south east water

Interim financial report

Condensed group financial statements for the six months ended 30 September 2021

Pure know h$_2$ow

About us

Our business*

We supply top quality drinking water to 2.3 million customers in the south east of England. Through a network of 14,843 kms of pipe, we deliver around 540 million litres of water every day. The skill and expertise of our employees ensures our customers' water meets the highest of standards.

986 employees

that's how we make sure your water supply runs 24 hours a day, 365 days a year

543 million litres of water a day

that's how much water we supplied in 2020/21 to 2.3 million people

14,843 kms of water mains

that's how we bring fresh drinking water direct to your tap

Our vision

Our vision is to be the water company people want to be supplied by and want to work for.

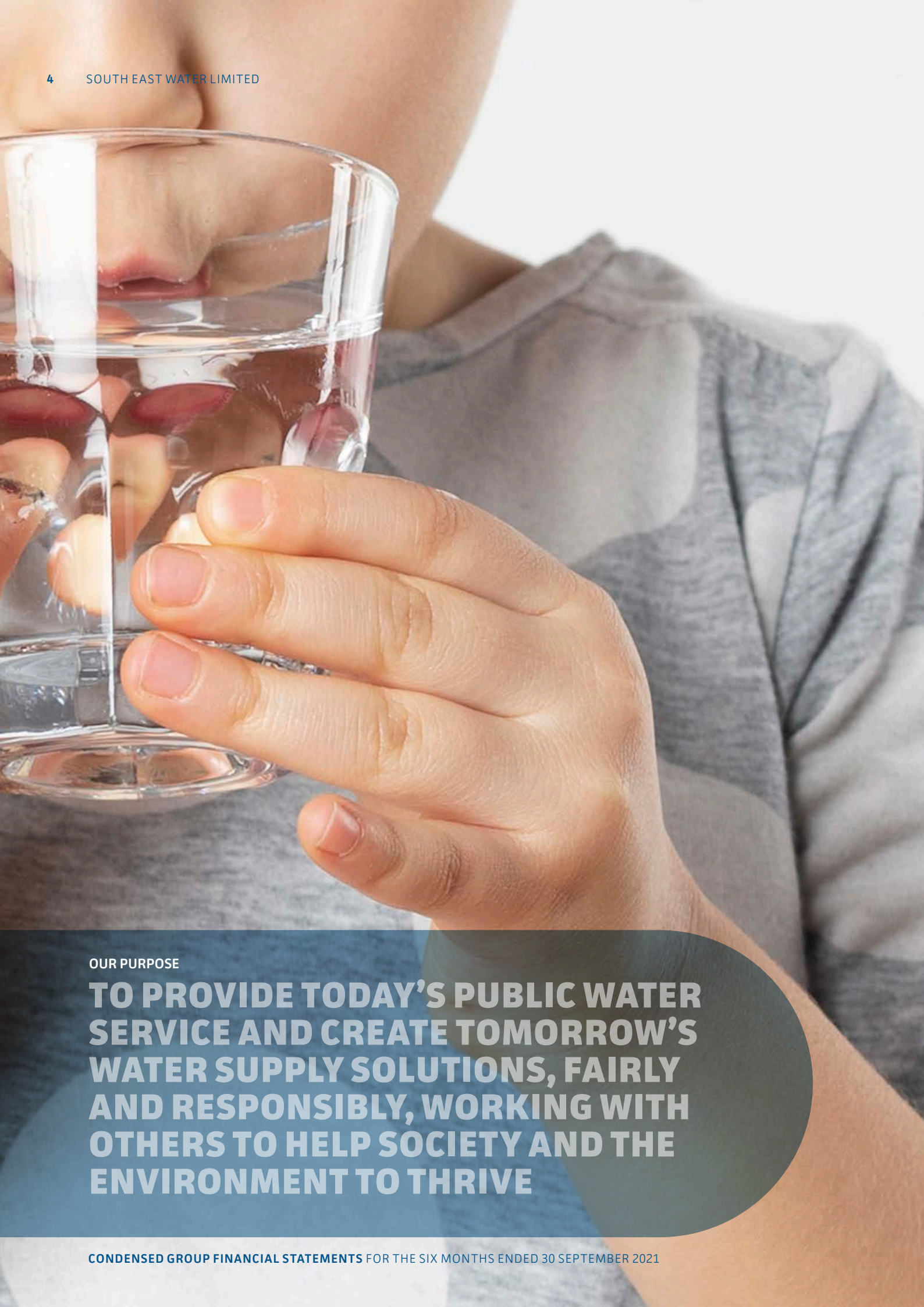
Everything we do is underpinned by technical excellence.

192 kgCO_2e/Ml
Greenhouse gas emissions

*The values quoted are for the year ended 31 March 2021

Contents

Pure know $h_2$ow



OUR PURPOSE

TO PROVIDE TODAY'S PUBLIC WATER SERVICE AND CREATE TOMORROW'S WATER SUPPLY SOLUTIONS, FAIRLY AND RESPONSIBLY, WORKING WITH OTHERS TO HELP SOCIETY AND THE ENVIRONMENT TO THRIVE

Our performance

Financial highlights

REVENUE

£136.7m

Increase of 2.2 per cent on last year

CAPITAL EXPENDITURE

£52.0m

Increase of 19.5 per cent on last year

PROFIT FROM OPERATIONS

£42.9m

Decrease of 10.4 per cent on last year

CASH GENERATED FROM OPERATING ACTIVITIES

£80.3m

Increase of 25.5 per cent on last year

How we invest in your water

Where each £1 of your bill is spent by the appointed water business

GETTING WATER TO YOU

43%

WATER TREATMENT

23%

INTEREST & TAX

14%

WATER EXTRACTION

10%

CUSTOMER SERVICES

8%

DIVIDENDS

2%

Chair's statement

NICK SALMON
CHAIR

"We have made significant progress against many of our performance indicators and in line with our company purpose

I am pleased to present our interim report for the six months ended 30 September 2021.

Although the Covid-19 pandemic has continued to impact all aspects of society, I am pleased to be able to report that we have made a strong operational start to the year with significant progress being made against many of our performance commitments and in line with our company purpose; "to provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive."

We are, of course, one of the six water only companies amongst 13 water and wastewater companies.

> **As a business, our focus has been very much on supporting our colleagues and customers**

As a business, our focus has been very much on supporting our colleagues and customers and adapting quickly to the imposition and easing of Covid restrictions. This has seen us ensure that our colleagues who did not work from home had the necessary training and equipment to work safely in all environments, including streetworks and inside customers' houses and we have continued to be sympathetic to our customers in our approach to debt management where they are struggling to pay.

High levels of household demand continue and are consistently above the levels seen before the start of the Covid-19 pandemic. This is due to many customers in our region continuing to work from home and therefore consuming water from home rather than in their workplaces. Whilst this phenomenon is easing as customers return to more normal working patterns it is not clear whether or not our customer base will eventually return to pre-Covid patterns. In light of these changing demand patterns, Ofwat has agreed to assess our performance on our PCC (per capita consumption) and non-household void property performance commitments at the end of this regulatory cycle in 2025, when the long-term effect of Covid-19 on these measures should be better understood.

Whilst we did not experience a summer as hot as the last year, the lessons learned in 2020 ensured that this year's summer demand was managed well and passed without incident. Our efforts over the last 12 months have been on delivering key projects to provide extra resilience to our network. This has included building a new water treatment works in Aylesford, Kent, which was just eight months in construction and delivered extra capacity quickly to cover the loss of a key strategic service reservoir in Kent which was damaged by a sinkhole which appeared in September 2020. In addition we have now completed the extension to the Bray Keleher water treatment works in the western region adding an additional 23ML of new water to the area.

We have continued to work on improving our operational response times to unplanned interruptions using a variety of approaches, this has included the implementation of new leakage detection software WaterNet which helps us identify and respond to leaks faster. Furthermore, we have continued a programme of calm valve and network optimisation training for our operational teams and supply chain partners which includes modules on network hydraulics and transient pressures.

Chair's statement continued

This is all alongside the provision of additional resources, plant and machinery available to deal with complex repairs.

This is the second year of the 2020 to 2025 investment period known as AMP7 in which we are focused on delivering our purpose-led plan including capital expenditure of £433 million (2017/18 prices) in improvements across the region. We are tracking our progress against more than 30 challenging performance commitments together with an additional 10 responsible business commitments.

Looking ahead and in conjunction with Water Resources South East we are developing a draft regional resilience plan which will be consulted upon between 10 January and 7 March 2022. The revised regional plan will then form the basis of our own draft Water Resources Management Plan 2024 which we will consult on in the autumn of 2022, with publication due in 2023.

> **Looking ahead and in conjunction with Water Resources South East we are developing an emerging draft regional resilience plan**

To support our customers we have ensured we are sympathetic to those who may have suffered financial challenges over the last year. This includes re-writing our credit management customer communications to ensure they are clear, supportive and engaging.

We have also continued to promote our payment holiday and affordability schemes. We are working with key stakeholders to offer mutual support including our work with Kent County Council to distribute £150k of Government Covid funding direct to our customers who were impacted financially and struggling to pay bills.

In addition we have a scheme to auto enrol lower income households onto our affordability schemes through collaborative working with local councils, the first initiative of its kind in the industry. We have also worked with independent organisations such as National Energy Action to ensure our support meets customer needs in our region.

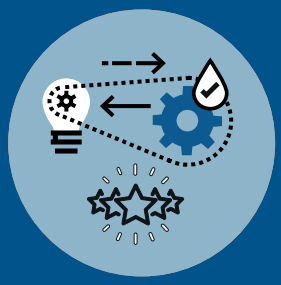
Covid-19 restrictions and the swift change to work from home has however provided us with an opportunity to review our wider working practices across the business.

Now that colleagues are returning to sites and offices we have adopted a hybrid working model with a combination of home working and on site attendance to give greater flexibility. Of course, many roles cannot be carried out from home, but for those colleagues we are also looking at ways where we can provide greater flexibility.

Chair's statement continued

Thriving together as a fair and responsible business

Our responsible business strategy is an intrinsic part of our corporate plan and we have four strategic themes across the organisation. Some of the highlights and challenges in the first six months include:



Trusted and reliable service

How we build trust in what we do and deliver a high quality service to our customers

- 99.97% of our water quality samples have met DWI standards.
- A new, state-of-the-art water treatment works started pumping additional water to homes in Kent in August after just eight months of construction.
- With the increased focus on optimising our distribution network and pressure reducing valves (PRV) as part of leakage strategy to 2025, the PRV operational field colleagues are undergoing a technical training enhancement programme supported by many of our framework suppliers of the equipment / technology. This takes the form of field demonstrations and competency assessments in how to operate, set up and maintain our PRVs alongside general pressure and network hydraulic awareness.
- We received a five star rating from global ESG benchmarking organisation, GRESB. Increasing our score to 92 out of 100 versus a peer group average of 81, putting us in the top five companies in our sector globally.
- We have now completed the extension to the Bray Keleher water treatment works in the western region adding an additional 23ML of new water to the area.
- All operational colleagues are undertaking calm valve training. Practical exercises are undertaken specifically designed to simulate a water network and demonstrate the surges that can occur through incorrect valve operations. It also includes theory modules on network hydraulics and transients to improve technical competence.

Thriving people

How we help the people who work with us to thrive

- A mobile app, called PikaVoid, which aims to help the company identify void properties has been shortlisted for the employee engagement award at the Customer Services Institute Awards. PikaVoid offers incentives to colleagues to identify voids in their local area or while working in the field.
- A new Wellbeing strategy is in operation. It has four pillars: Mental Wellbeing, Physical Wellbeing, Financial Wellbeing and Social Wellbeing. This builds on previous work undertaken to promote a greater understanding of mental health within the workplace.
- Our employee survey in September had a high overall response rate of 79%. Of those responding, 93% felt their manager was considerate of their wellbeing which is 8% higher than external benchmarking. In response to wellbeing, 81% stated they were either thriving or coping.
- 91% said they were proud to work for South East Water.
- 94% said they believe that the company is committed to being ethical and responsible and 96% said South East Water responds to the individual needs of our different customers.
- 90% believed that they could be their authentic self at work.

Chair's statement continued

Thriving together as a fair and responsible business

Community and society focused

How we understand and respond to the needs of society

- We have concentrated on providing customers with full details of partner organisations offering support in a variety of areas including disability, ill-health, wellbeing and financial.
- Following a public consultation, where we received 21 responses, we published our revised dry weather plan in September 2021. This outlines our actions in preparation for, and during drought. We are now waiting for Defra to approve publication of the final plan.
- An industry leading innovative data sharing project with Maidstone Borough Council has been helping identify householders on low income who are eligible for our affordability tariffs. This project has since provided a framework for roll out with other local authorities.
- Customer complaints in the last six months are down 15% compared to 2020/21.
- We were shortlisted in the Utility Week Awards for our work to support vulnerable customers. Keeping communities informed while we carry out our work has also led to being shortlisted in the Communications Leadership category in the Street Works UK Awards 2021.

Flourishing environment

How we contribute to an environment that flourishes today and tomorrow

- We published our route map to net zero operational carbon by 2030. We will achieve this through energy efficiency, renewable sources, avoiding direct emissions, water efficiency and investing in nature-based solutions.
- Work has started with a third party using high definition aerial imagery to identify land use and nutrient pollution sources within the North Kent and Stockbury catchments.
- There has been a high level of interest in this year's capital grants funding in Woodgarston, Boxalls Lane, Hartlake and Pembury catchments. Farmers are working with us collaboratively to improve raw water quality and quantity. The capital grants encourage farmers to farm in a way which is less environmentally damaging – helping to protect current and future water supplies as well as the wider environment too.
- More than 20 different stakeholder groups and colleagues took part in online workshops to help us develop our draft 25 year environment plan.
- Our "let's save this summer" campaign led to 51,734 water saving devices being ordered by customers in the first six months and we have updated our online customer portal, My Account, to include a neighbourhood comparison for water use to encourage behaviour change. We have developed ongoing communications to customers relevant to their specific water usage and specific circumstances.

Chair's statement continued

Results and key financial performance indicators

The results published in this statement summarise our performance for the six months ended 30 September 2021. The financial statements are prepared under International Financial Reporting Standards ("IFRS") and incorporate the performance of South East Water Limited and our subsidiary, South East Water (Finance) Limited.

Revenue for the period was £136.7 million compared with £133.7 million for the same period in the previous year. The increase of £3.0 million (+2.2%) is due to the following factors:

- water demand was higher this year than last year and was due to circa 14,000 additional properties in the measured portfolio, amounting to around £1.4 million. Of this, circa 9,000 related to newly built properties and the remainder associated with reducing void properties through South East Water's new PikaVoid app.
- this additional demand was part offset by £0.4 million relating to lower summer demand this year on existing properties although the effect of Covid-19 on demand remained high.
- also offsetting this was a reduction in the allowed average price of 0.6%, reducing revenue by £0.6 million.
- developer contributions and other income are £2.1 million and £0.3 million respectively higher than last year due to the reduction in Covid-19 restrictions.

Net operating costs for the period to 30 September 2021 were £91.7 million compared with £84.7 million for the same period in the previous year. The increase of £7.0 million (+8.3%) was due to:

- the prior year costs included a one-off credit of £7.8 million in respect of past service costs on one of the group's defined benefit pension schemes, which was a result of changing from RPI to CPI in measuring the liabilities of the scheme.
- increased depreciation for the six months of £1.4 million in line with the continued investment in the group's fixed assets.
- other inflationary pressures, particularly around consumables, adding £0.9 million of costs.
- lower contractor costs as a result of fewer major operational incidents, saving £1.5 million.
- lower bulk supply cost driven by cost provision reductions which delivered efficiencies of £0.7 million.

Finance costs have increased from £20.1 million to £23.2 million. This is due to increased indexation on our loans due to higher inflation during the period to 30 September 2021.

Profit before tax was £20.1 million compared with £29.8 million for the same period last year. This represents 14.7 per cent of revenue, down from 22.3 per cent for the corresponding period last year.

The group tax charge of £38.6 million in the period ending 30 September 2021 includes £36.0 million of deferred tax resulting from the corporation tax rate change from 19 per cent to 25 per cent commencing in April 2023. Excluding this deferred tax adjustment, the tax charge for the period was £2.6 million compared to £1.7 million for the same period last year. The tax expense for the period comprises £0.6 million of current tax and £2.0 million of deferred tax.

The group has recorded a loss after tax of £18.6 million for the six months ended 30 September 2021 compared to a profit after tax of £28.1 million in the corresponding period in the prior year. This loss after tax in the year is largely a result of the deferred tax charge due to the future tax rate change from 19 per cent to 25 per cent.

In September the group successfully replaced its revolving credit facility with an increased facility of £125.0 million, up from £90.0 million. The group had a balance of £50.0 million on the previous facility which has been repaid from the new facility.

The outstanding balance on the credit facility will be repaid with new loan finance of £50.0 million on 9 December 2021. The new loan is a fixed rate 14 year loan at an interest rate of 2.04 per cent.

We continue to comply with the financial covenants set out in our securitisation structure and continue to hold ratings from Moody's and Standard & Poor's consistent with the requirements of both our securitisation and our instrument of appointment.

The dividend paid for the six months ended 30 September 2021 of £4.5 million is £1.0 million lower compared to the same period last year and this represents a nominal dividend yield of 1.8 per cent. The dividend is in line with our dividend policy and is lower than Ofwat's view of what is a reasonable nominal dividend yield, which is 4 per cent.

Net cash generated from operations was £80.3 million for the six months to 30 September 2021 compared to £63.9 million in the same period for the previous year. This is largely a result of improved collection of revenue when compared to the prior year.

Chair's statement continued

Principal risks and uncertainties

The principal risks and uncertainties facing the business are set out in the strategic report within the group's annual report for the financial year ended 31 March 2021, which can be found on the South East Water website.

Going concern

We continue to comply with the financial covenants set out in our securitisation structure and continue to hold ratings from Moody's and Standard & Poor's consistent with the requirements of both our securitisation and our instrument of appointment.

In preparing the financial statements the directors considered the group's ability to meet its debts as they fall due for a period of one year from the date of this report, especially in light of the on-going Covid-19 pandemic.

The group's business activities, together with the factors likely to affect its future development, performance and position were set out in the strategic report included in the group's annual report for the financial year ended 31 March 2021.

The group finances its working capital requirements through cash generated from operations and committed facilities that can be called upon as required.

The group prepared an annual budget in March. The financial results for the six months to 30 September 2021 are in line with our budget. The directors are therefore satisfied that the group has sufficient resources to continue in operation for a period of not less than 12 months from the date of this report.

In coming to this decision the board has considered the implications of the on-going Covid-19 pandemic and the impact this may have on the business. The board has considered a range of plausible scenarios and is satisfied that there is sufficient headroom on all financial covenants.

Looking ahead

While building on our good start to this financial year we will be particularly focused on longer term plans including the PR24 and WRMP processes. In addition we will be progressing with the 25 Year Environment Plan, an industry first, working closely with our partners through Water Resources in the South East (WRSE) to engage on a regional 75 year plan to ensure across the south east there is a sustainable public water supply for the future.

In October 2021 we published our draft climate change adaptation report. This covered 12 key risk areas including changes to rainfall patterns and rising sea levels. The report sets out exactly how we plan to modify our approach as the climate evolves. This consultation has now concluded and we will be publishing our final report in December.

Through the remainder of the winter months we will continue to work with our suppliers, industry partners and local resilience forums to make sure we are prepared for potential impacts on our services, including winter weather and current supply chain concerns.

Our water resources are in a very good position for this time of year following a wet summer and an early start to the recharge season. We expect with normal winter rainfall we will be ready for spring 2022 with good resource levels. Water efficiency will continue to be a focus as we expect a continuation of some degree of home working across the south east region will again influence demand during 2022.

On behalf of the board I would like to thank all the employees and business partners at South East Water for their focused efforts over the last six months – it has seen us through a potentially challenging summer and their purpose-led energy is evident across the organisation.

I would also like to take this opportunity to say a personal thank you to everyone at South East Water as I will retire from the Board in March after seven years as Chair.

NICK SALMON
CHAIR
9 DECEMBER 2021

Condensed group income statement

for the six months ended 30 September 2021

	Note	**Six months ended 30 September 2021 £000**	Six months ended 30 September 2020 £000
Revenue	6	**136,727**	133,736
Group net operating costs	8	**(91,691)**	(84,732)
Bad debt		**(2,128)**	(1,146)
Group profit from operations		**42,908**	47,858
Finance income	9	**345**	2,055
Finance expense	9	**(23,194)**	(20,130)
Profit before taxation		**20,059**	29,783
Taxation	10	**(38,631)**	(1,677)
(Loss)/profit for the six months		**(18,572)**	28,106
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes' surplus or (deficit)		**4,463**	(19,446)
Deferred tax on defined benefit pension schemes		**(1,375)**	1,663
Other comprehensive income for the six months, net of tax		**3,088**	(17,783)
Total comprehensive income		**(15,484)**	10,323

		Six months ended 30 September 2021 Pence	Six months ended 30 September 2020 Pence
Earnings per share attributable to the ordinary equity holders of the parent			
Basic and diluted	12	**(37.66)**	57.00

Condensed group statement of financial position

as at 30 September 2021

	Note	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Assets				
Non-current assets				
Property, plant and equipment	13	**1,653,840**	1,631,312	1,612,026
Right of use assets	13	**11,525**	11,952	12,440
Intangible assets	14	**8,624**	8,787	8,925
Amount due from parent undertakings		**-**	-	135,941
Defined benefit pension surplus		**41,653**	34,368	27,344
		1,715,642	1,686,419	1,796,676
Current assets				
Inventories		**668**	673	690
Trade and other receivables	15	**88,821**	86,735	94,293
Cash and cash equivalents		**22,749**	41,617	59,288
		112,238	129,025	154,271
Total assets		**1,827,880**	1,815,444	1,950,947
Liabilities				
Non-current liabilities				
Trade and other payables	16	**4,062**	4,623	5,207
Loans and borrowings	17	**1,044,540**	1,038,371	1,032,213
Defined benefit pension liability		**3,221**	3,172	3,302
Deferred tax liability		**220,122**	167,228	165,553
Deferred income		**3,235**	3,625	4,663
		1,275,180	1,217,019	1,210,938
Current liabilities				
Trade and other payables	16	**102,997**	88,961	102,687
Loans and borrowings	17	**50,324**	80,318	80,324
Deferred income		**6,712**	5,336	3,899
Provisions		**10,375**	7,983	4,629
		170,408	182,598	191,539
Total liabilities		**1,445,588**	1,399,617	1,402,477
Net assets		**382,292**	415,827	548,470
Issued capital and reserves attributable to owners of the parent				
Share capital		**49,312**	49,312	49,312
Revaluation reserve		**219,922**	235,774	238,893
Retained earnings		**113,058**	130,741	260,265
Total equity		**382,292**	415,827	548,470

The financial statements on pages 18 to 31 were approved and authorised for issue by the board of directors and were signed on its behalf by:

David Hinton
Director
9 December 2021

Andrew Farmer
Director
9 December 2021

The notes on pages 22 to 31 form part of these financial statements.

Condensed group statement of changes in equity

for the six months ended 30 September 2021

	Note	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2021		49,312	235,774	130,741	415,827
Comprehensive income for the six months					
Loss for the six months		-	-	(18,572)	(18,572)
Other comprehensive income		-	-	3,088	3,088
Total comprehensive income for the six months		-	-	(15,484)	(15,484)
Dividends	11	-	-	(4,500)	(4,500)
Transfer to retained earnings		-	(3,056)	3,056	-
Transfers between other reserves		-	(9)	9	-
Deferred tax on releases from revaluation reserve		-	764	(764)	-
Impact of rate change on deferred tax		-	(13,551)	-	(13,551)
		-	(15,852)	(2,199)	(18,051)
At 30 September 2021		**49,312**	**219,922**	**113,058**	**382,292**
At 1 April 2020		**49,312**	**241,386**	**252,949**	**543,647**
Comprehensive income for the six months					
Profit for the six months		-	-	28,106	28,106
Other comprehensive income		-	-	(17,783)	(17,783)
Total comprehensive income for the six months		-	-	10,323	10,323
Dividends	11	-	-	(5,500)	(5,500)
Transfer to retained earnings		-	(2,953)	2,953	-
Transfers between other reserves		-	(11)	11	-
Deferred tax on releases from revaluation reserve		-	471	(471)	-
		-	(2,493)	(3,007)	(5,500)
At 30 September 2020		**49,312**	**238,893**	**260,265**	**548,470**

Condensed group statement of cash flows

for the six months ended 30 September 2021

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Cash flows from operating activities		
(Loss)/profit for the six months	**(18,572)**	28,106
Adjustments for		
Depreciation of property, plant and equipment	**28,404**	26,582
Amortisation and impairment of intangibles	**1,432**	1,855
Finance income	**(345)**	(2,055)
Finance expense	**23,194**	20,130
Loss/(gain) on sale of property, plant and equipment	**67**	23
Difference between pension contributions paid and amounts recognised	**(2,773)**	(10,309)
Income tax expense	**38,631**	1,677
Operating cashflows before movements in working capital	**70,038**	66,009
Movements in working capital:		
Increase in trade and other receivables	**(1,474)**	(10,045)
Decrease/(increase) in inventories	**5**	(1)
Increase in trade and other payables	**11,730**	8,057
Cash generated from operations	**80,299**	64,020
Interest paid	**(14,048)**	(13,113)
Interest received	**345**	1,679
Tax (paid)/received	**(518)**	(765)
Net cash from operating activities	**66,078**	51,821
Cash flows from investing activities		
Purchases of property, plant and equipment	**(48,587)**	(48,822)
Sale of property, plant and equipment	**143**	(20)
Purchase of intangibles	**(1,269)**	(1,212)
Contributions to infrastructure assets received	**(562)**	210
Net cash used in investing activities	**(50,275)**	(49,844)
Cash flows from financing activities		
Issue costs of listed debt	**(66)**	(15)
Proceeds from revolving credit facility	**-**	50,000
Repayment of revolving credit facility	**(80,000)**	-
Proceeds from new revolving credit facility	**50,000**	-
Dividends paid to the holders of the parent	**(4,500)**	(5,500)
Payment of lease liabilities	**(105)**	(155)
Net cash (used in)/from financing activities	**(34,671)**	44,330
Net cash (decrease)/increase in cash and cash equivalents	**(18,868)**	46,307
Cash and cash equivalents at the beginning of six months	**41,617**	12,981
Cash and cash equivalents at the end of the six months	**22,749**	59,288

Notes to the condensed group financial statements

for the six months ended 30 September 2021

1. Reporting entity

South East Water Limited (the 'company') is a limited company incorporated in the United Kingdom. The company's registered office is at Rocfort Road, Snodland, Kent, ME6 5AH. These consolidated financial statements comprise the company and its subsidiary (collectively the 'group'). The group's principal activities are the supply of water to a population of 2.3 million in an area of 5,700 kms and the provision of certain ancillary services for customers, developers and other bodies within the limits of the relevant legislation.

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2021 are set out on pages 18 to 31, and have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as endorsed by the United Kingdom. The statements should be read in conjunction with the financial statements for the year ended 31 March 2021, which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The condensed group financial statements are presented in sterling.

These interim financial results have not been audited or reviewed by our auditor. The information herein for the year ended 31 March 2021 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2021 were approved by the Board of Directors on 15 July 2021 and delivered to the Registrar of Companies. The report of the auditors on those accounts was not qualified, did not include any reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

(i) New standards, interpretations and amendments not yet effective

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. The group is expecting to reallocate some costs associated with cloud computing from capital to operating expenditure. The group is currently investigating the quantum of the impact from this guidance and will include any adjustments in the financial statements for the year ending 31 March 2022.

3. Key judgements and sources of estimation uncertainty

The preparation of interim financial statements requires the application of judgements and assumptions by management which affects the value of assets and liabilities at the balance sheet date and income and expenditure for the six months ended 30 September 2021. Actual results may differ from those arrived at based on management's judgements and assumptions. In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group Annual Report for the year ended 31 March 2021.

Notes to the condensed group financial statements

for the six months ended 30 September 2021

4. Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The directors have also considered the potential impact of the cessation of LIBOR and introduction of SONIA on the group's financial liabilities. The directors have concluded that it is correct to continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the Chair's statement on page 16.

5. Accounting policies

The accounting policies applied in these condensed interim financial statements are the same as those applied in the last annual financial statements for the year ended 31 March 2021.

6. Revenue

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Revenue		
Unmetered water income	**10,233**	9,986
Metered water income	**114,556**	114,222
Other sales	**5,986**	3,898
Total revenue	**130,775**	128,106
Other income		
Rental income	**624**	579
Sundry income	**5,328**	5,051
Total other income	**5,952**	5,630
Total income	**136,727**	133,736

Notes to the condensed group financial statements

for the six months ended 30 September 2021

7. Segmental analysis

	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Period to 30 September 2021				
Total income	**118,226**	**10,280**	**8,221**	**136,727**
Operating profit	**39,401**	**1,435**	**2,072**	**42,908**
Finance costs				**(23,194)**
Finance income				**345**
Profit before taxation				**20,059**
Taxation				**(38,631)**
Profit for the period				**(18,572)**
Period to 30 September 2020				
Total income	117,494	8,835	7,407	133,736
Operating profit	45,741	616	1,501	47,858
Finance costs				(20,130)
Finance income				2,055
Profit before taxation				29,783
Taxation				(1,677)
Profit for the period				28,106

8. Net operating costs

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Employees benefits expenses	**16,899**	9,070
Asset expenses	**29,903**	28,460
Operating lease rentals:		
Vehicles and office equipment	**178**	123
Land and buildings	**8**	8
Fee payable to group's auditor	**239**	152
Energy costs	**9,708**	9,643
Rates	**9,235**	9,187
Contractors	**14,023**	15,577
Bulk water supplies and abstraction licences	**3,962**	4,646
Chemicals	**1,849**	1,923
Insurance and related costs	**1,600**	1,432
Other	**7,014**	7,061
Other operating expenses charged to capital projects	**(2,927)**	(2,550)
	91,691	84,732

Notes to the condensed group financial statements

for the six months ended 30 September 2021

9. Finance income and expense

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Finance income		
Interest receivable on bank balances and short-term deposits	**1**	53
Interest receivable from group companies	**-**	1,620
Net interest income on defined benefit assets	**344**	382
Total finance income	**345**	2,055
Finance expense		
Effective interest on listed debt	**6,964**	6,880
Indexation on listed debt	**5,048**	962
Interest on index linked loans	**6,437**	6,348
Indexation on index linked loans	**982**	2,096
Other finance costs	**5,039**	5,167
Interest capitalised	**(1,276)**	(1,323)
Total finance expense	**23,194**	20,130

10. Taxation

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Current taxation charge	**663**	813
Deferred taxation charge	**37,968**	864
	38,631	1,677

The current tax charge is based on management's estimate of the weighted average annual corporation tax rate expected for the full financial year.

The total deferred tax is estimated to be £38.0 million and includes a one-off charge of £36.0 million for the impact of the change in the rate of corporation tax from 19 per cent to 25 per cent announced in the 2021 budget. This change in tax rate is effective from 1 April 2023.

11. Dividends

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
Interim dividend of 4.6 pence (2020: 5.6 pence) per Ordinary share paid during the six months	**2,250**	2,750
Interim dividend of 4.6 pence (2020: 5.6 pence) per Ordinary share paid during the six months	**2,250**	2,750
	4,500	5,500

Notes to the condensed group financial statements

for the six months ended 30 September 2021

12. Earnings per share

	Six months ended 30 September 2021 £000	Six months ended 30 September 2020 £000
(Loss)/profit for the six months from continuing operations	**(18,572)**	28,106

	Six months ended 30 September 2021 Number	Six months ended 30 September 2020 Number
Basic and diluted weighted average number of shares	**49,312,354**	49,312,354
Basic and diluted earnings per share from continuing operations	**(37.66p)**	57.00p

13. Property, plant and equipment

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Net book amount			
At 1 April	**1,643,264**	1,608,845	1,608,845
Additions for the period	**50,715**	90,434	42,242
Reclassifications of assets in the period	**-**	106	-
Depreciation for the period	**(28,404)**	(52,907)	(26,582)
Disposals for the period	**(210)**	(861)	(39)
Impairment for the period	**-**	(2,353)	-
Closing balance as at	**1,665,365**	1,643,264	1,624,466

13.1 Assets held under leases

The net book value of owned and leased assets included in the consolidated condensed statement of financial position is as follows:

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Property, plant and equipment owned	**1,653,840**	1,631,312	1,612,026
Right-of-use-assets, excluding investment property	**11,525**	11,952	12,440
	1,665,365	1,643,264	1,624,466

Notes to the condensed group financial statements

for the six months ended 30 September 2021

14. Intangible assets

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Net book amount			
At 1 April	**8,787**	9,568	9,568
Additions for the period	**1,269**	2,822	1,212
Reclassifications of assets in the period	**-**	(106)	-
Amortisation for the period	**(1,432)**	(3,497)	(1,855)
Closing balance as at	**8,624**	8,787	8,925

15. Trade and other receivables

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Financial asset receivables			
Trade receivables	**38,147**	39,524	41,746
Accrued income	**43,556**	40,835	47,839
Amounts due from parent and fellow subsidiary undertakings due within one year	**75**	75	-
Sundry debtors	**1,594**	2,246	1,328
	83,372	82,680	90,913
Non-financial asset receivables			
Prepayments	**5,449**	4,055	3,380
	88,821	86,735	94,293

Notes to the condensed group financial statements

for the six months ended 30 September 2021

16. Trade and other payables

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Current liabilities			
Financial liability payables			
Trade payables	**8,404**	11,369	7,118
Amounts due to parent and fellow subsidiary undertakings	**11,047**	10,901	10,720
Other payables	**12,527**	2,334	11,441
Accruals	**34,445**	27,237	37,539
	66,423	51,841	66,818
Non-financial liability payables			
Payments received in advance	**34,680**	35,199	34,729
Other taxes and social security	**1,894**	1,921	1,140
	36,574	37,120	35,869
Total trade and other payables	**102,997**	88,961	102,687

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Non-current liabilities			
Financial liability payables			
Deposits payable to developers	**4,062**	4,623	5,207
	4,062	4,623	5,207

Notes to the condensed group financial statements

for the six months ended 30 September 2021

17. Loans and borrowings

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Non-current			
Irredeemable debenture stock	**989**	990	989
Listed bonds	**346,598**	341,469	339,969
Index linked loans	**400,771**	399,704	395,021
Variable rate loan	**118,842**	118,725	118,609
Fixed rate loan	**173,858**	173,891	173,865
Lease liabilities	**3,482**	3,592	3,760
	1,044,540	1,038,371	1,032,213
Current			
Bank loan	**50,000**	80,000	80,000
Lease liabilities	**324**	318	324
	50,324	80,318	80,324
Total loans and borrowings	**1,094,864**	1,118,689	1,112,537

The interest rate benchmark LIBOR will lose representativeness at the end of 2021. The group's floating rate debt will instead be benchmarked to the Sterling Overnight Index Average (SONIA) administered by the Bank of England.

The group has commenced transitioning its floating rate debt. In June 2021 South East Water (Finance) Limited refinanced its liquidity facilities using SONIA as its reference rate and in September 2021 South East Water Limited refinanced its revolving credit facility also using SONIA as its reference rate.

The group has agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to SONIA on its other floating rate borrowing, being the £120.0 million floating rate loan. This will take effect from January 2022, after UK LIBOR has ceased.

The impact of the transition on effective interest on the group's borrowing facilities will be neutral as a Credit Adjustment Spread will be added to the margin, offsetting the fact that SONIA is a lower reference rate than LIBOR. This follows the banking regulator's intention that the cessation of LIBOR should not result in a transfer of value between lenders and borrowers.

Notes to the condensed group financial statements

for the six months ended 30 September 2021

18. Financial instruments

Fair values of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. In the opinion of the directors, the fair values of the financial assets and liabilities of the group (apart from the specific items shown in the fair value table below) are not materially different from the book values.

The following tables provide comparison by category of the carrying amount and the fair values of the group's financial assets and financial liabilities at 30 September 2021.

	Book value 30 September 2021 £000	**Fair value 30 September 2021 £000**	Book value 31 March 2021 £000	Fair value 31 March 2021 £000	Book value 30 September 2020 £000	Fair value 30 September 2020 £000
Financial assets at amortised cost						
Trade and other receivables	**83,372**	**83,372**	82,680	82,680	90,913	90,913
Cash	**22,749**	**22,749**	41,617	41,617	59,288	59,288
Amounts due from parent undertaking	**-**	**-**	-	-	135,941	108,345
	106,121	**106,121**	124,297	124,297	286,142	258,546
Financial liabilities at amortised cost						
Trade and other payables	**55,376**	**55,071**	40,940	40,715	56,098	55,789
Irredeemable debentures	**989**	**861**	990	861	989	843
Listed bonds	**346,598**	**430,369**	341,469	430,369	339,969	430,369
Index linked loans	**400,771**	**520,670**	399,704	503,851	395,021	686,893
Drawdown facility	**50,000**	**50,000**	80,000	80,000	80,000	80,000
Bank loan	**118,842**	**118,842**	118,725	118,725	118,609	118,609
Loan note	**173,858**	**173,858**	173,891	173,891	173,865	173,865
Lease Liability	**3,806**	**3,785**	3,910	3,910	4,084	4,084
Amounts due to parent and group undertakings	**11,047**	**10,986**	10,901	10,841	10,720	10,661
Trade and other payables over one year	**4,062**	**4,040**	4,623	4,598	5,207	5,178
	1,165,349	**1,368,482**	1,175,153	1,367,761	1,184,562	1,566,291

The net book value is considered to equate to the fair value for trade receivables due to the short maturity of the amounts receivable. The fair values of trade and other payables and amounts due to parent and group undertakings have been adjusted for the appropriate credit risk. The fair value of irredeemable debentures has been calculated using the discounted cash flow method. The calculation includes all future capital and interest payments discounted by an amount representing credit risk and a further amount representing future inflation.

The fair value of index-linked loans have been calculated using the discounted cash flow method, taking into account future capital and interest payments based on estimated interest and inflation rates appropriate to the loans. These amounts have been similarly discounted for credit risk and inflation using appropriate discount rates in effect at the balance sheet dates. The fair values of listed bonds are based on market prices.

Notes to the condensed group financial statements

for the six months ended 30 September 2021

19. Analysis of amounts recognised in other comprehensive income

	Retained earnings Six months to 30 September 2021 £000	Retained earnings Six months to 30 September 2020 £000
Actuarial gain/loss on defined benefit pension schemes	**4,463**	(19,446)
Deferred tax on defined benefit pension schemes	**(1,375)**	1,663
	3,088	(17,783)

20. Capital commitments

	30 September 2021 £000	31 March 2021 £000	30 September 2020 £000
Contracts placed for future capital expenditure not provided in the financial statements	**39,296**	47,119	53,900

All of the above capital commitments relate to property, plant and equipment.

Contingent liabilities

Through the ordinary course of operations, the group is party to various contract disputes. The directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the group's results from operations, cash flows or financial position.

21. Events after the reporting date

The company re-financed the outstanding balance on its revolving credit facility in December with new loan finance of £50.0 million being raised on 2 December 2021 and the outstanding balance on the revolving credit facility of the same amount being repaid on 9 December 2021. The new loan is a fixed rate 14 year loan at an interest rate of 2.04 per cent.

22. Parent company and ultimate controlling parties

The immediate parent company is South East Water (Holdings) Limited. The largest and smallest group of companies into which results of the company are consolidated is that headed by HDF (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of HDF may be obtained from the Company Secretary at the company's registered office at Rocfort Road, Snodland, Kent, ME6 5AH.

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia ("UTA"), NatWest Pension Trustee Limited as Trustee for the NatWest Group Pension Fund ("NWPF"), Régime de Rentes du Mouvement Desjardins ("RRMD"), Desjardins Financial Security Life Assurance Company ("DFSL") and Certas Home and Auto Insurance Company ("Certas") are the company's joint ultimate shareholders. UTA is incorporated in Australia. NWPF is incorporated in the United Kingdom, RRMD, DFSL and Certas are incorporated in Canada. It is the directors' belief that there is no single ultimate controlling party and that the joint ultimate shareholders control the company jointly.