)	(729)
Charge to the statement of other comprehensive income			(46)	(46)
At 30 September 2023			42,949	42,949
Non-current deferred tax assets			-	-
Non-current deferred tax liabilities			42,949	43,724
Carrying amount at year end			42,949	43,724
Total carrying amount at period end			42,949	43,724
Deferred tax liabilities	Accelerated capital allowances	Relating to the pension deficit	Other	Total
	£'000	£'000	£'000	£'000
At 1 April 2022	48,403	6,323	(182)	54,544
Charged/ (credited) to the profit and loss	(3,115)	91	(3,484)	(6,508)
Credited directly to other comprehensive income	-	(4,312)	-	(4,312)
At 31 March 2023	45,288	2,102	(3,666)	43,724
Charged/ (credited) to the profit and loss	(715)	(14)	-	(729)
Credited directly to other comprehensive income	-	(46)	-	(46)
At 30 September 2023	44,573	2,042	(3,666)	42,949

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.

Guaranteed Minimum Pension (GMP)

We have continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

Section buy-in

With effect from 31 March 2023, the trustees of the scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities, which should reduce the volatility seen through the liability in the pension scheme.

The impact of the transaction (a loss of £10m – the difference between the premium paid and the value of the corresponding liabilities under IAS 19) has been recognised outside of profit and loss (in other comprehensive income), reflecting that the purchase of the buy-in policy was an investment decision, no liabilities have been settled and there is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2022 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.

Total cost recognised as an expense in the Profit and Loss

Period ended	30-Sep-23	30-Sep-23	30-Sep-23	31-Mar-23	31-Mar-23	31-Mar-23
	£'000	£'000	£'000	£'000	£'000	£'000
	WCPS	Unfunded	Total	WCPS	Unfunded	Total
Employer's part of current service cost						
Section expenses	(283)	-	(283)	(365)	-	(365)
Past service cost	-	-	-	-	-	-
Net interest credit/ (charge)	223	(19)	204	709	(26)	683
Net credit/ (expense) recognised in profit and loss account for pensions schemes	(60)	(19)	(79)	344	(26)	318

Total cost recognised as an expense in the Other Comprehensive Income

Period ended	30-Sep-23	30-Sep-23	30-Sep-23	31-Mar-23	31-Mar-23	31-Mar-23
	£'000	£'000	£'000	£'000	£'000	£'000
	WCPS	Unfunded	Total	WCPS	Unfunded	Total
Net actuarial gains / (losses) in the year due to						
Changes in financial assumptions	5,572	48	5,620	24,352	222	24,574
Changes in demographic assumptions	-	-	-	244	1	245
Experience adjustments on benefit obligations	(1,437)	(19)	(1,456)	(4,418)	(73)	(4,491)
Actual gain / (loss) on Section assets relative to interest on Section assets	(4,349)	-	(4,349)	(37,576)	-	(37,576)
Gain / (loss) to recognise outside profit and loss in other comprehensive income	(214)	29	(185)	(17,398)	150	(17,248)

Changes in net liabilities recognised in the balance sheet

	30-Sep-23	30-Sep-23	30-Sep-23	31-Mar-23	31-Mar-23	31-Mar-23
	£'000	£'000	£'000	£'000	£'000	£'000
	WCPS	Unfunded	Total	WCPS	Unfunded	Total
Balance sheet asset / (liability) at beginning of period	9,211	(802)	8,409	26,265	(972)	25,293
Amount recognised in profit and loss	(60)	(19)	(79)	344	(26)	318
Amount recognised in other comprehensive income	(214)	29	(185)	(17,398)	150	(17,248)
Company contributions paid	-	24	24	-	46	46
Balance sheet asset / (liability) at end of period	8,937	(768)	8,169	9,211	(802)	8,409

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-Sep-23	31-Mar-23
	£'000	£'000
Current year contributions	1,180	2,006

Note 20 Called up Share capital

Ordinary shares of 10p each

Allotted and fully paid

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited

584,894,370 (31 March 2023:514,894,370) ordinary shares of £0.10 each	58,489	51,489	51,489
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On 12 July 2023 and 11 August 2023, the Company issued 20 million and 50 million ordinary shares to SESW Holding Company Ltd for a total cash consideration of £2m and £5m respectively.

This equity injection originates from our ultimate shareholders Sumisho Osaka Gas UK (SOGWUK) that passed through the group chain to East Surrey Holdings Limited (ESH) to SESW Holding Company Ltd (SESW Holdco) to Sutton and East Surrey Water plc (SESW) where the cash resides. In return for the cash consideration shares were issued to respective parent entities within the group.

All shares rank pari passu in all respects.

Note 21 Dividends

Dividends paid to immediate parent Company

Period ended	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
	Unaudited	Unaudited	Audited
Ordinary dividend paid in May 22 – Appointed	-	1,640	1,640
Ordinary dividend paid in Dec 22 – Appointed	-	-	1,460
Total Dividends paid	-	1,640	3,100

Dividends can be classified as follows:

	30/09/2023	30/09/2022	31/03/2023
	£'000	£'000	£'000
Final dividend for FY 22 – Appointed	-	1,640	1,640
Interim dividend for FY 23 – Appointed	-	-	1,460
Total Dividends paid	-	1,640	3,100

As no final dividend was declared for 2022/23, no dividend has been paid in the six months ended 30 September 2023, and no interim dividend for 2023/24 has been declared.

Note 22 Events after the reporting period

On the 30 September 2023 a waiver for our adjusted interest cover ratio (AICR) on our long term index linked bond was granted by Assured Guarantee the guarantor of the bond. Following a commercial settlement in November 2023 this ratio has been agreed to be removed to align more closely with the rest of the water industry.

In November 2023, the Company successfully completed a new private debt placement of £40m with maturities of nine and 10 years through a single UK institutional investor. The first tranche of £10m of the private placement offering was drawn down by SES Water on 28 November 2023 and the second tranche of £30m is expected to be drawn down on 28 March 2024. The weighted average coupon of the borrowing is 5.71%. The notes have been wrapped by Assured Guaranty and will carry a AA rating from Standard & Poor's

The Company has received the first two instalments of committed equity injections of £2m in July 2023 and £5m in August 2023 from the shareholders. A further £15m expected to be received by 31 March 2024.

Our shareholders have engaged financial advisors to undertake a strategic review of the Group business. External advisors have been appointed to look at the entire East Surrey Holdings portfolio, including SES Water. This may result in a change in ownership of the Company.