



Condensed group financial statements  
for the six months ended 30 September 2017

## Our business

South East Water supplies top quality drinking water to 2.2 million customers in the south east of England. Through a network of 9,000 miles of pipe, we deliver 521 million litres of water every day. The skill and expertise of our employees ensures our customers' water meets the highest of standards.

## 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.

## Our supply area



## Good to know



**521 million litres of water a day** – that's how much water we produce in order to supply to around 2.2 million people



**83 water treatment works** – that's how we ensure our water is of the highest quality



**500,000 water quality tests each year** – that's how we ensure your water meets the highest standards



**9,000 miles of water mains** – that's how we transfer fresh drinking water direct to your tap



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

## How we invest in your water

Where each £1 of your bill is spent

### Water extraction



**7%**

### Getting the water to you



**45%**

### Water treatment



**17%**

### Customer service



**11%**

### Cost of capital investment



**20%**

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**Together we  
know h<sub>2</sub>ow.**

**We engage  
with customers  
and community  
groups with  
the objective  
of delivering  
a five-star  
service for all.**

south east water

### **Our Code of Practice**

Priority Services Register:  
Our services for customers  
with additional needs

#### **Providing clear information**

We continually review all our publications to ensure customers find it easy to get the information they need

## Chairman's introduction

I am pleased to present our interim report for the first half of the 2017/18 financial year.

We have reached the half-way mark of our five year business plan, a plan which put customer satisfaction at the heart of everything we do. We do this by working with our customers and communities, sharing ideas and working together to innovate in ensuring we provide a reliable and economic high quality drinking water service, while enhancing the environment and benefiting society through our work.

### A review of the year

Our vision is to be the water company people want to be supplied by and want to work for. The report by the Consumer Council for Water in September this year recognised our continuous improvement in customer service and highlighted our commitment to getting things right first time for customers. Some of the innovative initiatives which have helped us achieve this success include:

- *increased digital communications such as 'My Account' (with 50,000 customers signed up by August 2017) and an online 'in your area' map showing supply updates*
- *improved technology to help resolve customer queries, such as ensuring we have dedicated employees available to support social media and live chat channels via our website*
- *encouraging ideas from employees and acting on feedback through our 'Pipe Up' ideas forum and employee workshops*

We will continue to engage with customers and community groups with the objective of delivering a five-star service for all. For example our popular open days give customers a chance to see behind the scenes at our water treatment works and raise questions and suggestions that we feed back into the business. This commitment to listening to customers is demonstrated by the fact we are on track to see complaints reduce for a seventh consecutive year, with complaints for the period to 30 September 2017 down by 21 per cent.

One area where we have worked particularly hard to ensure a positive customer experience is in our customer metering programme. We have installed a further 21,323 water meters in the first six months of the year. The metering team has recently been shortlisted as "Team of the Year" at the Utility Week Awards, which endorses their efforts to ensure a smooth transition to metered water for customers.



**Nick Salmon**  
Chairman

## Chairman's introduction continued

We now have 84 per cent of our customers on meters and are on track to achieve 90 per cent by 2020, as set out in our long term water resources strategy.

We strive to keep improving the quality of the water we supply. While we have maintained high overall water quality with 99.95 per cent of samples passing standards set (as this is calculated on a calendar year basis this is the figure from January to September 2017), we want to reduce the number of calls we receive about discoloured water. In order to do this we are carrying out a pipe flushing programme in the order of approximately 900 miles during the year.

It is important that customers have trust in the quality of the information we provide and we continue to work hard to ensure our reporting is not only robust and transparent, but also clear and engaging for readers. Our regulator Ofwat has, for a second year, recognised our work in this area and assessed the quality of the information and assurance as industry leading.

We have our largest environmental programme of work taking place during this five year period through the Water Industry National Environment Programme (WINEP). Work includes catchment management education programme and practical projects with farmers to help them reduce pesticide runoff into rivers. This work is carried out in partnership with Natural England and we are grateful for the addition of their expertise to support this programme.

Eels are a protected species and can be damaged through our treatment works if special screens are not in place. As part of the WINEP we have had sign off for one of our eel screens at Bray and we have commenced the design of five more screens. In the last six months a screen at Crowhurst Bridge has been constructed and we expect two others to be constructed this year.

Another environmental success, with Natural England and also Bug Life, is that our dedication to improving wildlife habitats has seen the successful reintroduction of rare wart-biter crickets to our land at Deep Dean in East Sussex. Careful management of the land above our chalk aquifers not only ensures we are

protecting the water quality below the ground, but we are also benefiting the biodiversity above ground too.

The start to this year's recharge season has been drier than average in the south east, with October receiving just 40 per cent long term average rainfall. As such we have been preparing in case there is a second consecutive dry winter. At this point, our reservoirs are in a good position, but we need above average winter rainfall to refill the underground sources. We will continue to monitor and manage supplies through the winter and work closely with customers to promote water efficiency in preparation for the spring/summer 2018.

This year we are updating our long-term water resource plans. We will begin a 12 week public consultation early in 2018 on our new draft water resources management plan, which has been prepared to ensure we have a resilient water supply through to 2080. In order to plan this far ahead we have worked closely with a number of key stakeholders to develop the plan through our Environment Focus Group and, as active members of the Water Resources in the South East (WRSE) group, with our neighbouring water companies as we work together to look to develop optimal regional solutions.

## Results and key financial performance indicators

The results published in this statement summarise our performance for the period to 30 September 2017. 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 £114.5 million compared with £111.0 million for the same period in the previous year. The increased revenue is largely due to the numbers of new properties in the area and the increase in prices averaging 4.86 per cent for the year. This is partially offset by lower consumption of approximately 3.87 per cent due to the cooler and wetter than average summer and the impact of metering on billing.



Net operating costs for the period to 30 September 2017 were £79.0 million, which is some £6.1 million higher than the corresponding period last year. The higher costs are mainly due to a 30 per cent increase in business rates (£2.3 million), increased depreciation due to the continued high investment in the company's assets (£1.6 million), higher contractor and staff costs due to reactive maintenance (including mains bursts) of the network (£0.9 million) and increased energy costs of £0.2 million.

Operating profit was £39.3 million for the period to 30 September 2017 which compares with £42.0 million in the prior year. Operating profit as a percentage of revenue has decreased from 37.9 per cent in the first half of 2016/17 to 34.3 per cent in the current year.

Finance costs have increased by £4.1 million from £22.9 million to £27.0 million. This reflects the higher RPI being applied to the index linked loans and bonds during the period to 30 September 2017.

Profit before tax was £14.7 million compared with £21.8 million for the same period last year. This represents 12.8 per cent of revenue compared with 19.7 per cent for the corresponding period last year.

Deferred tax for the same period in 2016/17 was significantly affected by the changes in future tax rates announced in that year. This resulted in a tax credit of £3.6 million. There have been no new adjustments to the headline rate of corporation tax announced in the same period in 2017/18. Therefore, the company has incurred a tax charge of £1.7 million for the period to 30 September 2017, being £1.0 million of current tax on our ordinary operations and £0.7 million of deferred tax due to taxation timing differences.

As a result of the above, profit after tax has decreased from £25.4 million to £13.0 million for the first six months of the year.

Net cash generated from operations was £64.5 million for the period to 30 September 2017 compared to £62.9 million in the same period for the previous year. Also, during the period the company drew down £15.0 million from our committed loan facilities to ensure the capital programme could be maintained in line with the plans submitted to our regulators.

The interest paid in the year is significantly less than the previous year due to the timing of interest payments on our listed bonds.

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

### Investing in customer satisfaction

We are the only water company which elected to include customer satisfaction measures with potential financial penalties and rewards within our five year performance commitments. It is important for us to make sure we were hearing from all our customers – including the silent majority – and therefore every month we survey a random selection of customers to ask how satisfied they are with the service we provide.

Across the business, initiatives have been running to keep improving customer satisfaction and for the second year our scores have improved. The period to 30 September 2017 saw an average of 75.57 per cent of customers surveyed say they are either satisfied or very satisfied with the service we provide. This compares to an average score of 74.76 per cent in the same period of 2016/17. In particular we have been focused on improving customer satisfaction with leakage and are pleased to say this has increased to an average of 3.9 out of five for the six month period, close to our target of 4.0.

## Chairman's introduction continued

We are delighted that our service incentive mechanism qualitative score has been an average of 4.33 out of 5.00 for the period to 30 September 2017 compared to 4.19 in the first half of 2016/17. One area of considerable improvement for our customers this year is our joint initiative with Southern Water for us to bill on their behalf for wastewater services, giving our customers the convenience of just one bill – something customers have asked for. Since this was agreed we have transferred more than 324,000 customers (to the end of November 2017) to the new joint billing approach, with the remainder due to move by April 2018.

We are on track with our planned capital investment programme of £83.9 million for the year 2017/18. For the period to 30 September 2017 we have invested £43.0 million on maintaining and improving our network of pipes, treatment works, metering and other key areas.

Our largest capital scheme during this five year investment programme is the extension of our water treatment works at Bray, Berkshire. The site is currently capable of treating up to 45 million litres of fresh drinking water per day and we plan to extend the works to be able to treat up to 68 million litres per day in order to secure water supplies for current and future customers across Berkshire, Surrey and Hampshire. The scheme was submitted for planning permission in November 2017.

Our purpose built laboratory in Farnborough has tested more than 100,000 samples in the first six months of the year. Along with supporting our own water sampling programme, the UKAS accredited laboratory provides a service to more than 200 other businesses and organisations, from other water companies and local authorities through to individual private supplies.

One of our customer commitments is to keep interruptions to customer supplies to a minimum. Our underlying performance has been good and most customers who have suffered an interruption have had their water restored in under three hours, leading to an average interruption time across our whole customer base of 3.9 minutes per property for the period to 30 September 2017. Our target

for the full year is to remain below 12 minutes per property.

We have launched an “in your area” map on our website that allows customers to quickly find out about any work or supply interruptions in their area. Simply entering a postcode allows you to zoom to an area of the map and find information about anything from planned roadworks to reported leaks. Customers can then sign up for email or text alerts to keep them updated on work that interests them. This online information is proving popular and between April and September we have sent more than 4,400 emails and 4,600 SMS text messages to help keep customers informed about our work.

This is just one of the ways we try to keep all our customers informed when we are working in their area. We also have our priority services register where people can sign up for special assistance, such as delivery of bottled water. We now have 16,708 customers on our register (at the end of September 2017) – an increase of just over 1,000 in the last six months.

Our Customer Care Team works in partnership with many organisations including other utilities to identify those customers who may need extra support whether that be through information we provide or if they have difficulty paying their water bills. The team sensitively talks through their situation to understand their circumstances and find the right tariff and payment options for them.

At the end of September 2017 we had more than 12,500 customers now signed up to our Social Tariff helping ensure their bills are affordable.

## The business retail market opens

On the 1 April 2017 we, along with the other water companies nationally, were ready for the opening of a new retail market for non-household customers. We welcomed the challenge and continue to work hard to ensure the new market is successful. Our dedicated Wholesale Service Desk is working closely with the new retailers to ensure a smooth transition and that the non-household customers continue to receive an excellent and reliable service.



South East Water Choice, our non-household retail business, has had a successful first six months with most of our business customers opting to stay and many choosing to now get both their water and wastewater services from us.

Our sister company Water Choice, which is part of our group, has also been offering water and wastewater retail services to all business customers across England since market opening.

Our next step is to bring all our retail activities under one roof. From 1 April 2018 all our water and sewerage retail business will be undertaken by Water Choice. This will simplify our operations, and help us provide a more efficient service and an improved customer experience.

An application has been submitted to the Secretary of State for the Department for Environment, Food and Rural Affairs (Defra) and if given the go ahead the transition is planned to take place on 1 April 2018.

We will keep our customers fully informed along the way and maintain the best level of service to our customers through our knowledgeable and experienced team.

You can find out more about the new business retail market itself at [open-water.org.uk](http://open-water.org.uk)

### Principal risks and uncertainties

The principle risks and uncertainties facing the business are set out in the Strategic Report within the group's Annual Report for the financial year 2016/17, which can be found on the South East Water website.

### Going concern

The directors are satisfied that the group has sufficient resources to continue in operation for the foreseeable future; a period of not less than 12 months from the date of this report.

### Looking ahead

This year is a particularly important one as we prepare and consult on our long term plans.

Along with our water resources management plan, we are preparing our business plan for the period 2020-2025 and will publish this in September 2018.

We have been working closely with our Customer Challenge Group (CCG), and engaging widely with customers and our communities to help us develop a plan that ensures everything we do reflects all of the many different people we serve and meets the needs of our customers, communities and the environment.

As a business that ensures there is a reliable supply of quality water for the south east of England, we know we have a potentially significant impact on society. We intend for our plan to be one that ensures we are building a future that puts the environment, society and the next generation at the forefront.

I would like to take the opportunity to thank Zoe Mcleod who chairs our CCG and all the members of the group who are giving us a strong challenge to ensure we develop a plan that truly makes customer engagement part of who we are at South East Water.

The board is excited by the future direction that we can see developing through our conversations with customers and stakeholders. There is real appetite for us to see South East Water recognised as a leading business in customer engagement, not just in the water industry, but to be an example for other industries too.

We know that it is the employees and business partners at South East Water and their dedication and passion for our vision that has helped us continue to improve as they keep aiming for five-out-of-five service for every one of our customers. On behalf of the board I would like to thank everyone involved. We look forward to the rest of this year and through 2018 as we work with our customers to develop a sustainable future for water in our community of the south east.

**Nick Salmon**

Chairman  
14 December 2017

## Statement of directors' responsibilities

The directors confirm that to the best of their knowledge:

- *the condensed group financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the European Union; and*
- *the condensed group statements herein include a fair review of the information required by the Disclosure and Transparency Rules 4.2.7R.*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the group financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Paul Butler**

Managing Director  
14 December 2017



## Condensed group income statement

for the six months ended 30 September 2017

	Notes	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
<b>Revenue</b>	3	<b>114,450</b>	110,990
Group net operating costs	5	(79,009)	(72,890)
Other income	3	3,840	3,939
<b>Group operating profit</b>		<b>39,281</b>	42,039
Finance costs	6	(26,957)	(22,882)
Finance income	7	2,349	2,686
<b>Profit before taxation</b>		<b>14,673</b>	21,843
Taxation	8	(1,662)	3,596
<b>Profit for the period</b>		<b>13,011</b>	25,439
<b>Earnings per share</b>			
Basic and diluted from continuing operations		<b>26.38p</b>	51.59p

Profit for the current and prior year is generated entirely from continuing operations.

## Condensed group statement of comprehensive income

for the six months ended 30 September 2017

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
<b>Profit for the period</b>	<b>13,011</b>	25,439
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Remeasurement of defined benefit asset/liability	(3,159)	(10,664)
Deferred tax on defined benefit pension schemes	537	1,920
Impact of deferred tax rate change in respect of the pension schemes	-	(389)
	(2,622)	(9,133)
<b>Total comprehensive income for the period attributable to owners of the company</b>	<b>10,389</b>	16,306



## Condensed group statement of financial position

as at 30 September 2017

		30 September 2017	31 March 2017	30 September 2016
	Notes	£000	£000	£000
<b>Non-current assets</b>				
Intangible assets	10	10,830	11,058	10,777
Property, plant and equipment	11	1,480,018	1,455,380	1,430,220
Amount due from parent undertaking		190,013	190,013	190,013
Defined benefit pension surplus		8,104	9,616	7,372
		1,688,965	1,666,067	1,638,382
<b>Current assets</b>				
Inventories		219	214	239
Trade and other receivables	12	77,336	72,113	72,627
Cash and cash equivalents	13	27,697	11,371	16,376
		105,252	83,698	89,242
<b>Total assets</b>		<b>1,794,217</b>	<b>1,749,765</b>	<b>1,727,624</b>
<b>Current liabilities</b>				
Loans and borrowings	14	(15,000)	-	-
Trade and other payables	16	(110,544)	(96,130)	(89,380)
Deferred income		(7,169)	(6,573)	(6,608)
Provisions		(2,361)	(2,472)	(3,860)
		(135,074)	(105,175)	(99,848)
<b>Non-current liabilities</b>				
Loans and borrowings	14/15	(888,586)	(882,024)	(872,610)
Derivative financial instruments	14/15	(104,501)	(100,916)	(91,052)
Trade and other payables	14	(5,347)	(4,261)	(3,501)
Net deferred tax liabilities		(133,080)	(132,895)	(131,326)
Defined benefit pension liability		(1,378)	(1,851)	(8,577)
Deferred income		(72,157)	(69,938)	(67,234)
		(1,205,049)	(1,191,885)	(1,174,300)
<b>Total liabilities</b>		<b>(1,340,123)</b>	<b>(1,297,060)</b>	<b>(1,274,148)</b>
<b>Net assets</b>		<b>454,094</b>	<b>452,705</b>	<b>453,476</b>
<b>Equity</b>				
Ordinary share capital		49,312	49,312	49,312
Revaluation reserve		258,965	261,549	264,063
Retained earnings		145,817	141,844	140,101
<b>Total equity</b>		<b>454,094</b>	<b>452,705</b>	<b>453,476</b>

The notes on pages 15 to 22 are an integral part of these condensed group financial statements.

## Condensed group statement of changes in equity

for the six months ended 30 September 2017

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
<b>At 1 April 2017</b>	<b>49,312</b>	<b>261,549</b>	<b>141,844</b>	<b>452,705</b>
Profit for the period	-	-	13,011	13,011
Other comprehensive loss	-	-	(2,622)	(2,622)
Total comprehensive income	-	-	10,389	10,389
Dividends (see note 9)	-	-	(9,000)	(9,000)
Amortise revaluation reserve	-	(3,064)	3,064	-
Release revaluation on disposals	-	(43)	43	-
Deferred tax on reserve releases	-	523	(523)	-
<b>At 30 September 2017</b>	<b>49,312</b>	<b>258,965</b>	<b>145,817</b>	<b>454,094</b>

for the six months ended 30 September 2016

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
<b>At 1 April 2016</b>	<b>49,312</b>	<b>264,134</b>	<b>129,328</b>	<b>442,774</b>
Profit for the period	-	-	25,439	25,439
Other comprehensive loss	-	-	(9,133)	(9,133)
Total comprehensive income	-	-	16,306	16,306
Dividends (see note 9)	-	-	(8,000)	(8,000)
Amortise revaluation reserve	-	(3,064)	3,064	-
Release revaluation on disposals	-	(20)	20	-
Deferred tax on reserve releases	-	617	(617)	-
Impact of deferred tax rate change	-	2,396	-	2,396
<b>At 30 September 2016</b>	<b>49,312</b>	<b>264,063</b>	<b>140,101</b>	<b>453,476</b>

## Condensed group statement of cash flows

for the six months ended 30 September 2017

	Notes	Six months ended 30 September 2016 £000	Six months ended 30 September 2016 £000
<b>Operating activities</b>			
Net cash flow from operating activities		64,450	62,882
Interest received		2,225	2,543
Interest paid		(6,337)	(17,354)
Group tax relief paid		(2,000)	(1,000)
<b>Net cash flow before investing and financing activities</b>		<b>58,338</b>	<b>47,071</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		103	159
Purchase of property, plant and equipment		(47,807)	(39,436)
Purchase of intangible assets		(1,414)	(1,297)
Fixed asset contributions received		1,106	932
<b>Net cash flow used in investing activities</b>		<b>(48,012)</b>	<b>(39,642)</b>
<b>Financing activities</b>			
New bank loans received		15,000	-
Dividends paid to shareholder	9	(9,000)	(8,000)
<b>Net cash flow used in financing activities</b>		<b>6,000</b>	<b>(8,000)</b>
Increase/(decrease) in cash and cash equivalents		16,326	(571)
Cash and cash equivalents at 1 April		11,371	16,947
<b>Cash and cash equivalents at 30 September</b>	13	<b>27,697</b>	<b>16,376</b>



# Notes to the condensed group financial statements

for the six months ended 30 September 2017

## 1. Basis of preparation

The condensed group financial statements for the six months ended 30 September 2017 are set out on pages 11 to 22, 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 European Union. The statements should be read in conjunction with the financial statements for the year ended 31 March 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union.

The condensed group financial statements are presented in sterling.

These interim financial results are neither audited nor reviewed by our auditor. The information for the year ended 31 March 2017 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2017 were approved by the Board of Directors on 14 July 2017 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.

## 2. Accounting policies

Changes in accounting policies

The accounting policies adopted are consistent with those of the financial statements for the year ended 31 March 2017 as described in those financial statements.

## 3. Total income

	Six months ended 30 September 2017	Six months ended 30 September 2016
	£000	£000
<i>Revenue</i>		
Unmetered water income	19,083	24,537
Metered water income	92,573	83,417
Other sales	2,794	3,036
<b>Total Revenue</b>	<b>114,450</b>	<b>110,990</b>
<i>Other income</i>		
Rental income	566	585
Sundry income	3,274	3,354
<b>Total other income</b>	<b>3,840</b>	<b>3,939</b>
<b>Total income</b>	<b>118,290</b>	<b>114,929</b>

All revenue is from customers within the United Kingdom.

## Notes to the condensed group financial statements

for the six months ended 30 September 2017

### 4. Segmental analysis

The group's revenue mainly arises from the supply of water and related activities. The activities of the group, for management purposes, fall into three operating areas being the supply of potable water on a wholesale basis, the supply of potable water and waste water services on a retail basis, both of which are governed by the Water Act 2014, and related non-regulated activities.

The group analyses results by segment to operating profits only, therefore no segmental statement of financial position or statement of cash flows are presented.

Period to 30 September 2017	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Total income	101,921	12,329	4,040	118,290
Operating profit	36,019	1,725	1,537	39,281
Finance income				2,349
Finance costs				(26,957)
Profit before taxation				14,673
Taxation				(1,662)
<b>Profit for the period</b>				<b>13,011</b>

Period to 30 September 2016				
Total income	98,932	12,074	3,923	114,929
Operating profit	38,610	1,560	1,869	42,039
Finance income				2,686
Finance costs				(22,882)
Profit before taxation				21,843
Taxation				3,596
<b>Profit for the period</b>				<b>25,439</b>

### 5. Net operating costs

Period to 30 September 2017	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000
Employee benefits expenses	14,662	13,550
Asset expenses	24,348	22,616
Other operating expenses	39,999	36,724
	<b>79,009</b>	<b>72,890</b>

# Notes to the condensed group financial statements

for the six months ended 30 September 2017

## 6. Finance costs

	Six months ended 30 September 2017	Six months ended 30 September 2016
	£000	£000
Effective interest on listed debt	11,129	10,950
Fair value movements on interest rate swap	3,585	3,825
Indexation on listed debt	3,143	1,729
Interest on index linked loans	5,810	5,657
Indexation on index linked loans	3,146	727
Other finance costs	1,189	1,208
	28,002	24,096
Less: interest capitalised	(1,045)	(1,214)
	26,957	22,882

## 7. Finance income

	Six months ended 30 September 2017	Six months ended 30 September 2016
	£000	£000
Interest receivable from group undertakings	2,210	2,462
Pension fund finance credit	124	168
Interest receivable on bank balances and short term deposits	15	56
	2,349	2,686

## 8. Taxation

	Six months ended 30 September 2017	Six months ended 30 September 2016
	£000	£000
Current taxation charge	940	1,717
Deferred taxation charge/(credit)	722	(5,313)
	1,662	(3,596)

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



## Notes to the condensed group financial statements

for the six months ended 30 September 2017

### 9. Dividends

	Six months ended 30 September 2017	Six months ended 30 September 2016
	£000	£000
Equity dividends paid during the period of 18.3p per share (2016: 16.2p)	9,000	8,000

### 10. Intangible assets

	£000
<b>Net book amount</b>	
At 1 April 2017	11,058
Additions for the period	1,953
Reclassification of assets in the period	(539)
Amortisation for the period	(1,642)
<b>At 30 September 2017</b>	<b>10,830</b>
<b>Net book amount</b>	
At 1 April 2016	11,046
Additions for the year	3,197
Amortisation for the year	(3,180)
Disposals for the year	(2)
Impairment for the year	(3)
At 31 March 2017	11,058
<b>Net book amount</b>	
At 1 April 2016	11,046
Additions for the period	1,297
Amortisation for the period	(1,566)
At 30 September 2016	10,777

# Notes to the condensed group financial statements

for the six months ended 30 September 2017

## 11. Property, plant and equipment

	£000
<b>Net book amount</b>	
At 1 April 2017	1,455,380
Additions for the period	46,908
Reclassification of assets in the period	539
Disposals for the period	(88)
Depreciation for the period	(22,721)
<b>At 30 September 2017</b>	<b>1,480,018</b>
<b>Net book amount</b>	
At 1 April 2016	1,412,184
Additions for the year	86,625
Disposals for the year	(116)
Depreciation for the year	(43,275)
Impairment for the year	(38)
At 31 March 2017	1,455,380
<b>Net book amount</b>	
At 1 April 2016	1,412,184
Additions for the period	39,245
Disposals for the period	(63)
Depreciation for the period	(21,120)
Impairment for the period	(26)
At 30 September 2016	1,430,220

## 12. Trade and other receivables

	30 September 2017	31 March 2017	30 September 2016
	£000	£000	£000
<i>Financial asset receivables</i>			
Trade receivables	33,580	32,669	31,033
Accrued income	36,879	32,433	35,288
Amounts due from group undertakings	273	96	37
	<b>70,732</b>	65,198	66,358
<i>Non-financial asset receivables</i>			
Prepayments	4,727	3,302	4,438
Other receivables	1,877	3,613	1,831
	<b>6,604</b>	6,915	6,269
	<b>77,336</b>	72,113	72,627

## Notes to the condensed group financial statements

for the six months ended 30 September 2017

### 13. Cash and cash equivalents

	30 September 2017	31 March 2017	30 September 2016
	£000	£000	£000
Cash at bank and in hand	27,697	11,371	9,376
Short term bank deposits	-	-	7,000
	27,697	11,371	16,376

### 14. Financial liabilities

	30 September 2017	31 March 2017	30 September 2016
	£000	£000	£000
<b>Non-current liabilities</b>			
Irredeemable debenture stock	991	991	991
Listed bonds	526,284	523,281	520,563
Index linked loans	361,311	357,752	351,056
Loans and borrowings	888,586	882,024	872,610
Derivative financial instruments	104,501	100,916	91,052
Trade and other payables	5,347	4,261	3,501
	998,434	987,201	967,163
<b>Current liabilities</b>			
Other bank loans	15,000	-	-

Trade and other payables which fall under the heading of financial liabilities are reported under note 16.

# Notes to the condensed group financial statements

for the six months ended 30 September 2017

## 15. 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.

	<b>Book Value 30 September 2017 £000</b>	<b>Fair Value 30 September 2017 £000</b>	Book Value 31 March 2017 £000	Fair Value 31 March 2017 £000	Book Value 30 September 2016 £000	Fair Value 30 September 2016 £000
<i>Loans and receivables</i>						
Amounts due from parent undertaking	<b>190,013</b>	<b>173,920</b>	190,013	140,373	190,013	193,321
<i>Financial liabilities at amortised cost</i>						
Irredeemable debentures	<b>991</b>	<b>841</b>	991	766	991	921
Listed bonds	<b>526,284</b>	<b>631,450</b>	523,281	659,312	520,563	633,743
Index linked loans	<b>361,311</b>	<b>660,655</b>	357,752	441,423	351,056	489,057
	<b>888,586</b>	<b>1,292,946</b>	882,024	1,101,501	872,610	1,123,721

The following table details the financial instruments that are carried in the group's books at the fair value.

	<b>Book and Fair Value 30 September 2017 £000</b>	Book and Fair Value 31 March 2017 £000	Book and Fair Value 30 September 2016 £000
<i>At fair value through the income statement</i>			
Derivative financial instruments - Interest rate swap	<b>104,501</b>	100,916	91,052

The book value of the interest rate swap has been adjusted to reflect its fair value.



## Notes to the condensed group financial statements

for the six months ended 30 September 2017

### 15. Financial Instruments (continued)

#### Fair value hierarchy

The group held the following financial instruments measured at fair value:

	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Financial liabilities at fair value through the income statement</i>				
<b>30 September 2017</b>				
Interest rate swap	<b>(104,501)</b>	-	<b>(104,501)</b>	-
31 March 2017				
Interest rate swap	(100,916)	-	(100,916)	-
30 September 2016				
Interest rate swap	(91,052)	-	(91,052)	-

During the reporting period ended 30 September 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- *Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;*
- *Level 2: other techniques for which all inputs with a significant effect on the recorded fair value are observable, either directly or indirectly; and*
- *Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.*

### 16. Trade and other payables

	30 September 2017 £000	31 March 2017 £000	30 September 2016 £000
<i>Financial liability payables</i>			
Trade payables	<b>10,674</b>	14,339	11,724
Amounts due to group undertakings	<b>10,191</b>	11,266	10,839
Other payables	<b>5,119</b>	949	675
Accruals	<b>46,088</b>	33,354	29,682
	<b>72,072</b>	59,908	52,920
<i>Non-financial liability payables</i>			
Payments received in advance	<b>37,516</b>	35,207	35,480
Other taxes and social security	<b>956</b>	1,015	980
	<b>38,472</b>	36,222	36,460
	<b>110,544</b>	96,130	89,380

### 17. Subsequent events

There have been no post balance sheet events that require disclosure.

We know h<sub>2</sub>ow.

We use  
the latest  
technology  
and modelling  
capabilities  
to constantly  
assess the  
health of  
our assets.

**Ben – Production Technician**

Our highly skilled technicians, like Ben, are constantly monitoring our treatment works to ensure we are delivering top quality drinking water around the clock

