

Condensed Group financial statements  
for the six months ended 30 September 2016

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Our vision for the future: to be the water company people want to be supplied by and want to work for

## Chairman's introduction

I am pleased to present our interim report for the first half of the 2016/17 financial year.

We are now 18 months into our five year business plan which focuses on continuing to improve customer satisfaction and using our scientific and engineering expertise to deliver a reliable service of high quality drinking water. I am pleased to report we continue to build on the performance of 2015-16 and have made significant progress during the first six months of the year.

A report from the Consumer Council for Water published in September 2016 complimented our innovative approach to customer satisfaction which has seen us reduce written complaints for each of the last five years. We are on track for further reductions this year with complaints down 33 per cent in the first six months.

As part of the long term strategy to manage our water resources more efficiently, we have invested £6 million in the installation of a further 25,000 water meters in the first half of the year. Water metering plays an important part in our water resource management as it supports customers understanding of their water use and helps to find leaks on private plumbing. Household meter coverage in our area is now at 78 per cent with approximately 200,000 meters installed since the customer metering programme began in 2011 and we remain on track to achieve 90 per cent by 2020.

We are investing in protecting water quality through the installation of three microfiltration plants in Kent and Sussex. In May 2016 we completed work in Waterworks Road, Eastbourne to reduce turbidity and ensure the site is able to deliver 7.5 million litres a day of high quality water into the Sussex network, while work continues on two similar schemes in Kent.

The non-household retail market is scheduled to open to competition from April 2017. Preparation for market opening has involved a significant programme of work in this period as we prepared our data, systems, organisational structure and importantly people, to ensure we were ready for the key milestone of "shadow" market operation which commenced in October. I would like to thank everyone involved for the professional dedication demonstrated and I am pleased to confirm we received the certification that demonstrates our readiness for the new market.

Customers must have trust in the quality of the information we provide and we've worked hard to ensure that not only is our reporting robust and transparent, but also to make it clearer and more engaging for readers. We are therefore delighted that the improvements we made have been recognised by our regulator as we moved into the highest category in Ofwat's annual assessment on the quality of water companies published information and assurance.



#### Jon – Leakage technician

We are using the latest technology to help us find the smallest leaks on our pipe system

While we maintain a strong focus on delivering the improved performance targets built into our business plan for the five year period 2015 – 2020 (known as AMP6) work is already underway to prepare our future business plans for AMP7 and beyond which we intend to develop in partnership with our customers and those stakeholders with an interest in the long-term development of water resources and supply in the south east of England.

Our employees and partners are engaged in our plans and everyone is focussed on our vision for the future: to be the water company people want to be supplied by and want to work for.

#### Results and Key Performance Indicators

The results published in this statement summarise our performance for the six months ended 30 September 2016. The financial statements are prepared under International Financial Reporting

Standards (IFRS) and incorporate the performance of South East Water Limited and its subsidiary, South East Water (Finance) Limited.

Revenue for the period was £111.0 million compared with £109.4 million for the same period in the previous year. The increased revenue is largely due to increased prices averaging 4.2 per cent for the year, the impact of metering and the numbers of new properties in the area. This is partially offset by an average five per cent lower consumption due to the cooler and wetter than average summer.

Net operating costs for the period to 30 September 2016 were £72.9 million, which is in line with the same period in the previous year. Operating profit was £42.0 million for the first half of the 2016/17 financial year which compares with £40.4 million in the prior year. Operating profit as a percentage of revenue has increased from 36.9 per cent in the first half of 2015/16 to 37.9 per cent in the current year.

Interest costs have increased by £1.5 million from £21.2 million to £22.7 million. This reflects the higher RPI being applied to the index linked loans during the first half year and the higher valuation of the interest rate swap liability.

Profit before tax is in line with the same period last year at £21.8 million. This represents 19.6 per cent of revenue compared with 19.9 per cent for the corresponding period last year.

Profit after tax has increased from £17.7 million to £25.4 million for the first six months of the year. This is due to a deferred tax credit of £5.3 million (2015: charge of £2.4 million) being applied to the income statement in the period as a result of the reduction in the forward rate of corporation tax, moving from 20 per cent to 17 per cent, following the enactment of the Finance Bill 2016.

### *Chairman's introduction (continued)*

Net cash generated from operations was £62.9 million for the six months ended 30 September 2016 compared to £69.8 million in the same period for the previous year. This decrease is predominantly due to a higher charge for reactive maintenance being made to the income statement and lower water income cash collections in the period.

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 put customer priorities at the heart of everything we do. In what is an innovative approach in the water industry, we conduct customer satisfaction surveys every month, which score us on a range of measures from taste of water through to frequency of hosepipe restrictions. Our scores have improved since last year and on average, year-to-date, 75 per cent of customers surveyed said they are either satisfied or very satisfied with the service we provide. This compares to an average score of 69 per cent in the same period of 2015-16.

The industry wide service incentive mechanism (SIM) has seen us continue to improve in the quantitative measures, such as response times and complaints to CCWater. For the qualitative scores, our aim is to achieve a "five out of five" customer experience. We have seen improvements in our billing scores in the first two surveys of the year but recognise we have more to do to increase our water supply scores.

We aim to deliver a reliable, high quality, water service to our customers and use engineering and technical excellence to achieve this. We are on track with our planned capital investment programme of £86.3 million for the year 2016-17. During the six months to September 2016 we have invested £38.6 million on maintaining and improving our network of pipes, treatment works, metering and other key areas.

Along with schemes such as the microfiltration treatment schemes in Kent and Sussex, we also invest in the pipe network underground to deliver water to customers' taps. This investment includes the completion, in May 2016, of a 6.5km strategic water main scheme in Burham, Kent, which can deliver nine million litres of water a day to customers in Maidstone and the surrounding area.

Our purpose built laboratory in Farnborough which opened in October 2015 has tested more than 100,000 samples in the first six months of the year. As well as providing a service to ensure the water we supply meets high standards expected we also support more than 200 other businesses and organisations, from other water companies and local authorities through to individual private supplies, with a water quality sampling service.

We want to keep interruptions to customer supplies to a minimum and continue to invest in improving our network and training for employees to be able to restore supplies as quickly as possible in the event of an interruption. Our underlying performance for the first six months of the year 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 just over seven minutes per property for the first six months of the year.

Just over five minutes of this figure comes from one significant burst water main in Barcombe, East Sussex in August 2016, which saw customers between Barcombe and Haywards Heath impacted for more than 12 hours.

We strive to ensure at all times we are learning from our customer's experiences to keep improving the service we provide. Following the burst in Barcombe we held local drop-in sessions and gave customers an online survey option to feedback suggestions for improvement, we are implementing many of the recommendations into our emergency plans as a result.





#### **Andy – Data technician**

We have installed more pressure reducing valves which help to regulate the water pressure, reducing the number of valves and reducing leakage

To help customers having difficulty paying their water bills our specially trained Customer Care Team talks with customers to understand their circumstances and discuss our range of payment options along with our special tariffs. We have more than 7,000 customers now signed up to our Social Tariff helping ensure their bills are affordable.

#### **Retail competition**

The last six months has seen a significant amount of activity as the business prepares for market opening for non-household customers on 1 April 2017.

A key milestone was the entry into the “shadow” operation period which began on 3 October 2016. This period is the opportunity we have to test the systems and prepare for the live market and we worked closely with Ofwat and Market Opening Services Limited (MOSL), to ensure we passed the readiness test.

In preparation for market opening our new brand South East Water Choice launched in May 2016. We see the market as a significant opportunity for us to provide non-household customers with an enhanced service delivering value added products and services and the simplicity for customers of one bill in future for water and wastewater services. I’m pleased to confirm we are on track with our programme of activities to ensure we are ready to compete when the market opens.

You can find out more about the new 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 2015/16, which can be found on the South East Water website.





During the six months to September 2016 we have invested £38.6 million on maintaining and improving our network of pipes, treatment works, metering and other key areas



# We continue to focus on delivering excellent customer service and investing in our customers' priorities to provide a safe, reliable, value for money service

## Chairman's introduction (continued)

### 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

I would like to take the opportunity to thank Roger Darlington who has chaired our Customer Challenge Group (CCG) and Customer Panel for the last five years and who has decided now is the right moment to stand down as the business begins to prepare for the next price review. Roger is a committed customer advocate and he has encouraged us to develop plans that are focussed on customers' priorities.

Roger will be succeeded by Zoe McLeod who also has a strong background in consumer advocacy. We look forward to working with Zoe and our CCG. We have proactively chosen to continue our CCG as an important part of our customer engagement in preparation for our next customer centred business plan which is due to be published in 2019.

The preparation work for the next business plan is already underway, and the team is looking to build on the innovative customer engagement work we developed in our last plan which has become an important part of our business today. We intend to develop a plan that ensures everything we do reflects all the many different people we serve and that we work with our customers to develop a plan that has consumer support.

As part of the planning process, later this year we will publish our drought plan for consultation. The drought plan details how we expect to manage supply and demand during various levels of drought and the steps we all must take to conserve supplies. This will be followed by our water resources management plan, to be published in 2018. Reviewed every five years the plan's aim is to ensure we have appropriately resilient water supplies for all our future customers over the next 40 years.

For the immediate future, we continue to focus on delivering excellent customer service and investing in our customers' priorities to provide a safe, reliable, value for money service. Preparation for the introduction of competition for our non-household customers continues and the company is well placed to accept the challenges of this development in the water sector.

On behalf of the Board, I would like to thank the employees and partners of South East Water for the continued dedication to delivering our vision and ensuring we deliver on our plans for now and the future.

### Nick Salmon

Chairman  
15 December 2016



## 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  
15 December 2016



## Condensed Group income statement

for the six months ended 30 September 2016

	Notes	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
<b>Revenue</b>	3	<b>110,990</b>	109,449
<b>Group net operating costs</b>	5	<b>(72,890)</b>	(72,571)
Other income	3	<b>3,939</b>	3,528
<b>Group operating profit</b>		<b>42,039</b>	40,406
Finance costs	6	<b>(22,714)</b>	(21,152)
Finance income	7	<b>2,518</b>	2,518
<b>Profit before taxation</b>		<b>21,843</b>	21,772
Taxation	8	<b>3,596</b>	(4,063)
<b>Profit for the period</b>		<b>25,439</b>	17,709
<b>Earnings per share</b>			
Basic and diluted from continuing operations		<b>51.59p</b>	35.91p

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

## Condensed Group statement of comprehensive income

for the six months ended 30 September 2016

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
<b>Profit for the period</b>	<b>25,439</b>	17,709
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Re-measurement of defined benefit liability	<b>(10,664)</b>	17,693
Deferred tax on defined benefit pension schemes	<b>1,920</b>	(12,099)
Impact of deferred tax rate change in respect of pension schemes	<b>(389)</b>	(1,119)
	<b>(9,133)</b>	4,475
<b>Total comprehensive income for the period attributable to Owners of the Company</b>	<b>16,306</b>	22,184



# Condensed Group statement of financial position

as at 30 September 2016

	Notes	30 September 2016 £000	31 March 2016 £000	30 September 2015 £000
<b>Non-current assets</b>				
Intangible assets	10	10,777	11,046	10,303
Property, plant and equipment	11	1,430,220	1,412,184	1,395,279
Amount due from parent undertaking		190,013	190,013	190,013
Defined benefit pension surplus		7,372	9,003	5,555
		<b>1,638,382</b>	1,622,246	1,601,150
<b>Current assets</b>				
Inventories		239	185	244
Trade and other receivables	12	72,627	66,650	69,959
Cash and cash equivalents	13	16,376	16,947	23,204
		<b>89,242</b>	83,782	93,407
<b>Total assets</b>		<b>1,727,624</b>	1,706,028	1,694,557
<b>Current liabilities</b>				
Trade and other payables	16	(89,380)	(85,257)	(92,220)
Deferred income		(6,608)	(6,803)	(3,686)
Provisions		(3,860)	(3,834)	(4,184)
		<b>(99,848)</b>	(95,894)	(100,090)
<b>Non-current liabilities</b>				
Loans and borrowings	14/15	(872,610)	(869,880)	(864,303)
Trade and other payables	14	(3,501)	(2,589)	(2,281)
Derivative financial instruments	14/15	(91,052)	(87,226)	(92,566)
Deferred tax liabilities		(131,326)	(140,566)	(153,248)
Defined benefit pension liability		(8,577)	(1,466)	(5,159)
Deferred income		(67,234)	(65,633)	(66,638)
		<b>(1,174,300)</b>	(1,167,360)	(1,184,195)
<b>Total liabilities</b>		<b>(1,274,148)</b>	(1,263,254)	(1,284,285)
<b>Net assets</b>		<b>453,476</b>	442,774	410,272
<b>Equity</b>				
Ordinary shares		49,312	49,312	49,312
Revaluation reserve		264,063	264,134	261,702
Retained earnings		140,101	129,328	99,258
<b>Total equity</b>		<b>453,476</b>	442,774	410,272

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 2016

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2016	49,312	264,134	129,328	442,774
Profit for the period	-	-	25,439	25,439
Other comprehensive income	-	-	(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>

for the six months ended 30 September 2015

	Issued share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2015	49,312	264,155	78,508	391,975
Profit for the period	-	-	17,709	17,709
Other comprehensive income	-	-	4,475	4,475
Total comprehensive income	-	-	22,184	22,184
Dividends (see note 9)	-	-	(4,500)	(4,500)
Amortise revaluation reserve	-	(3,065)	3,065	-
Release revaluation on disposals	-	(1)	1	-
Deferred tax on reserve releases	-	613	-	613
At 30 September 2015	49,312	261,702	99,258	410,272

# Condensed Group statement of cash flows

for the six months ended 30 September 2016

	Notes	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000
<b>Operating activities</b>			
Net cash flow from operating activities		<b>62,882</b>	69,796
Interest received		<b>2,543</b>	2,518
Interest paid		<b>(17,354)</b>	(17,411)
Group tax relief paid		<b>(1,000)</b>	(1,250)
<b>Net cash flow before investing and financing activities</b>		<b>47,071</b>	53,653
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>159</b>	54
Purchase of property, plant and equipment		<b>(39,436)</b>	(54,211)
Purchase of intangible assets		<b>(1,297)</b>	(1,058)
Fixed asset contributions received		<b>932</b>	550
<b>Net cash flow used in investing activities</b>		<b>(39,642)</b>	(54,665)
<b>Financing activities</b>			
Repayments of borrowings		-	(3)
Dividends paid to shareholder	9	<b>(8,000)</b>	(4,500)
<b>Net cash flow used in financing activities</b>		<b>(8,000)</b>	(4,503)
Decrease in cash and cash equivalents		<b>(571)</b>	(5,515)
Cash and cash equivalents at 1 April		<b>16,947</b>	28,719
<b>Cash and cash equivalents at 30 September</b>	13	<b>16,376</b>	23,204



# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 1. Basis of preparation

The condensed Group financial statements for the six months ended 30 September 2016 are set out on pages 11 to 22 and have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services 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 2016, 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 2016 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2016 were approved by the Board of directors on 15 July 2016 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 2016 as described in those financial statements.

## 3. Total income

	Six months ended 30 September 2016	Six months ended 30 September 2015
	£000	£000
<b>Revenue</b>		
Unmetered water income	24,537	29,956
Metered water income	83,417	76,583
Other sales	3,036	2,910
<b>Total revenue</b>	<b>110,990</b>	109,449
<b>Other income</b>		
Rental income	585	521
Sundry income	3,354	3,007
<b>Total other income</b>	<b>3,939</b>	3,528
<b>Total income</b>	<b>114,929</b>	112,977

All revenue is from customers within the United Kingdom.

# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 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 two operating areas being regulated activities and non-regulated activities.

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

Period to 30 September 2016

	Regulated activities £000	Other activities £000	Total £000
Total revenue	111,006	3,923	114,929
Operating profit	40,170	1,869	42,039
Finance income			2,518
Finance costs			(22,714)
Profit before taxation			21,843
Taxation			3,596
<b>Profit for the period</b>			<b>25,439</b>

Period to 30 September 2015

Total revenue	105,944	3,505	109,449
Operating profit	38,243	2,163	40,406
Finance income			2,518
Finance costs			(21,152)
Profit before taxation			21,772
Taxation			(4,063)
<b>Profit for the period</b>			<b>17,709</b>

## 5. Net operating costs

	<b>Six months ended 30 September 2016</b>	Six months ended 30 September 2015
	<b>£000</b>	£000
Employee benefits expense	<b>13,550</b>	12,907
Asset expense	<b>22,616</b>	21,873
Other operating expenses	<b>36,724</b>	37,791
	<b>72,890</b>	72,571

# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 6. Finance costs

	Six months ended 30 September 2016	Six months ended 30 September 2015
	£000	£000
Effective interest on listed debt	10,950	12,167
Fair value movements on interest rate swap	3,825	3,755
Indexation on listed debt	1,729	1,187
Interest on index linked loans	5,657	4,294
Indexation on index linked loans	727	(572)
Other finance costs	1,208	1,547
Pension fund finance (credit)/charge	(168)	98
	23,928	22,476
Less: interest capitalised	(1,214)	(1,324)
	22,714	21,152

## 7. Finance income

	Six months ended 30 September 2016	Six months ended 30 September 2015
	£000	£000
Interest receivable from group undertakings	2,462	2,448
Interest receivable on bank balances and short term deposits	56	70
	2,518	2,518

## 8. Taxation

	Six months ended 30 September 2016	Six months ended 30 September 2015
	£000	£000
Current taxation charge	1,717	1,616
Deferred taxation (credit)/charge	(5,313)	2,447
	(3,596)	4,063

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 2016

## 9. Dividends

	Six months ended 30 September 2016	Six months ended 30 September 2015
	£000	£000
Equity dividends paid during the period of 16.2p per share (2015: 9.1p)	<b>8,000</b>	4,500

## 10. Intangible assets

	£000
<b>Net book amount</b>	
At 1 April 2016	<b>11,046</b>
Additions for the period	<b>1,297</b>
Amortisation for the period	<b>(1,566)</b>
<b>At 30 September 2016</b>	<b>10,777</b>
Net book amount	
At 1 April 2015	10,651
Additions for the year	3,368
Amortisation for the year	(2,960)
Impairment for the year	(13)
At 31 March 2016	11,046
Net book amount	
At 1 April 2015	10,651
Additions for the period	1,058
Amortisation for the period	(1,406)
At 30 September 2015	10,303

# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 11. Property, plant and equipment

	£000
<b>Net book amount</b>	
At 1 April 2016	<b>1,412,184</b>
Additions for the period	<b>39,245</b>
Disposals for the period	<b>(63)</b>
Depreciation for the period	<b>(21,120)</b>
Impairment for the period	<b>(26)</b>
<b>At 30 September 2016</b>	<b>1,430,220</b>
Net book amount	
At 1 April 2015	1,369,190
Additions for the year	85,842
Disposals for the year	(72)
Depreciation for the year	(42,040)
Impairment for the year	(736)
At 31 March 2016	1,412,184
Net book amount	
At 1 April 2015	1,369,190
Additions for the period	46,610
Disposals for the period	(23)
Depreciation for the period	(20,498)
At 30 September 2015	1,395,279

## 12. Trade and other receivables

	30 September 2016 £000	31 March 2016 £000	30 September 2015 £000
<i>Financial asset receivables</i>			
Trade receivables	<b>31,033</b>	29,968	29,223
Accrued income	<b>35,288</b>	30,645	33,593
Amounts due from Group undertakings	<b>37</b>	148	-
	<b>66,358</b>	60,761	62,816
<i>Non-financial asset receivables</i>			
Prepayments	<b>4,438</b>	2,894	4,766
Other receivables	<b>1,831</b>	2,995	2,377
	<b>6,269</b>	5,889	7,143
	<b>72,627</b>	66,650	69,959

# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 13. Cash and cash equivalents

	30 September 2016 £000	31 March 2016 £000	30 September 2015 £000
Cash at bank and in hand	9,376	5,547	904
Short term bank deposits	7,000	11,400	22,300
	<b>16,376</b>	16,947	23,204

## 14. Financial liabilities

	30 September 2016 £000	31 March 2016 £000	30 September 2015 £000
<b>Non-current liabilities</b>			
Irredeemable debenture stock	991	991	997
Listed bonds	520,563	518,645	515,641
Index linked loans	351,056	350,244	347,665
Loans and borrowings	872,610	869,880	864,303
Derivative financial instruments - Inflation swap	91,052	87,226	92,566
Trade and other payables	3,501	2,589	2,281
	<b>967,163</b>	959,695	959,150



# Notes to the condensed Group financial statements

for the six months ended 30 September 2016

## 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 2016 £000</b>	<b>Fair Value 30 September 2016 £000</b>	Book Value 31 March 2016 £000	Fair Value 31 March 2016 £000	Book Value 30 September 2015 £000	Fair Value 30 September 2015 £000
<i>Loans and receivables</i>						
Amounts due from parent undertaking	<b>190,013</b>	<b>193,321</b>	190,013	139,385	190,013	134,041
<i>Financial liabilities at amortised cost</i>						
Irredeemable debentures	<b>991</b>	<b>921</b>	991	766	997	670
Listed bonds	<b>520,563</b>	<b>633,743</b>	518,645	601,959	515,641	631,496
Index linked loans	<b>351,056</b>	<b>489,057</b>	350,244	393,500	347,665	335,391
	<b>872,610</b>	<b>1,123,721</b>	869,880	996,225	864,303	967,557

The following table details the financial instruments that are carried in the Group's books at the fair value at 30 September 2016.

	<b>Book and Fair Value 30 September 2016 £000</b>	Book and Fair Value 31 March 2016 £000	Book and Fair Value 30 September 2015 £000
<i>At fair value through the income statement</i>			
Interest rate swap	<b>91,052</b>	87,226	92,566

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 2016

## 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 2016</b>				
Interest rate swap	<b>(91,052)</b>	-	<b>(91,052)</b>	-
31 March 2016				
Interest rate swap	(87,226)	-	(87,226)	-
30 September 2015				
Interest rate swap	(92,566)	-	(92,566)	-

During the reporting period ended 30 September 2016, 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

	<b>30 September 2016 £000</b>	31 March 2016 £000	30 September 2015 £000
<i>Financial liability payables</i>			
Trade payables	<b>11,724</b>	10,803	15,009
Amounts due to group undertakings	<b>10,839</b>	10,120	9,509
Other payables	<b>675</b>	770	468
Accruals	<b>29,682</b>	30,582	31,087
	<b>52,920</b>	52,275	56,073
<i>Non-financial liability payables</i>			
Payments received in advance	<b>35,480</b>	32,009	35,201
Other taxes and social security	<b>980</b>	973	946
	<b>36,460</b>	32,982	36,147
	<b>89,380</b>	85,257	92,220

## 17. Subsequent events

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





**Andy – Data Technician**

We have 1,200 tiny noise logger devices which listen for leaks at night and then send in the data so we can find the smallest leaks

