

# South East Water Limited

## Condensed group financial statements for the six months ended 30 September 2019

### Chairman's introduction

I am pleased to present our interim report for the six months ended 30 September 2019. This is the last year of the 2015 to 2020 investment period known as AMP6. Our business activities during the first half of the 2019-20 financial year have focused on preparations for the start of a new five year period, AMP7, starting in April 2020, together with long-term planning for the management of water resources over a 60 year time horizon.

At the same time the business continues with day-to-day activities relating to our provision of a first class drinking water service to our customers, further developing support for vulnerable customers and delivery of a number of ground-breaking environmental initiatives.

#### **A resilient service for the future**

Our five year business plan for the period 2020 to 2025 was published in September 2018, and has been subject to extensive scrutiny and challenge by Ofwat, firstly through its Initial Assessment of Plan (IAP) in January 2019 and more recently in July 2019 when it announced its Draft Determination.

On 30 August we issued our response to Ofwat's Draft Determination in which we provided further evidence in support of our business plan. - [southeastwater.co.uk/businessplan](https://southeastwater.co.uk/businessplan).

We consider this to be the most ambitious business plan South East Water has ever produced. It challenges us to deliver performance levels well beyond anything we have achieved historically at an efficient cost. The performance commitments we have set ourselves are very challenging, especially as we operate in a region that is in serious water stress with a growing population.

Ofwat's Final Determination is expected on 16 December 2019 and following this the Board will complete a detailed review of their decision.

#### **Planning water resources through to 2080**

For the longer term, our water resource management plan (WRMP19), sets out how we plan to secure water supplies for today's and tomorrow's customers, from 2020 to 2080. Our plan was one of the first to be approved by the Secretary of State, and the final plan was published on our website in August.

The plan sets out our estimate of the amount of water our customers will need, and what we will need to do – where and by when – to meet those future water needs. The plan balances the needs of our customers and the needs of the broader environment in the most economic way.

In the plan we build on our industry leading leakage reduction strategy, targeting a further 15 per cent reduction by 2025, and plan to halve leakage levels by 2050. The innovation and dedication behind our approach to leakage over the years means we are starting in a good position. This includes using the latest technology available, such as satellite and advanced data analysis, to drive leakage down further (see below for further details of activities this period).

Reducing per capita consumption by nine per cent by 2025 is another key element of the plan which will require behavioural changes in how customers use water as well the development of more water efficient household appliances and how houses are designed to better conserve water.

By fully participating in the Water Resources in the South East (WRSE) Group we have developed a plan that ensures we continue to share resources across the region. We have a final plan that is resilient to a forecast one in 200 year drought event.

Many stakeholders and individuals have contributed significant time towards the development of the plan. We wish to extend our thanks to: the members of our Environmental Scrutiny Group, Customer Challenge Group,

the WRSE group for their valued input and challenge; to individuals and stakeholders who met with us during the public consultation; to those customers who were involved in our customer research; and to everyone who took the time to make a formal representation and provide feedback on our plan. - [southeastwater.co.uk/wrmp19](https://southeastwater.co.uk/wrmp19)

In the short-term our resources are in a good position, as so far the winter recharge period of 2019/20 has seen above average rainfall enabling our reservoirs and groundwater sources to replenish during October and November. The team will continue to monitor our resources carefully as we head towards summer 2020 and we continue to work closely with our customers to encourage water efficiency whatever the weather.

### **Valuing water through engagement and innovation**

We continue to be an industry leader in reducing leakage and engaging customers on the value of water.

South East Water has met its leakage target for more than 10 years in a row, but we are not complacent and are committed to using the latest, most innovative technology to drive leakage down further. An example of our ambition is the significant progress made during this period in our Smart Water Network trial which could revolutionise the way the water industry detects and prevents leaks and reduces interruptions, hence reducing the amount of water we take from the environment and increasing the resilience of the service we provide to our customers.

We have been using an innovative partnership approach with nine specialist organisations to collect data for analysis from digital water meters at 2,000 homes in a trial area, as well as information from other network sensors. In this trial we are the first water company in the UK to be using the 5G network as a key component to collect higher volumes of data, and then analysing this data to provide a centralised view of the digital network.

We are now assessing the success of the preliminary stages of the trial.

At the end of July we joined a national “Love Water” campaign aimed at engaging everyone on the value of water. Supported by more than 40 environmental groups, charities, water companies and regulators, the consumer campaign, as part of the Government’s Year of Green Action, highlights the importance of water and the role everyone plays in protecting it. We are pleased to support Love Water as, being guardians of the environment, we work hard to protect our water supply in our region where water is scarce.

### **Engineering excellence to ensure a resilient service**

During the last six months we have made significant progress in the construction of the company's largest single investment at the Keleher Water Treatment Works at Bray in Berkshire.

This £21 million project will increase the capacity of the Keleher plant, which treats water extracted from the River Thames to drinking water standards, from the current 45 million litres per day to 68 million litres per day. The civil works used innovative precast concrete building techniques to help deliver the project build quickly and safely. To date the project has seen 150,000 man hours worked with no accidents. The project team is now completing the electrical installations and testing and hydraulic testing of the 750,000 litre Granular Activated Carbon (GAC) filter unit before final commissioning – the project is anticipated to complete by spring 2020.

In Kent, we are preparing to install a new 2.9km trunk main through the centre of Sevenoaks to meet growing demand, supplementing the existing 12-inch diameter pipe laid in Sevenoaks’ High Street in the 1950s. Over the last six months there has been extensive customer and stakeholder engagement to ensure we developed the best route for the work to minimise disruption to the environment and community. In September we published the preferred route and are now making preparations during the winter period so work can begin in the spring.

Clancy Docwra have been employed as our Network Maintenance Contractor for the past eight years, with responsibilities including reactive network repairs and maintenance and planned mains renewals. As such they are a key partner in the success of our operations. This contract expires in April 2020 and we have undertaken a full competitive tender process for the equivalent contract covering the next five years, with an option for an additional 3 years. The specification for this £50 million a year Contract put even greater emphasis on collaboration, innovation and supporting our responsible business objectives. After a rigorous evaluation of the tenders, Clancy Docwra emerged as the winning bidder and we look forward to the continuation of our successful partnership.

## Responsible business values

The company has made significant steps in building our Environmental, Social and Governance (ESG) framework during the year aiming to be recognised as a leading responsible business. Within the new business plan we have developed a responsible business strategy with 10 new responsible business commitments to reflect the actions and behaviours customers expect a responsible business to display

### Environmental

Innovation is a recurring theme across everything our environmental team is involved in. As a water company we are intrinsically linked to the environment. Our innovative approaches to how we protect and care for our raw water supplies has been recognised as leading the industry and the partnership working approach we have developed, such as our Catchment Sensitive Farming programme with Natural England, is an integral part of how our team operates.

Examples of the work include a pesticide amnesty project which enabled the safe removal of over a tonne of unused and out-of-date pesticides from farms in Kent facilitating the anonymous, safe disposal of agricultural chemicals from 23 farms across three catchments.

Our unique Woodgarston Markets project is a farmer-led concept that aims to explore opportunities for new markets and sustainable farming practices, while also delivering wider environmental improvements and social benefits. 78 per cent of land holdings within the catchment have actively engaged with the Woodgarston Markets project.

Both of these examples have recently received a prestigious Green Apple Award, run by The **Green** Organisation – an independent, non-political, non-profit environment group dedicated to recognising, rewarding and promoting environmental best practice around the world.

Our StAR (Slaugham to Ardingly) project in partnership with the Ouse and Adur Rivers Trust (OART), has recently been awarded £250,000 from the government's Water Environment Grant. This grant provides funding for schemes that can be shown to restore local eco-systems and deliver substantial benefits to people and the environment.

A key focus of our environmental work comes under the Water Industry National Environment Programme (WINEP) – a statutory programme for environmental improvement schemes that all UK water companies must comply with. Several years of studying the biodiversity of land within which our company assets lie led to the development of 10 pilot projects to enhance the biodiversity, focussed on priority habitats and species.

These projects, which are due to complete by March 2020, include the restoration of rare chalk grassland, the creation of feeding areas for turtle doves and removing invasive non-native species. We have recently produced a booklet summarising each of the 10 pilot projects, which cover a total area of approximately 78 hectares across Sussex and Hampshire, the work we are undertaking and how we are working towards achieving our target and the exciting successes we've achieved to date. This is available on our website - **[corporate.southeastwater.co.uk/about-us/our-environment/protecting-the-environment](http://corporate.southeastwater.co.uk/about-us/our-environment/protecting-the-environment)**

This year we completed the delivery of our Eel Regulations project and we are one of the first water companies in the industry to have all of our intakes Eel Regulation compliant.

By the end of May, all five identified screens had been installed and were operating automatically. In June, the screens were inspected by the Environment Agency (EA) who were satisfied with the work and issued a certificate of compliance.

The company is now preparing for the delivery of our 2020 to 2025 WINEP (Water Industry National Environment Programme) which is double the size of our existing programme including 44 groundwater schemes to be delivered by 2022. This work will investigate the sources that are leading to increasing nitrate levels in raw groundwater.

## **Social**

In 2018 we achieved accreditation to BSI 18477, the prestigious British Standards Institute (BSI) standard for supporting vulnerable customers, South East Water was the first water company to achieve this accreditation and we have now retained this certification for another year.

As well as a range of tariffs to make bills affordable for all, we have also published a Vulnerability Strategy. The strategy was launched at a stakeholder event, attended by more than 60 representatives from companies and support agencies. The day included case studies, networking sessions and marketplace-style stands to promote services, schemes and future events.

As part of our Thrive365 strategy for health, safety and wellbeing the company has trained 16 employees from across the business to be mental health first aiders. Everyone trained now wears a yellow lanyard so it is clear they are available for anyone in the company to talk to. This is just one part of a full mental health strategy that has been developed during the year and recently launched to managers in November at a conference for more than 200 employees. The conference had a number of speakers including from Mind and the Health and Safety Executive (HSE). A strong message was given by mental health ambassadors, Clarke Carlisle the former professional footballer and his wife Carrie, who gave an open and thought-provoking account of their own experiences. Feedback from all who attended has been very positive and an important step in the company continuing to put mental health on a par with physical health.

We continue to build career progression programmes for our employees through the development of the “Our Talent” programme. The programme has been designed following engagement with employees which concluded that clearer personal development routes were needed. This year more than 60 employees went through an additional process that runs alongside the annual iReview in order to assess high performance and high potential.

Supporting the development of women at South East Water, we are proud to have become the first water company to sponsor the Women’s Utilities Network (WUN), an organisation dedicated to encouraging greater industry diversity and better careers progression for women in the utilities sector. Founded in 2017, the aim of WUN is to give women the skills and confidence they need to build lasting, fulfilling careers in the utility sector. As sponsors we will be active participants in events and mentoring programmes organised by WUN – sharing its expertise, helping to create role models and conveying the benefits of a more diverse workforce in the water industry and utility sector as a whole.

## **Governance**

The Board is committed to maintaining the highest standards of corporate governance and transparency. We fully comply with Ofwat’s defined governance requirements, including maintaining an independent Chairman and having a larger number of independent Non-executive directors (iNeds) than either shareholder representative directors or executive directors.

Trusted corporate governance is one of the 10 responsible business commitments made as part of our business plan for 2020 to 2025. All 10 commitments are being governed through a new Board Sub-Committee which has been established specifically with the purpose of providing assistance to the Board in defining South East Water’s strategy relating to Environment, Social, Governance (ESG) matters and in reviewing the practices and initiatives relating to ESG matters ensuring they remain effective and up to date.

One way we are monitoring progress against our strategy is through GRESB, a global benchmarking of ESG practice. We are pleased to report that South East Water obtained five stars in the 2019 GRSEB survey, the highest possible rating, and increased our standing with a score of 81 out of 100.

Preparations for the exit of the UK from the European Union continues. The main areas of potential concern for us are the availability of critical chemicals currently supplied from Europe and the impact on traffic in Kent. Throughout the year we have been making contingency plans for this evolving issue working closely with Government, our suppliers and other water companies to ensure the consequences of the various exit scenarios have minimal impact on our services.

## **Leadership changes**

Earlier in the year, Paul Butler, Managing Director, advised the Board of his intention to retire at the end of July next year. The Board is pleased to announce that David Hinton, currently Asset and Regulation Director,

will be his successor. Paul's departure is still some way off and he will continue to lead the business through our assessment of the Final Determination and into the new financial year.

In December 2019, Rachel Drew joined the Board as Non-Executive Director to replace Stephen Jordan, who stepped down from the Board. Rachel represents one of our shareholders and on behalf of the Board I would like to thank Stephen for his service since joining the Board in August 2018.

## **Results and key financial performance indicators**

The results published in this statement summarise our performance for the six months ended 30 September 2019. 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 £122.8 million compared with £120.7 million for the same period in the previous year. The increase of £2.1 million is due to the allowed average price increase of 5% which is offset by lower household demand in the period when compared to the hot summer of 2018 and the effect of the customer transfers to measured supply through the metering programme.

Net operating costs for the period to 30 September 2019 were £84.5 million, which is £1.6 million higher than the corresponding period last year. Depreciation was £1.1 million higher due to the continued high investment in the group's assets. Additionally, there was £0.5 million of other inflationary costs, including a 3% pay award for staff, and Brexit preparation costs of £0.3 million.

Finance costs have marginally increased from £25.8 million to £25.9 million. This is due to increased indexation on our loans and bonds due to slightly higher inflation during the period to 30 September 2019.

Profit before tax was £19.9 million compared with £19.5 million for the same period last year. This represents 16.2 per cent of revenue, the same as the corresponding period last year.

The group has incurred a tax charge of £1.9 million in the period compared to £2.8 million for the period to 30 September 2018, being £1.1 million of current tax on our ordinary operations and £0.8 million of deferred tax. The lower tax charge in the current period is due to the change in the tax treatment of the revaluation reserve in the prior year which resulted in a one-off adjustment to deferred tax.

As a result of the above, profit after tax has increased from £16.7 million to £18.1 million for the six months ended 30 September 2019.

The dividend for the six months ended 30 September 2019 of £5.5 million is significantly less than the £14.0 million paid in the same period last year and represents a nominal dividend yield of two 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 five per cent.

Net cash generated from operations was £77.8 million for the six months to 30 September 2019 compared to £79.4 million in the same period for the previous year. This is primarily caused by the delay in receiving capital contributions and new connections income following the change by Ofwat which means these funds are no longer received in advance of the work being performed. This has been partially offset by strong water income collections from customers.

In September we successfully refinanced our £311.5 million debt which matured on 30 September 2019. The funding was secured to repay the maturing debt in three tranches; A £120m floating rate bank loan was secured in December 2018 and drawn in September 2019, £175m of fixed rate debt was raised on the US private placement market in March 2019 and £54m was invested by our parent company South East Water (Holdings) Limited through the partial repayment of an intercompany loan in line with our Business Plan commitment. The excess of funds raised was used to reduce borrowing on our revolving credit facility.

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.

## **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 2018/19 financial year, 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**

For the rest of this year and through 2020 we will be focussed on closing out the current business plan and ensuring South East Water is in a good position to start the next five year investment period in April 2020. We look forward to working with the support of our employees, partners, supply chain and all stakeholders in these preparations.

On behalf of the Board I would like to thank all the employees and business partners at South East Water for their dedication and hard work over the last six months. The team continues to embrace innovation and change in order to keep delivering great customer service. We are proud of their efforts to ensure South East Water is not only maintaining an excellent water service, but that we do so as a responsible business committed to ensuring a resilient and sustainable future for the community and environment we serve.

**Nick Salmon**

Chairman

13 December 2019

# Condensed group income statement

for the six months ended 30 September 2019

		<b>Six months ended 30 September 2019 £000</b>	Six months ended 30 September 2018 £000
	Notes		
<b>Revenue</b>	4	<b>122,818</b>	120,650
Impairment losses on trade receivables	5	<b>(1,590)</b>	(1,588)
Group net operating costs	5	<b>(84,544)</b>	(82,952)
Other income	4	<b>6,060</b>	6,320
<b>Group operating profit</b>		<b>42,744</b>	42,430
Finance costs	6	<b>(25,859)</b>	(25,767)
Finance income	7	<b>3,038</b>	2,860
<b>Profit before taxation</b>		<b>19,923</b>	19,523
Taxation	8	<b>(1,851)</b>	(2,812)
<b>Profit for the period from continuing operations</b>		<b>18,072</b>	16,711
<b>Discontinued operations</b>			
Profit on discontinued operations		-	8,255
<b>Profit for the period</b>		<b>18,072</b>	24,966
<b>Earnings per share</b>			
Basic and diluted from continuing operations		<b>36.65p</b>	50.63p

## Condensed group statement of comprehensive income

for the six months ended 30 September 2019

	<b>Six months ended 30 September 2019 £000</b>	Six months ended 30 September 2018 £000
<b>Profit for the period</b>	<b>18,072</b>	24,966
<b>Items not reclassified subsequently to profit or loss:</b>		
Remeasurement of defined benefit surplus	<b>11,666</b>	1,534
Deferred tax on defined benefit pension schemes	<b>(1,983)</b>	(262)
	<b>9,683</b>	1,272
<b>Total comprehensive income for the period attributable to owners of the company</b>	<b>27,755</b>	26,238

# Condensed group statement of financial position

as at 30 September 2019

		30 September 2019 £000	31 March 2019 £000	30 September 2018 £000
	Notes			
<b>Non-current assets</b>				
Intangible assets	10	10,703	10,501	11,137
Property, plant and equipment	11	1,580,566	1,555,123	1,528,087
Amount due from parent undertaking		135,941	189,911	189,918
Defined benefit pension surplus		40,178	25,564	25,086
		<b>1,767,388</b>	<b>1,781,099</b>	<b>1,754,228</b>
<b>Current assets</b>				
Inventories		640	592	334
Trade and other receivables	12	87,318	86,190	77,314
Cash and cash equivalents		12,787	12,804	26,082
		<b>100,745</b>	<b>99,586</b>	<b>103,730</b>
<b>Total assets</b>		<b>1,868,133</b>	<b>1,880,685</b>	<b>1,857,958</b>
<b>Current liabilities</b>				
Loans and borrowings	13	(15,000)	(254,890)	(219,782)
Derivative financial instruments		-	(108,836)	(105,143)
Trade and other payables	14	(103,900)	(92,263)	(119,806)
Deferred income		(5,238)	(7,183)	(6,714)
Provisions		(3,742)	(3,972)	(2,495)
		<b>(127,880)</b>	<b>(467,144)</b>	<b>(453,940)</b>
<b>Non-current liabilities</b>				
Loans and borrowings	15	(1,017,728)	(717,604)	(708,324)
Trade and other payables	15	(5,312)	(5,379)	(5,791)
Net deferred tax liabilities		(148,106)	(145,395)	(142,895)
Defined benefit pension liability		(3,126)	(3,154)	-
Deferred income		(4,902)	(3,185)	(3,690)
		<b>(1,179,174)</b>	<b>(874,717)</b>	<b>(860,700)</b>
<b>Total liabilities</b>		<b>(1,307,054)</b>	<b>(1,341,861)</b>	<b>(1,314,640)</b>
<b>Net assets</b>		<b>561,079</b>	<b>538,824</b>	<b>543,318</b>
<b>Equity</b>				
Ordinary share capital		49,312	49,312	49,312
Revaluation reserve		248,711	251,259	253,820
Retained earnings		263,056	238,253	240,186
<b>Total equity</b>		<b>561,079</b>	<b>538,824</b>	<b>543,318</b>

The notes on pages below are an integral part of these condensed group financial statements.

# Condensed group statement of changes in equity

for the six months ended 30 September 2019

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
<b>At 1 April 2019</b>	<b>49,312</b>	<b>251,259</b>	<b>238,253</b>	<b>538,824</b>
Profit for the period	-	-	18,072	18,072
Other comprehensive income	-	-	9,683	9,683
Total comprehensive income	-	-	27,755	27,755
Dividends (see note 9)	-	-	(5,500)	(5,500)
Amortisation of revaluation reserve	-	(3,064)	3,064	-
Release revaluation on disposals	-	(5)	5	-
Deferred tax on reserve releases	-	521	(521)	-
<b>At 30 September 2019</b>	<b>49,312</b>	<b>248,711</b>	<b>263,056</b>	<b>561,079</b>

for the six months ended 30 September 2018

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 31 March 2018	49,312	256,396	152,930	458,638
IFRS 15 adoption	-	-	72,442	72,442
<b>At 1 April 2018</b>	<b>49,312</b>	<b>256,396</b>	<b>225,372</b>	<b>531,080</b>
Profit for the period	-	-	24,966	24,966
Other comprehensive income	-	-	1,272	1,272
Total comprehensive income	-	-	26,238	26,238
Dividends (see note 9)	-	-	(14,000)	(14,000)
Amortisation of revaluation reserve	-	(3,063)	3,063	-
Release revaluation on disposals	-	(34)	34	-
Deferred tax on reserve releases	-	521	(521)	-
<b>At 30 September 2018</b>	<b>49,312</b>	<b>253,820</b>	<b>240,186</b>	<b>543,318</b>

# Condensed group statement of cash flows

for the six months ended 30 September 2019

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
Notes		
<b>Operating activities</b>		
Net cash flow from operating activities	77,757	79,432
Interest received	2,656	2,541
Interest paid	(22,043)	(9,122)
Tax received	56	-
Group tax relief paid	-	(652)
<b>Net cash flow before investing and financing activities</b>	<b>58,426</b>	<b>72,199</b>
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	79	639
Purchase of property, plant and equipment	(49,216)	(47,224)
Purchase of intangible assets	(1,633)	(1,927)
Proceeds from sale of non-household customer base	-	9,658
Fixed asset contributions received	476	388
<b>Net cash flow used in investing activities</b>	<b>(50,294)</b>	<b>(38,466)</b>
<b>Financing activities</b>		
Net proceeds from Issue of new loans	292,187	(179)
Repayment of borrowings	(294,836)	-
Dividends paid to shareholder	(5,500)	(14,000)
<b>Net cash flow used in financing activities</b>	<b>(8,149)</b>	<b>(14,179)</b>
(Decrease)/Increase in cash and cash equivalents	(17)	19,554
Cash and cash equivalents at 1 April	12,804	6,528
<b>Cash and cash equivalents at 30 September</b>	<b>12,787</b>	<b>26,082</b>

## Group cash flow from operating activities for the six months ended 30 September 2019

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
Profit on operating activities	42,744	42,430
Adjustments for:		
Depreciation and impairment of property, plant and equipment	25,408	24,184
Amortisation and impairment of intangibles	1,431	1,548
Profit on disposal of fixed assets	(51)	(330)
Difference between pension contributions paid and amounts recognised in the income statement	(2,647)	(2,016)
Changes in working capital:		
Increase in trade and other receivables	(1,442)	(1,049)
Increase in inventory	(48)	(98)
Increase in trade and other payables	12,362	14,763
<b>Net cash flow from operating activities</b>	<b>77,757</b>	<b>79,432</b>

# Notes to the condensed group financial statements

for the six months ended 30 September 2019

## 1. Basis of preparation

The condensed group financial statements for the six months ended 30 September 2019 are set out below, 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 2019, 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 herein for the year ended 31 March 2019 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2019 were approved by the Board of Directors on 15 July 2019 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 in these condensed group financial statements are consistent with those of the financial statements for the year ended 31 March 2019 as described in those financial statements except for the changes brought about by the adoption of IFRS 16 *Leases* ("IFRS 16") on 1 April 2019, which are detailed below.

The annual rents for these leases were previously charged to the income statement as operating costs under IAS 17 *Leases* ("IAS 17"). From 1 April 2019, right of use assets have been recognised under property, plant and equipment at an initial value of £3.1 million and the corresponding lease liabilities have been recognised as financial liabilities of the same value.

The initial values of the right of use assets and corresponding liabilities on adoption of IFRS 16 were calculated as the present value of future lease payments under the relevant lease contracts. Under the modified retrospective approach adopted by the group, the discount rates used reflect the interest rates at which the group would currently be able to borrow in order to finance similar assets to those under the leases affected by the transition (the incremental borrowing rate).

The company has recently entered into loan facilities at fixed rates and with weighted average repayment maturities comparable with the lengths of the leases affected by this transition. It was, therefore, decided that the interest rates attached to the new facilities were appropriate proxies for the incremental borrowing rates to be applied in calculating the present value of the future lease liabilities, as follows:

- lease length of zero to ten years remaining on transition – 2.94%
- lease length of ten to twenty years remaining on transition – 3.22%

## 3. Transition disclosures

The group has adopted IFRS 16 in the period. Details of the impact of the adoption of this Standard are provided below.

IFRS 16 is effective for periods commencing on or after 1 January 2019 and has been adopted by the group for the year ending 31 March 2020. For lessees, IFRS 16 removes the distinction between operating and finance leases and requires the recognition of right of use assets and corresponding liabilities, equating to the present value of the future lease payments. The group currently holds the following operating leases which meet the criteria under IFRS 16 for such recognition.

Leased asset	Start date	End date	Annual rent £000	Values of assets and liabilities on adoption £000
Laboratory at Farnborough	22 May 2015	21 May 2035	195	2,466
Unit at Brooke House, Larkfield	8 Aug 2018	7 Aug 2021	19	43
Water Tower at Blackhill, Camberley	19 Jan 2004	14 Jun 2022	17	52
Offices at Leithrim House, Larkfield	4 Apr 2018	4 Apr 2028	67	537
			<u>298</u>	<u>3,098</u>

IFRS 16 has been adopted using the modified retrospective method which has led to the accumulated historical adjustments being made to opening balances at 1 April 2019.

The impact of the adoption of IFRS 16 on the Group's financial statements in the period has been:

### Condensed group income statement

	30 September 2019 pre IFRS 16 £000	Adjustment for the adoption of IFRS 16 £000	30 September 2019 post IFRS 16 £000
Revenue	122,818	-	122,818
Group net operating costs	(86,155)	21	(86,134)
Other income	6,060	-	6,060
<b>Group operating profit</b>	<b>42,723</b>	<b>21</b>	<b>42,744</b>
Finance costs	(25,810)	(49)	(25,859)
Finance income	3,038	-	3,038
<b>Profit before taxation</b>	<b>19,951</b>	<b>(28)</b>	<b>19,923</b>
Taxation	(1,846)	(5)	(1,851)
<b>Profit for the period</b>	<b>18,105</b>	<b>(33)</b>	<b>18,072</b>

Adoption of IFRS 16 has resulted in the net adjustment to net operating costs of £21,000. This represents the removal of the rental charges of £145,000 offset by the depreciation change of £124,000 on the right to use assets, which have been included in the balance sheet at 1 April 2019.

#### 4. Total income

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
<b>Revenue</b>		
Unmetered water income	10,379	13,414
Metered water income	105,291	100,437
Other sales	7,148	6,799
<b>Total revenue</b>	<b>122,818</b>	<b>120,650</b>
<b>Other income</b>		
Rental income	623	636
Sundry income	5,437	5,684
<b>Total other income</b>	<b>6,060</b>	<b>6,320</b>
<b>Total income</b>	<b>128,878</b>	<b>126,970</b>

All revenue is from customers within the United Kingdom.

#### 5. Net operating costs

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
Employee benefits expenses	15,550	15,353
Asset expenses	26,788	25,402
Other operating expenses	42,206	42,197
	<b>84,544</b>	<b>82,952</b>
Impairment losses on trade receivables	1,590	1,588
	<b>86,134</b>	<b>84,540</b>

#### 6. Finance costs

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000
Effective interest on listed debt	11,568	11,371
Fair value movements on interest rate swap	2,713	974
Indexation on listed debt	2,481	2,908
Interest on index linked loans	6,184	6,032
Indexation on index linked loans	2,188	4,208
Other finance costs	2,197	1,317
	<b>27,331</b>	<b>26,810</b>
Less: interest capitalised	(1,472)	(1,043)
	<b>25,859</b>	<b>25,767</b>

## 7. Finance income

	<b>Six months ended 30 September 2019 £000</b>	<b>Six months ended 30 September 2018 £000</b>
Interest receivable from group undertakings	<b>2,599</b>	2,490
Pension fund finance credit	<b>319</b>	314
Interest receivable on bank balances and short term deposits	<b>120</b>	56
	<b>3,038</b>	2,860

## 8. Taxation

	<b>Six months ended 30 September 2019 £000</b>	<b>Six months ended 30 September 2018 £000</b>
Current taxation charge	<b>1,123</b>	262
Deferred taxation charge	<b>728</b>	2,550
	<b>1,851</b>	2,812

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

## 9. Dividends

	<b>Six months ended 30 September 2019 £000</b>	<b>Six months ended 30 September 2018 £000</b>
Equity dividends paid during the period of 11.2p per share (2018: 28.4p)	<b>5,500</b>	14,000

## 10. Intangible assets

	£000
<b>Net book amount</b>	
At 1 April 2019	10,501
Additions for the period	1,633
Reclassification of assets in the period	-
Amortisation for the period	(1,431)
<b>At 30 September 2019</b>	<b>10,703</b>
<b>Net book amount</b>	
At 1 April 2018	10,758
Additions for the year	4,067
Reclassification of assets in the period	(1,069)
Amortisation for the year	(3,129)
Impairment for the year	(126)
At 31 March 2019	10,501
<b>Net book amount</b>	
At 1 April 2018	10,758
Additions for the period	1,908
Reclassification of assets in the period	19
Amortisation for the period	(1,548)
At 30 September 2018	11,137

## 11. Property, plant and equipment

	£000
<b>Net book amount</b>	
At 31 March 2019	1,555,123
IFRS 16 (see note 3)	3,098
	<hr/>
At 1 April 2019	1,558,221
Additions for the period	47,775
Reclassification of assets in the period	-
Disposals for the period	(22)
Depreciation for the period	(25,408)
	<hr/>
<b>At 30 September 2019</b>	<b>1,580,566</b>
	<hr/>
<b>Net book amount</b>	
At 1 April 2018	1,501,707
Additions for the year	100,621
Reclassification of assets in the period	1,069
Disposals for the year	(228)
Depreciation for the year	(48,035)
Impairment for the year	(11)
	<hr/>
At 31 March 2019	1,555,123
	<hr/>
<b>Net book amount</b>	
At 1 April 2018	1,501,707
Additions for the period	50,752
Reclassification of assets in the period	(13)
Disposals for the period	(173)
Depreciation for the period	(24,186)
	<hr/>
At 30 September 2018	1,528,087
	<hr/>

## 12. Trade and other receivables

	30 September 2019 £000	31 March 2019 £000	30 September 2018 £000
<i>Financial asset receivables</i>			
Trade receivables	39,686	38,562	33,630
Accrued income	41,520	37,835	36,035
Amounts due from group undertakings	35	4	378
	<hr/>		
	81,241	76,401	70,043
	<hr/>		
<i>Non-financial asset receivables</i>			
Prepayments	4,779	3,856	5,203
Other receivables	1,298	5,933	2,068
	<hr/>		
	6,077	9,789	7,271
	<hr/>		
	87,318	86,190	77,314
	<hr/>		

### 13. Current loans and borrowings

	30 September 2019 £000	31 March 2019 £000	30 September 2018 £000
<i>Financial liabilities</i>			
Bank loan	15,000	55,000	20,000
Listed bonds	-	200,000	200,000
Unamortised costs	-	(110)	(218)
	<b>15,000</b>	<b>254,890</b>	<b>219,782</b>

On 30 September 2019 index linked bonds with a nominal value of £200.0 million together with accumulated indexation of £111.5 million were repaid by the group on maturity. Also on 13 September 2019 the group reduced its borrowing from its committed facility by £40 million.

### 14. Current liabilities

	30 September 2019 £000	31 March 2019 £000	30 September 2018 £000
<i>Financial liabilities</i>			
Trade payables	11,638	13,890	11,995
Amounts due to group undertakings	10,117	8,786	15,607
Other payables	13,493	2,303	11,771
Accruals	34,419	33,553	47,525
	<b>69,667</b>	<b>58,532</b>	<b>86,898</b>
<i>Non-financial liabilities</i>			
Payments received in advance	33,232	32,724	31,853
Other taxes and social security	1,001	1,007	1,055
	<b>34,233</b>	<b>33,731</b>	<b>32,908</b>
	<b>103,900</b>	<b>92,263</b>	<b>119,806</b>

## 15. Non-current financial liabilities

	30 September 2019 £000	31 March 2019 £000	30 September 2018 £000
Irredeemable debenture stock	990	991	991
New loans	292,312	-	-
Operating lease capital element	2,977	-	-
Listed bonds	336,949	334,387	332,170
Index linked loans	384,500	382,226	375,163
	<hr/>		
Loans and borrowings	1,017,728	717,604	708,324
Trade and other payables	5,312	5,379	5,791
	<hr/>		
	1,023,040	722,983	714,115

On 16 September 2019 the group has issued new fixed rate loan notes totalling £175 million. The notes were issued in two tranches being:

- £75 million falling due for repayment on 16 September 2031
- £100 million falling due for repayment on 16 September 2042

In December 2018 the group entered into a new bank loan arrangement for £120 million at a variable rate of LIBOR plus 1.2 per cent which matures on 31 March 2027. This loan was drawn down in September as part of the refinancing of the maturing index linked bonds on 30 September 2019.

## 16. Post balance sheet events

There are no post balance sheet events to report.