HDF (UK) Holdings Limited

Annual Report and Group Financial Statements

31 March 2022

Registered number 05462865

Contents

Officers and professional advisers

Directors

O Schubert (Non-Executive Director)
R Drew (Non-Executive Director)
A N Le Gal (Non-Executive Director) (appointed 18 June 2021)
M McArdle (Non-Executive Director) (appointed 2 March 2022)
V Rosati (Non-Executive Director - alternate director for A N Le Gal for the purposes of attending Board meetings where A N Le Gal is unavailable to attend) (appointed 13 September 2021)

Company Secretary

N Truillet

Company's Bankers

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Registered No. 05462865

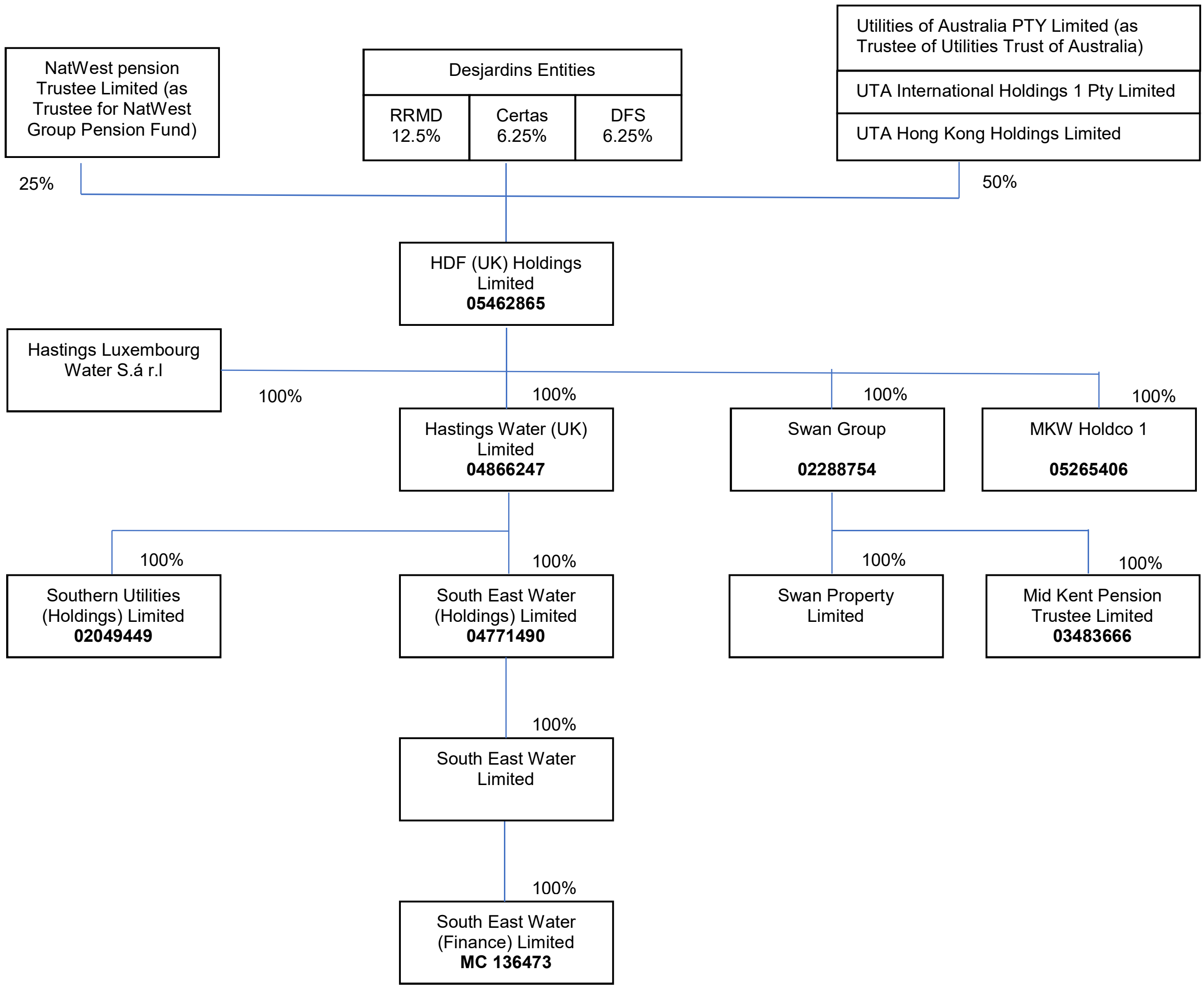
Country of domicile and registration: England and Wales

Group strategic report

On behalf of the directors of HDF (UK) Holdings Limited, I am pleased to present our annual report and audited financial statements for our group and company for the year ended 31 March 2022.

HDF (UK) Holdings Limited ("HDF") is the ultimate UK holding company of the group of companies which are owned by Utilities of Australia Pty Limited (as Trustee of Utilities Trust of Australia), NatWest Pension Trustee Limited as Trustee for the NatWest Group Pension Fund (Main Fund Section) and three entities of the Desjardins cooperative financial group based in Quebec (Régime de Rentes du Mouvement Desjardins, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company). The company is a private company limited by shares. The company's principal activity during the year and for the foreseeable future is that of a holding company.

The full structure of the group headed by HDF in the UK ("the group") as at the balance sheet date is presented below. The principal operating company in the group was South East Water Limited ("SEW").



Group strategic report

Our business model

We will achieve our objective to provide a trusted and reliable service for all, by creating a workplace where our people thrive, by putting community and society at the heart of what we do and helping the environment to thrive. Our business plan is based on these four strategic themes which underpin everything that we do.

- **Trusted and reliable service**
  We are entrusted to deliver a continuous supply of safe, wholesome drinking water direct to our customers' homes.
- **Thriving people**
  We have set an ambitious five year people plan to build a culture which inspires excellence in our people.
- **Community and society focused**
  Our corporate plan for 2020 to 2025 is built on customer satisfaction.
- **Flourishing environment**
  Operating in an environmentally diverse and water stressed area, we need to make the right choices for our local communities and the environment.

What we do

We operate a regulated statutory water company in an exclusive supply area which is comprised of two non-contiguous regions in the south east of England. Our core purpose is to provide the public water service and to plan and invest in that service for the future. Wastewater services in our area are provided by either Thames Water or Southern Water.

We operate across the full water value chain:

- We carry out all wholesale activities, managing water resources, treatment works and the distribution network to bring safe drinking water to all premises.
- We provide wholesale water supplies to retailers in the non-household retail market and to new appointee water companies that supply premises on certain new development sites located within our geographic area.
- We provide new connection services to developers, self-lay providers and new appointees to connect new premises. We carry out related works to ensure there is sufficient capacity in our water network to meet the demand from these new premises and maintain water pressure for existing customers.
- We provide all retail services to end-user customers in household premises in our area of supply. This includes meter reading, billing, payment collection, service and billing enquiries and dealing with complaints. Retail services to eligible businesses, public sector and third sector organisations in our area of supply are provided by separate water retail companies.
- We also provide non-regulated commercial laboratory services, billing and other retail services and plumbing services where we are able to achieve synergy and optimise the resources and know-how of the business. Wholesale activities account for 89 per cent of total income, retail activities for seven per cent and non-regulated activities for four per cent.
- We develop and refurbish surplus stocks of land and properties with a view to increasing their long term investment potential and selling them at some time in the future.

Our key resources

Our assets and networks built over generations

The performance, condition and operation of our water resources assets, water treatment assets and our network built over generations, supported by information technology, are the essential elements of our business. Our investment in current and future assets is also crucial to our current performance and our long-term ability to deliver the public water service and to fulfil our purpose. We must maintain a resilient service through asset management, investment and the effectiveness of our operations.

Fresh water and the environment

Our business model is intrinsically linked to natural capital and to the availability, sustainability and quality of fresh water resources. We rely on the environment and ecological services for our catchments, which filter, store and transport the fresh water resources, to provide our service.

Group strategic report

Our human and intellectual capital
We rely on the collective skills and expertise within our business in the management of the public water service and the knowledge of our water supply system. Our relationships with key suppliers and partners are also essential to our success.

Financial capital
Our performance and the sustainability of our operations in the long-term require continuous investment in our assets and we need access to competitive financing to succeed.

Our key relationships
Our customers and communities
The customers and communities we serve influence the decisions we make and their water use and behaviours impact our operational plans on a daily basis. It is vital we build collaborative relationships for mutual benefit and to minimise negative impacts as we plan future investment in the region.

Our people and culture
Everything we achieve as a business is through our people and the culture we collectively develop. There are 1001 people directly employed by the group and hundreds more through our supply chain (see below). Many employees are long-serving and their knowledge and experience is important in helping us plan for the future as well as delivering excellent service today.

Our suppliers and partners
Our supply chain is vital to the smooth running of our business, whether that is delivery of products for water treatment, infrastructure, materials, or expertise to support the implementation of our investment programmes. We work with more than 100 suppliers and partners both locally and internationally. Our key suppliers provide engineering and technical skills that complement those of our employees. We also receive bulk supplies of water from some neighbouring water supply companies and we work closely with them on a regional basis to plan for long-term water resources.

Our regulators
As a regulated business, the group benefits from open and constructive working relationships with our regulators: Ofwat, the Environment Agency, the Drinking Water Inspectorate, Natural England and with CCW.

How we creates economic value
We generate revenue through the billing for the services we provide as described above.

The revenue that the business is allowed to generate as a regulated water company is subject to price controls set by Ofwat every five years which define revenue allowances for relevant segments of the value chain: water resources, network and household retail. The cost of capital, which includes an allowance for shareholder returns, is also determined by Ofwat.

Dry and hot summers and cold winters can also have a significant impact on reactive maintenance costs and other operating costs and can affect our profitability. The management of payment collection and bad debt as well as the level of support provided to customers with financial difficulties also influence profitability, as our essential service must be maintained even in the case of non-payment.

Our commercial activities are developed on our core business strength and technical know-how. We provide billing, debt collection and related customer services to the wastewater companies that operate in our area, providing the convenience of a single bill to our common customers and to new appointees. Our accredited laboratory provides analytical scientific services to other water companies, public authorities, businesses and private clients, building on the expertise and technical capabilities developed to meet our own water analysis requirements. Our Waterlink business offers a range of plumbing and water infrastructure services.

How we creates value for others
Value to society
Our water supply is used by households and all sectors of the economy and society. They rely on it, in particular for hydration and hygiene, and expect it to be available where and when needed. We ensure they can all benefit from the value that water itself brings to them. We also plan and invest to ensure that our service will continue to be available to them in the future.

Group strategic report

The quality of our service determines the trust and satisfaction of our customers and those who rely on our service. Public trust in the safety of water is another essential value we generate with our regulator, the Drinking Water Inspectorate, and is also therefore one of our key priorities. We provide priority services to customers whose circumstances make them more vulnerable and provide assistance to those who have difficulties affording our services. How responsibly we carry out our business, how we manage our impact on others and the environment, and how we engage with customers and stakeholders are also key drivers of our legitimacy as a provider of an essential service.

Supporting the economy
Our service is a key input for many organisations, including public services and businesses and we also support housing growth. We continuously invest in our assets, generating economic activity for our supply chain, and the taxes we pay contribute to the wider economy.

Responsible impact on the environment
We manage the impact of our operations and our capital works on the environment, working to minimise our negative impact and improve our positive impact. We need to balance the impact of our abstraction on water bodies and the wider environment and the need to take water from the environment in order to meet the essential need of society. In this context climate change, population growth, demand management and leakage management are central to our planning and the long-term sustainability of our business model.

We work to improve the sustainability of our water abstraction. We also work with farmers and other stakeholders to reduce the level of pollutants in the raw water extracted from our catchment areas that need to be removed in our treatment works.

We collaborate with other water companies and stakeholders to promote ways of saving water to our customers, and are proud to have reduced leakage year on year.

We manage more than 30 protected sites and invest to improve their environmental condition and biodiversity. We invest to reduce our emissions and support the transition to a low carbon economy.

Job opportunities and development
We provide training and career development opportunities and seek to promote the wellbeing of our employees. Given the nature of our business we must be able to operate without interruption, which enables us to offer stable, continuous employment and financial security to our employees, including throughout the Covid-19 pandemic. We provide learning and development opportunities in a wide range of disciplines.

Supporting our communities
We provide jobs to 1,001 direct employees and 659 employees of our direct contractors who work specifically to support our business. Our business also supports the wider community through the creation of jobs that contribute to activities in our wider supply chain, either indirectly or in part.

We also support our communities through volunteering of our employees, community sponsorship activities and recreational facilities on our land, such as at Ardingly and Arlington reservoirs.

Shareholder value
Water companies are attractive to investors because they are stable, regulated, efficient businesses providing a steady return. Through efficient operation and good performance we seek to provide a reasonable return to our shareholders and increase the value of the business.

The value we create for our investors is about more than just a financial return. HDF’s principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to strong environmental, social and governance performance as they recognise this protects the long-term value and sustainable success of the company and strengthens our licence to operate.

Group strategic report

Our business environment

Natural environment

We rely on a secure supply of our natural resource – water. We must protect both the quantity and quality of our key environmental resource. Rainfall in the south east of England is lower than other parts of the country and the region is officially designated as an area of serious water stress. We must be prepared for the impacts of environmental change and adapt to these. We play an important role in mitigating climate change through our own actions to minimise our emissions and environmental impact and supporting our community to do the same.

We are significant landowners in the south east and with this we have tremendous responsibility in looking after our 33 sites which are within areas of Special Scientific Interest, including the national nature reserve at Lullington Heath in East Sussex, two nature reserves at Arlington Reservoir and Ardingly Reservoir in Sussex as well as numerous other Areas of Outstanding Natural Beauty.

Society

The community we serve has a huge influence on our work. Changing consumer behaviours can have significant impacts on our business, both positive (where more environmental awareness leads to water saving) or negative (if the changes lead to increased water use). As we emerge from the pandemic, we are continuing to monitor water use patterns, as society moves towards a “new normal”.

Society provides our workforce, therefore the opportunities for learning skills and encouraging interest in careers in water across a diverse community is important. To manage our infrastructure we are often working in close proximity to our customers and therefore it is vital we coordinate our work with others and engage closely with those who will be impacted by our activities.

The region we operate in has a higher percentage of older residents relative to other regions and therefore supporting customers who may have mobility issues or other age-related vulnerabilities is of high importance for us.

Innovation and technology

Technology is always progressing and it is important that as a business we keep up with innovations. The opportunities they present enable us not only to work more safely and efficiently, but also to ensure we keep up with consumer and stakeholder expectations as these evolve in other digital and technological experiences. We are continuing to incorporate the latest technologies to support our colleagues in their work.

We connect with experts through many stakeholder forums such as UK Water Industry Research (UKWIR) and Chartered Institute of Water and Environmental Management and look for occasions to collaborate to take advantage of opportunities such as the Ofwat Innovation Fund or other funding streams that are available. We recognise that technology also holds significant risks, in particular cyber security and data protection must be a key focus.

Economic environment

The economic climate impacts our business both through the ability of our customers to pay their bills, and the security of the supply chain we rely on. The south east of England is a relatively affluent part of the UK, but there are pockets of extreme deprivation and with an older population more pensioners who may have financial concerns.

During the past year we have experienced unprecedented changes in the cost of energy for households, which could impact on the ability of our customers to pay their bills. With further increases in the energy price cap expected for 2022/23 we will continue to monitor this closely, both in terms of the help that we can give our most vulnerable customers and the impact that these macro-economic factors may have on the ability of our customers to pay their bills.

Market rate movements, such as interest rates and inflation, also impact us, but we reduce risk as far as possible through our prudent financial management and five year planning.

Group strategic report

Political and regulatory environment

The political and regulatory environment can change significantly over time. We ensure we are able to respond to these changes and, where appropriate, influence future policy through our participation in consultations and as active members of the water industry trade body, Water UK. Our aim is to ensure any changes that affect the outcomes for our customers, shareholders and other stakeholders are positive.

We operate within a strict regulatory environment and work closely with all our regulators to deliver our services for our customers both now and in the future.

- The Water Services Regulation Authority (Ofwat) regulates our prices and levels of customer service.
- The Drinking Water Inspectorate (DWI) monitors drinking water quality.
- The Environment Agency (EA) covers environmental protection.
- CCW (formerly the Consumer Council for Water) represents customers' interests.
- Water Redress Scheme (WATRS) is an independent service designed to adjudicate disputes that have not been resolved through the water companies' customer service teams or by referring the matter to the CCW.
- Natural England (NE) is responsible for the protection of designated sites for nature conservation.
- Department for Environment, Food and Rural Affairs (Defra) deals with all aspects of policy relating to the water industry and administers the licence granted by the Secretary of State under which we operate.
- Centre for the Protection of National Infrastructure (CPNI) is the government authority for protective security advice to the UK national infrastructure.

Group strategic report

Our business strategy

Our 2020 to 2025 plan

We have put customer satisfaction, responsibly delivered, as the central theme of our business plan for 2020 to 2025. The plan ensures we take account of all our other legal and financial obligations. To develop our 2020 to 2025 plan we consulted with more than 10,000 people with an interest in our business, from customers and employees through to community leaders and investors, to ensure we had developed a strategy that met their expectations and, where possible, went further. Their feedback helped us to develop our five-year business plan and to develop our corporate plan.

We have developed a wide range of responsible business measures and targets within the plan and believe our plan is the right one for our customers and society, both now and in the future. The priorities we have developed aim to exceed customers' expectations for us to ensure health and wellbeing through a quality, reliable water service, and improving the environment to secure a resilient service for the future. They also include commitments to ensure we are supporting all our customers, including those who are vulnerable.

The plan is built around customer satisfaction, but has moved on from measuring average satisfaction across seven service elements to measuring satisfaction by attitudinal segments, so we meet the expectations of all our customers whatever their needs or circumstances. The plan strengthens the link between satisfaction and resilience making customers part of the solution by giving them targeted information and greater control over their water use. We have used recent supply challenges in 2018 and 2020, such as the freeze/thaw and heatwave events, to develop this further through our resilient customer concept. The plan has 10 responsible business commitments to reflect the actions and behaviours that customers expect a responsible business to display and, in conjunction with great service, have the potential to create a step-change in trust of the water sector.

Challenges built into the plan require us to deliver performance levels well beyond anything we have delivered before and new ones too, such as our performance commitments relating to vulnerable customers, the environment and customer satisfaction. We have included 38 new performance commitments in our plan. A further challenge is delivering these commitments at a price that is lower than today (before inflation). Our ambition to do more for less is what this plan is built upon and is what drives us to set a new tone of trust and transparency in the water sector.

Water resources for the future

Every five years we update our water resources management plan (WRMP), which looks at how we will keep taps running while striking that delicate balance between protecting the environment and keeping bills affordable. Historically these plans looked 25 years into the future, but because the south east faces a number of unique challenges in our latest plan, published in August 2019, we've looked forward 60 years to 2080. By doing this we can make sure the work we do now lays the best foundations for future generations.

Over the next 60 years the population in our supply area is set to increase by 49 per cent to 3.29 million. To ensure all existing and new customers continue to receive a reliable tap water supply we need to increase the amount of water available by an extra 221 million litres a day by 2080. Our latest plan makes the water we already have go further by reducing leaks in our pipes and developing water efficiency programmes. Although this will help, these measures alone won't be enough to meet the predicted shortfall in water.

Our plan includes:

- Encouraging greater water efficiency amongst our customers, working with our customers to reduce per capita consumption from 148 l/h/d to 90 l/h/d by 2080, helping to save an additional 151.6 million litres of water a day.
- Halving the level of leakage from current levels by 2050, saving an additional 42.7 million litres of water a day.
- Construction of a new water treatment works by 2025 at the former Aylesford Newsprint site via a new licence trade arrangement. This will provide an additional 18.2 million litres of water a day.
- Developing and improving an existing water treatment works at Bewl Water in Kent by 2045, providing eight million litres of water a day. Creating a new reservoir at Broad Oak, Kent by 2033 to provide 19.6 million litres of water a day.
- Building a new reservoir adjacent to our existing Arlington Reservoir, East Sussex, by 2035 to provide 16.1 million litres of water a day.

Group strategic report

- Developing a regional water transfer scheme from SES Water to provide nine million litres of water a day by 2042.
- Improving the levels of connectivity and resilience within our water supply network system to meet demand and manage extreme events.

By planning so far in advance we can find the most sustainable long-term options to meet the demands of both our existing and our anticipated new customers. Our planning supports the ‘twin track’ approach to ensure that we adopt the best options to manage both customer demand for water and the development of the most sustainable sources of supply.

Collaborative regional water resources planning is a long established and integral part of how our own water resources management plans are prepared. Since 1997 we, along with the other five south east of England water companies, has prepared regional plans as the Water Resources in the South East (WRSE) group. This collaboration ensures each individual company plan is integrated with regional solutions, to provide the most cost effective and resilient plans for both customers and the environment.

The latest water resource management guidelines prepared by Government seek to expand and build on the regional approach adopted by the WRSE group, by creating an additional four regional groups to cover the whole of England and Wales, supported by a national framework to help deliver consistency and co-ordination up to national level. We continues to play an active and vocal role in the work of the WRSE group and national work, to ensure our own company water resources management plan remains coherent with those plans. The regional plan will be published in 2022.

25 year environment plan

We are the first water company to develop a dedicated 25 year environment plan. Over the course of seven months we worked with more than 250 customers, employees and stakeholders to create our draft plan, with which we have undertaken a rigorous engagement process. We will continue to engage with customers and stakeholders prior to the plan being published in summer 2022. We know that making lasting change to the environment takes time and that no one organisation can do this alone. We need a long-term environmental strategy to provide a framework for the entire company to protect and enhance the environmental resilience of our supply area, short and long-term.

This plan exceeds our statutory obligations and normal planning cycles, such as the Water Industry National Environment Programme, our water resources management plan and our dry weather plan. We recognise an important part of this is making sure that we consider wider environmental impacts from our own operations. This plan provides a framework to help us manage all aspects of the environment holistically and allow us to make transparent decisions which lead to the best overall outcome for the environment long-term. We have worked with our stakeholders, employees and customers to co-create a plan which sets out how we'll improve the environment within a generation.

Group strategic report

Risk management and principal risks

How we manage risks

We have comprehensive systems of internal control and risk management and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code. This risk management framework is also closely linked to the way we monitor and measure our performance and compliance with our statutory obligations and commitments which is subject to external assurance by third parties. This ensures that SEW's board and the audit and risk committee review all material controls including financial, operational and compliance controls.

We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks. The board defines the group's risk management framework and reviews the risks on the register and the effectiveness of the relevant mitigation measures at least once a year. SEW's board also reviews monthly, quarterly and annual reports on performance which highlight risks and business or operational issues as they arise. Individual managers and heads of department are responsible for identifying risks relevant to their area of responsibility and defining and implementing mitigations. Risks relevant to each directorate are monitored by the relevant director every month and the risk profile of a particular area is presented by the relevant head of department to the executive team.

The risk management systems described here have been in place for the year under review and up to the date of approval of the annual report and financial statements. Our monitoring framework includes a risk assessment in relation to data and information provision which we use to ensure the information we publish is accurate and reliable.

Our risk management model uses standardised risk descriptions and categories for the controls, impact and likelihood of risks. Each risk is allocated a priority score based on its potential impact and likelihood. The prioritisation of risks in the register takes account of the controls and mitigation measures currently in place. Our risk management model also includes an assessment of planned mitigation measures. This gives visibility of the reduction in risk exposure expected from planned mitigation and is also used for reviewing the actual effectiveness of mitigation. This model allows the board to assess and manage risks at a strategic level and the executives to manage risks at an operational level.

A number of our risks have been impacted by Covid-19. Controls and actions have subsequently been strengthened or brought into place to mitigate these increased risks as much as possible. The corporate risk register identifies risks that exist in the present and short-term and also includes potential risks to outcome delivery incentive (ODI) success in the 2020 to 2025 price control period. In total 104 risks were identified as potentially having a direct impact to one or more ODI performance measures. Identifying these risks ensures we are able to put early measures in place to optimise performance across our commitments. To supplement the corporate risk register we also evaluate emerging and future risks, broadly targeting a rolling 10-plus year horizon span. Consideration of long-term risk planning also involves consideration of where political, social, and economic factors may take the business.

We have assessed the impact of our main transitional and physical climate-related risks in the short, medium and long-term under different scenarios following the recommendations of the Task Force on Climate-Related Financial Disclosures. An understanding of these risks will allow the business to plan and build resilience to the future threats that these identified risks may pose. Risks identified to have no immediate solution can be channelled through our innovation programme and adaptive planning pathways to establish if technology can be sought to reduce or control future risks.

We have also undertaken a review of the corporate risks with a responsible business lens on the register. These are reviewed by the responsible business committee on a regular basis.

Our Principal risks and uncertainties

Principal risks are those which due to their likelihood or magnitude can significantly impact on the long-term success of our company. We consider their impact on our business model, future performance, solvency and liquidity. We also review the adequacy of the mitigations in place.

Group strategic report

As required by our corporate governance code, the audit and risk committee and the board carried out a review of our principal and strategic risks and of high impact and emerging risks on our risk register. We also compared our principal risks with those identified by other companies in the water industry.

The principal risks described below have been considered in the context of our business model and strategy and in the context of our current and foreseeable environment. These principal risks represent an aggregation of underlying risks in our risk register. The current risk exposure and trend presented is a reflection of the risk levels and trends of the related underlying risks.

Some of the risks described in this section also bring business opportunities which we are preparing for. We also take advantage of the potential for business improvement that arises from risk management and the implementation of mitigations.

Our assessment of principal risks and trends has resulted in a higher overall risk level compared with last year. This is due primarily to more challenging macroeconomic conditions affecting our costs, the delivery of efficiencies and of our business plan.

We have also assessed the potential for cyber security threats to be greater as a consequence of the Russian invasion of Ukraine. There is additional uncertainty around some aspects of regulatory policy as the methodology for PR24 is not yet finalised and with the introduction of new environmental targets under the Environment Act 202

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
1 Climate change Global warming will lead to long-term shifts in climate patterns (such as hot and dry summers, changes in rainfall and sea levels rising) and to an increase in the frequency and severity of acute weather events such as floods, storms, droughts or heatwaves. This will affect the quantity and quality of water resources and disrupt our operations and those of third parties we rely on such as energy suppliers. The effect of climate change will increase the likelihood and impact of our main operational risks, which in turn would mean that we would not be able to meet our statutory duties and water demand in the future. It would also lead to additional costs that could affect the financial resilience of the company in the long-term. A failure to adapt to climate change and to deliver our own net zero carbon commitments could lead to significant reputational damage. The UK has seen its warmest 10 years since 2002 and 2020 was the UK's third warmest, sixth wettest and eighth sunniest year in the national series. Recently, the 2020 heatwave put significant pressure on our water supply system and Storm Eunice caused widespread power outages that caused significant disruptions to our operations The uncertainty around climate change and the possible mitigations explains why the risk is being categorised as major and increasing to reflect the potential mid to long-term impact of climate change.	• Our Water Resources Management Plan and Drought Plan based on climate projections to determine the most appropriate solutions to develop water resources, improve the resilience of our supply system and manage demand. • Investment in flood protection. • A significant programme of environmental schemes including for managing the impact of our water abstraction. • Our third adaptation report published in December 2021. • Assessment of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). • A target to reduce our greenhouse gas emissions by 80 per cent by 2025 (when compared to 2017/18). • Our commitment to achieve operational net zero by 2030 under our net zero route map. • Procurement of power purchase agreement relating to new renewable energy assets and planned investment in private solar generation.	Climate change will increase the risk of strategic asset failure or major operational incident by increasing the exposure of our assets to extreme weather events. It will increase the risk of not meeting peak demand as less water may be available to take from the environment and heatwaves would increase peak summer demand. It will also affect raw water quality, especially during hot summers as the concentration of pollutants increases or due to algae blooms.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
2 Macroeconomic risk Our financial performance and resilience are influenced by external macroeconomic factors. The global and the UK economies have been significantly affected by the consequences of the Covid-19 pandemic and by the invasion of Ukraine by Russia which have led to increased energy, commodities and food prices, disruptions to supply chains and transport systems, high inflation, lower growth expectations and financial markets volatility. The Bank of England has increased interest rates and signalled further increases in a challenging environment with lower growth expectation, a tight employment market and some of the fundamental causes of inflation being less likely to respond directly to monetary policies. A significant rise in inflation and related increases in interest rates may adversely affect the company's financial performance. The actual increase in our input costs may be greater than the increase in our wholesale revenue, eroding profitability and making delivery of services and investment within our totex allowance more challenging. Increases in interest rates and high inflation will result in an increase in our cost of debt. Rising interest rates could also lead to poorly performing equity markets that may result in a deficit in the pension schemes we operate. Current economic conditions are resulting in significant increases in our input costs, especially energy, chemical and contractors' costs. The cost of living crisis increases the likelihood of bad debt for both domestic and business customers and increases the costs of supporting vulnerable domestic customers (e.g. increase in our social tariff and support to vulnerable customers). We may also see a fall in revenue from new connections and developer activities. Revenue from our non-regulated activities may be negatively affected by current economic conditions.	• A mix of long-term financing arrangements, including fixed, variable and index linked interest rates and partial refinancing completed in 2019/20. • Monitoring the impact of macroeconomic factors on our business and on our credit ratings including the long-term impact on the UK economy. • Robust and challenging budgeting process to ensure costs are clearly identified and controlled during the financial year. • Effective debt collection processes and support to our most vulnerable customers (social tariff and initiatives on affordability) with a good performance on collection of bad debt during the year in an increasingly challenging environment. • Long-term pension strategy which we are developing in consultation with the Pension Trustees to move towards insuring/securing a buy-out of the schemes.	Macroeconomic risks can mean that our costs are higher and also affect our revenue (with additional bad debt) which makes the delivery of our business plan and investment more challenging. It can also impact our financial resilience.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
3. Strategic asset failure and major operational incident Strategic asset failures and major operational incidents may affect our ability to deliver a safe and uninterrupted water supply to a large number of customers or cause damage to third parties. Disruption to our water supply has an impact on public health, on daily life and on economic activities. These events may be caused by unplanned outages of critical assets (including due to ground movements or naturally occurring sinkholes), bursts of large water mains or severe weather events. These risks may also affect other water companies which provide us with a supply of treated water. We rely on other utilities, especially electricity providers, to operate our facilities and prolonged or repeated energy outages may have a significant impact on our operations. Incidents lead to additional production and distribution costs (such as additional treatment, repairs, incident management, emergency supplies of water etc.) and compensation payments to customers whose supply was affected. They may lead to ODI penalties for exceeding our targets on supply interruption. They generally affect customer complaints, satisfaction and the perception of the company by customers and other stakeholders and may lead regulatory underperformance or penalty. They may also lead to liabilities to third parties due to damage to their equipment. The general condition of our assets is stable, but sinkholes at our reservoirs in Aylesford combined with higher demand linked to the Covid-19 pandemic resulted in an increasing level of risk in 2021, although mitigating actions have been put in place. Severe weather events such as Storm Eunice can also have a significant impact on our power supplies and our own operations.	• Incident preparation teams for the pre-emptive management of weather related operational challenges, 24 hour network modelling capability to manage incidents, and emergency plans and procedures regularly tested and independently audited. • Calm network strategy to reduce mains bursts and help achieve our leakage target, planned maintenance scheduled to achieve minimum outages during peak times, standby power generation at operational sites, systems approach to operational management and cross-skilled workforce. • Asset management strategy implementing new asset health metrics, implementation of an asset management system compliant with ISO 55000 by 2025 and risk based prioritisation of maintenance with customer impact as a primary consideration. • Resilience maturity assessment to ensure resilience, improved horizon scanning and adaptation to climate change and mitigation of key low likelihood but high impact risks. • Improvements to interconnectivity and our ability to reconfigure the network and removal of single points of supply. • Formal lessons learned process followed after each significant incident with implementation of action plans to improve our readiness, resilience and our response capabilities.	Strategic asset failure, Major operational incident & failure to meet peak demand for water may present significant challenges if combined or if they occur in close succession (which will be more likely with climate change). They also increase the risk of not meeting regulatory outcomes (with associated financial penalties) and the risk of non-compliance with our obligations.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
4. Failure to meet the peak demand for water We rely on water in the environment to provide the public water supply. Our supply area is designated as an area of serious water stress and is densely populated. Weather events such as droughts put pressure on already stressed raw water resources. Dry and hot weather may lead to peaks in demand that could exceed our ability to produce and distribute enough water. In the long-term, restrictions on water abstraction to protect the environment and the effects of climate change on the availability and quality of water will result in additional stress on the water resources needed to meet an increasing demand linked to population growth. This may also lead to increased risks of over abstraction and related prosecution and fines. In 2020, the combination of the hot weather and changes in consumption patterns due to the Covid-19 restrictions resulted in exceptionally high demand, leading to supply interruptions in certain parts of our network. The increased household demand related to Covid-19 is expected to subside.	• Our water resources management plan to invest in future water resources and production capacity, working with regulators to ensure local resilience issues (e.g. local network capacity) are addressed in the WRMP. • Our drought plan which includes clear steps for managing demand and securing resources in drought conditions. • Reducing demand through our metering programme which was completed in 2020 and our commitment to reduce per capita consumption by 7.6 per cent together with a behavioural change programme for 2020 to 2025. • Consistently meeting our leakage targets and our commitment to significant additional leakage reductions in 2020 to 2025. • Mobilisation to meet summer demand and communication plans to alert customers on the need to use water responsibly during peak periods. • Specific investment to address abstraction reduction such as our Fleet to Greywell main and to improve the resilience of our operations.	See *3. Strategic asset failure and major operational incident* above.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
5. Failure to deliver business plan and meet regulatory outcomes There are financial and reputational risks associated with a failure to deliver our business plan commitments. Our position at the next price determination may also be impacted. The PR19 determination included a large number of outcome delivery incentives (ODIs) using targets defined by reference to upper quartile performance with the introduction of in-period reward/penalty adjustments. It also introduced new customer satisfaction measures (C-MeX) and new developer services satisfaction measures (D-MeX). These changes bring new compliance requirements and related risks. Ofwat's approach to risk and return in its final determination, with more stretching targets, leads to an increased risk of penalties even with improvements in performance. In-period ODI adjustments will have an impact on our revenue during 2020 to 2025. Our ODI performance could also be affected by incidents affecting other companies that provide us with a bulk supply of treated water. We must ensure that we efficiently deliver the investment necessary to maintain and improve our services to customers and to meet our long-term future obligations. The risks affecting the delivery of our investment are internal, relating to the management of the delivery of our programme, and external such as extreme weather conditions, incidents affecting works, supply chain risks or significant events affecting the economy. Unprecedented demand due to Covid-19 during the 2020 heatwave and the disruption to our power supplies caused by Storm Eunice in 2022 resulted in the maximum penalty for interruption. The financial constraints imposed by the final determination combined with the economic impact of Covid-19 and recent macroeconomic conditions resulting in increases in our input costs have increased the risks related to the efficient delivery of investment and business plan in the current regulatory period.	• Detailed processes to ensure that we operate within the parameters of the price determination (including ODIs and investment) and that projects are planned and delivered on time and budget. • Project scopes and planned efficiencies reviewed with our engineering partner and the early involvement of our framework contractors to identify risks and opportunities for savings. • Steering groups monitoring key measures such as interruption, water quality, customer services, customer perception and leakage and implementation of resilience and innovation action plans. • Processes to continuously monitor and report regularly on our compliance with regulatory obligations at senior management and board levels and take corrective actions. • Continuously assess the deliverability and financeability of the final determination and any risk it may create for the company for the next regulatory period. • Executive remuneration targets aligned with regulatory outcomes.	Failure to deliver business plan or to meet regulatory outcomes may affect the mitigation of our main operational risks if investment is not delivered efficiently and could result in less favourable policies or regulatory determinations.

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Risks description	Mitigation	Interactions between our principal risks
6. Security of assets, systems and data The physical security of our assets and the resilience of our information technology infrastructure is essential to maintaining our service to the public and implement our business continuity plans. We must protect our sites and our water supply against accidental or deliberate security threats. We must protect ourselves from loss of systems, data and cyber-attacks and keep customers' data up-to-date and safe. Our reliance on IT systems to manage the activities of our front line staff and to maintain our normal activities through home working has meant that the security and resilience of our IT systems has become even more important, and the impact of any downtime could be greater than before the Covid-19 pandemic. Failure to protect personal data may lead to fines, enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs. We must ensure compliance with the new requirements imposed by the General Data Protection Regulation as retained in the UK (UK GDPR) and the Network and Information Systems Regulations 2018. We maintain this risk as high due to the constant emergence of new threats and the risk of exploitation of vulnerabilities that may not have yet been fixed by software providers. There is additional reliance on IT systems with the increase in home working initiated during the Covid-19 pandemic, but our level of mitigation has been maintained. The overall level of alert relating to potential cyber-attacks on the company and other utilities such as electricity companies is assessed as increasing since the invasion of Ukraine by Russia.	• Our corporate security steering group continuously monitors physical and data security and data protection matters to identify new risks and monitor the effectiveness of our security processes and the implementation of action plans. • Department champions are trained on these issues and we continuously promote awareness of risks and provide training highlighting how unsafe behaviour could be exploited by external threats. • Recognised cyber security certifications and investment in security measures against unauthorised access to our systems and in software to help us monitor activity on our network. • Disaster recovery systems and facilities which are regularly tested. • Work with relevant external organisations to test the effectiveness of our resilience and security measures and review the maturity of our security systems and procedures. • We have updated our risk management process and practices to recognise the change in our risk profile in this area due to our additional reliance on IT systems to support home working.	Security of assets, systems and data can result in breach of our obligations and disrupt significantly our operations resulting potentially in a failure to deliver our regulatory outcomes.

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Risks description	Mitigation	Interactions between our principal risks
7. Financial resilience We have a significant ongoing funding requirement relating to our operational costs, capital programme and to refinance maturing debt. We must maintain key ratios to comply with covenants in our agreements with debt providers and relevant credit rating agencies ratios. Failure to do this could lead to events of default and liquidity risks due to the trigger of restrictions on further borrowing or reduction of our credit rating that would affect liquidity. Our licence requires us to maintain an investment grade credit rating. Failure to do this would result in cash lock up under our licence restricting our ability to pay dividends or in an event of default under our finance documents. It would also impact our ability to raise funds on favourable terms. The PR19 final determination has created significant financeability challenges due to a very low cost of capital and the risk of significant in-period ODI penalties. Increase in risk exposure deriving from the PR19 final determination, the impact of in-period penalties and the impact of Covid-19 and of current macroeconomic conditions on costs and revenue which have increased the financeability challenges that we are facing and will face in the next few years. Our credit rating outlook remains stable as set out in our long-term viability statement.	• Continuous monitoring and regular reporting to our board on compliance with our financial covenants and on our credit rating. Maintaining our investment grade ratings of BBB/Baa2 and compliance with our financial covenants in 2021/2022. • Renewal of our revolving credit facility with a larger facility and an additional £50 million of fixed rate debt to provide additional liquidity. • Regular engagement with credit rating agencies to understand how they will interpret the position of water companies. • Robust and comprehensive financeability testing for our business plan, corporate plan and annual budget and corporate plan updates, and for our long-term viability statement.	Financial resilience may lead to specific challenges by Ofwat at price reviews and be impacted by price determinations.
8. Adverse policies or political & social environment We operate in a highly regulated environment and changes to the regulatory or legislative framework may have an adverse impact on the overall risk profile of the business, financial resilience and on our ability to fulfil our purpose in the long-term. Such changes may also reduce investors' confidence and could affect our credit ratings.	• Working with the industry and stakeholders to anticipate the potential effects of policy proposals and to contribute actively to ensure that risks are identified and taken into account.	Adverse policies or political and social environment may impact the mitigation of our main operational risks and our mitigation of or adaptation to climate change if the need for investment is not sufficiently recognised or if policies are not timely or sufficiently consistent and coordinated.

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Risks description	Mitigation	Interactions between our principal risks
Successive price reviews determine our ability to carry out the investment necessary to maintain an efficient and resilient water supply system and to prepare for the impact of population growth, sustainable water abstraction and climate change. There is a risk that the need for necessary investment may not be fully demonstrated or recognised by Ofwat at price reviews resulting in under-investment and/or delays in implementing solutions required to meet our long-term challenges which would impact our resilience and future customers. The implementation of supportive and consistent policies by different regulators and policy makers is also crucial to help us deliver cost effective solutions or achieve our outcomes. Market reforms such as the introduction of competition for water resources, demand management and leakage services, direct procurement, and the potential introduction of competition for household retail customers in the future and the evolution of the non-household retail and new connection markets create new risks of disruption to our business model and operations. We are also exposed to risks arising from the general social and political environment such as the challenges to the ownership model of water companies and indirectly the scrutiny of the sewerage sector. Risks relating to development in markets have remained stable. Our water resources management process is underway highlighting the challenges of achieving significant demand and leakage reduction and the need for supportive government policies as well as adaptive approaches. The process for the next price review in 2024 has started, bringing with it a level of uncertainty on the final methodology and how Ofwat will address priorities and the need for investment by companies (for example for achieving net zero, deliver environmental improvement and adapting to climate change).	• Engagement with customers and stakeholders to understand their expectations and perception of the company to align our culture, governance and strategy. • Keeping our commercial strategy and the structure of our business under review to be able to adapt to changes and to take advantage of new opportunities. • Reviewing and anticipating the potential impact of regulatory changes on our ability to secure finance at no less favourable terms.	

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
9. Regulatory, environmental and legal compliance Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Our main regulators Ofwat, the Drinking Water Inspectorate, the Environment Agency, Natural England and CCW set standards and monitor our compliance. Failure to ensure compliance with environmental, regulatory and other legal requirements may lead to criminal and civil liability, regulatory enforcement actions, disruption to the business and loss of management time. Material failure to comply with our licence obligations and other duties of a water undertaker may result in an enforcement order, a fine up to 10 per cent of appointed turnover or termination of our appointment or special administration. We could face enforcement action if we do not demonstrate compliance with the new market arrangements and must also ensure continued compliance with competition law. Failure to comply with our obligations would also affect the perception of the group by customers, regulators and other stakeholders and affect their trust in us as a provider of an essential public service. Our controls remain effective and the transition to a new external assurance partner in 2021 provided an opportunity to review our reporting processes. The Environment Act 2021 provides for long-term environmental binding targets to be set in relation to air quality, water, biodiversity, and resource efficiency/waste reduction as well as environmental principles to guide decision makers. These targets and principles are not yet fully known, which introduces uncertainty at a time when our long-term planning is underway. There are also other changes to legislation following Brexit that may have a significant impact on us (for example new procurement rules). There has also been greater scrutiny on environmental performance with more stringent enforcement of abstraction licences, discharge consents and other environmental permits.	• Policies, processes and controls to ensure that we meet our duties and obligations. Subject matter experts available to advise colleagues and inform them of changes in requirements and recommend improvements to processes. Externally assured reporting processes and internal process for mitigating risks of incorrect reporting (company monitoring framework). • Awareness training provided through online mandatory training updated regularly for key compliance issues such as anti-bribery and data protection. • Review of processes in response to changes to relevant market arrangements, rules and guidance and monitoring of performance against market metrics and implementation of improvement action plan. • Annual update to the audit and risk committee on anti-bribery and controls against fraud and annual update to the board on compliance with modern slavery legislation.	Regulatory, environmental and legal compliance may mean that we do not meet certain outcomes of our business plan.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
10. Covid-19 pandemic The Covid-19 pandemic has affected most aspects of our operations in 2020/21 and for a significant part of 2021/22. We have demonstrated that we were able to continue our operations without significant disruption to our services. However, a failure to implement quickly new ways of operating and to adapt to the effect of the pandemic and restrictions on our customers and our supply chain could have significantly affected our ability to deliver the public water service. The Covid-19 pandemic amplified our operational risks impacting (i) the health, safety and wellbeing of our workforce, (ii) our workforce's availability especially for our front line operational staff who could not work from home (iii) the demand for water as customers remained at home in our area and (iv) the efficient delivery of our capital programme. The aftermath of the pandemic and cost of living increases will be challenging for a number of our customers and we will need to manage bad debt closely and provide additional support to customers who need it. Increases in input costs linked in part to the economic consequences of the pandemic in the UK and internationally is affecting our business. The effects of the pandemic are better known. The vaccination campaign and less severe variants have enabled the removal of restrictions and resumption of normal economic activities. Water demand is reducing towards expected levels. This risk is now considered moderate and stable but we will maintain our readiness to respond to the possible emergence of a more severe variant.	• Maintaining our readiness to activate the measures, procedures and systems that allowed us to continue our operations in the past two years. • Working with Ofwat to understand how it intends to take account of the effect of the pandemic on ODIs and penalties (per capita consumption and non-household voids). • Reviewing how we may realise our capital programme efficiencies, recognising that input costs have increased significantly.	Covid-19 did impact our operations and therefore our ability to deliver our plan and outcomes and also resulted in challenging macroeconomic conditions.

Group strategic report

Risks description	Mitigation	Interactions between our principal risks
11. Water quality incident Our core purpose and most essential duty is to provide a supply of safe and high quality drinking water. A water quality incident could lead to a failure to supply wholesome water with implications for public health. This would significantly harm customer trust. Water quality risks relate to our own water supplies and to bulk supplies of treated water we receive from other water companies. We may not be able to operate certain water treatment facilities as normal if there is a significant deterioration in raw water quality, pollution by third parties or a failure of our own treatment process. Water quality events may lead to significant costs being incurred impacting our revenue and resulting in penalties for failing to meet relevant performance commitments. This may also result in investigations and enforcement actions and potential prosecutions from the Drinking Water Inspectorate. While new metrics (Compliance Risks Index and Event Risk Index) and performance commitments apply in 2020 to 2025 our underlying performance remains stable.	• World Health Organization (WHO) water safety plan. Round the clock monitoring of our treatment works and distribution network. Extensive sampling of our water every day; analysed at our specialised laboratory audited and accredited by the UK's national accreditation body UKAS. • Emergency plans and procedures for managing incidents, providing supplies to critical facilities and deploying alternative supplies where necessary. • Active management of catchments and partnerships to reduce the discharge of chemicals by third parties. Programme of flushing, network management and investment in our treatment works to meet our water quality standards. • Regular internal review of our processes and facilities and external audits by the Drinking Water Inspectorate. Sharing of lessons learned with other companies which we use to update and improve our own practices and procedures.	Water quality incident may present significant challenges if combined or if they occur in close succession (which will be more likely with climate change). They also increase the risk of not meeting regulatory outcomes (with associated financial penalties) and the risk of non-compliance with our obligations.

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Risks description	Mitigation	Interactions between our principal risks
12. Health, safety and wellbeing Our activities and assets present risks to the health and safety of our employees, contractors and the public. We must maintain the safety of our workforce during normal operations and when dealing with emergencies. Failure to prevent accidents could have tragic implications for individuals and their families. There are severe criminal sanctions and civil sanctions for failing to have appropriate safety measures and failure to meet health and safety standards. The increase in underlying risks to health and safety directly related to contracting Covid-19 have reduced. Constraints on carrying out normal safety audit activities during the Covid-19 pandemic have also been removed allowing us to apply our controls normally. We will maintain our readiness to implement appropriate measures in case of the emergence of a more severe covid variant.	• Directors review health and safety performance at each board meeting and regular review at executive meeting. • Comprehensive processes including policies, standard operating procedures, risk assessments and toolbox talks involving our employees, partners and contractors to identify risks to our workforce and the public and adopt safe practices. Health & Safety committee monitoring of the effectiveness of health and safety practices, policies, procedures, training and communication. • Continuous actions on training and awareness to ensure that our employees and those of our contractors always adopt safe practices. • Our Thrive 365! safety strategy designed to support the company vision and provide clear direction and a road map for continuous improvement of our health, safety and wellbeing performance.	Health, safety and wellbeing could result in significant legal liabilities. Health, safety and wellbeing & People and culture are pervasive risks that are relevant to all other risks as they relate to our human capital.

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Risks description	Mitigation	Interactions between our principal risks
13. People and culture Our business operates across the entire value chain within a highly regulated and technical environment. We need a workforce with a wide range of skills and disciplines and we rely on their technical and business knowledge. We need to attract and develop our people and manage talent to achieve our business objectives. A shortage of skills in some technical disciplines may make it more difficult to recruit and meet our requirements. We must also retain our business know-how, which presents a challenge in operational areas where our workforce is more mature and business knowledge was sometimes acquired over many years in the field. We also rely on key individuals who have acquired a detailed technical and company knowledge and we must manage succession planning to avoid disruption to the business. As the expectations of customers, stakeholders and employees change we need to promote a culture that meets those aspirations. In a tight job market there are additional challenges to attract and retain staff in certain areas where turnover has been higher than previously. There may be an increase of the overall turnover related to social trends such as the “great resignation”. We also need to manage changes in expectations and accommodate more flexible working practices where appropriate, while remaining mindful of the need to maintain the cohesiveness of our organisation.	• Our people plan sets out our strategy to 2025 including our strategy on diversity, talent management, succession planning and the gender pay gap. • Embedding our purpose and values into our day to day activities throughout the next five years. • Regular engagement through our Staff Council, pulse surveys and bi-annual staff surveys followed by action plans shared and implemented with the support of staff. • Our Speak Up (whistleblowing) Policy allowing colleagues to raise concerns to be investigated as appropriate. • Successful apprenticeship scheme in Operations.	See *12. Health, safety and wellbeing* above.

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Our business performance

A safe, reliable supply of drinking water to homes and commercial premises across our region is at the very heart of our business. We are proud of the quality of our water and the teams who produce it. It is vital we have the trust of our consumers at all times. To maintain it we constantly monitor our performance against customer expectations through a range of measures, including the taste and smell of our tap water and interruption to supply. Trust is also the cornerstone of our 'licence to operate'. Our UKAS-accredited specialist laboratory at Farnborough in Hampshire carries out over half a million tests each year measured against regulator, the Drinking Water Inspectorate, targets. These are:

- Compliance with the risk index.
- Taste and odour contacts.
- Appearance contacts.

In line with previous years, 99.98 per cent of our samples passed all tests. We sample our water before, during and after the water treatment process the results of which feed into our strategy for improving raw water quality. Extensive sampling helps measure the success of network cleaning programmes, including flushing, where the natural build-up of iron and manganese is removed. It also ensures the chlorine dosing policy is appropriate to need. Regular exercises looking at event risk ensures water quality is a key element of emergency planning.

Our leakage reduction performance continues to be strong, where we have again out-performed our annual target. This year we have delivered a 4 ML/d reduction against the previous year, down to 88.7 ML/d. This is the largest annual leakage reduction on record, which results in our leakage levels now being at an historic low. This strong leakage performance was achieved by:

- Use of satellite technology to identify leaks quicker.
- Further development of our new leakage targeting system, Waternet, which translates our big leakage data into field investigations and leak repairs.
- Improved performance of our field engineers in finding leaks quicker with new equipment, supported by our Leakage Analysts.
- A large programme of pressure transient monitoring to identify and prevent bursts.
- Installing new meters on our large trunk mains to identify losses faster together with pipe condition assessment.
- Optimising our distribution network pressures and extensive maintenance of our pressure reducing valves.
- Implementing an improved four stage customer side leakage process aimed at reducing leak run time. Our dedicated Customer Side Leakage Manager, based in our operations team, focused on performance as well as providing informed support and guidance to our customers and third parties, such as housing associations, on repairs in their area.

We delivered £105.0 million of capital investment during the year, which, as well as our ongoing maintenance programme, also included:

- Delivery of a new nitrate treatment plant at Woodgarston Water Treatment Works, and new UV treatment at our two sites in Ospringe.
- Delivery of a brand new interim water treatment plant at our Butler site, near Aylesford, to improve supplies to our customers in Maidstone.
- Delivery of 37 environmental investigations and working with landowners to improve raw water quality and biodiversity.

We have established a collaborative engineering delivery team with our newly appointed consultant, Atkins and engaged with different contractors, either through our existing frameworks or via open tender. Examples of this year's works are:

- Construction and commissioning of five UV disinfection plants and chemical dosing systems to improve the disinfection process and add resilience to the treatment process.
- Significant maintenance and construction works at a number of Water Treatment Works (WTW) and booster pumping stations to improve efficiencies and water quality, these include works at Barcombe WTW, Arlington WTW, Keleher WTW, Hockers Lane WTW, Stockbury WTW and Farringdon booster pumping station.

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- Following the sinkholes at the Aylesford reservoir site in 2020, additional reservoir storage and water treatment were urgently required to replace the lost capacity and add resilience to the local network.
- Significant work was undertaken to deliver top quality water for our customers, and to ensure that the peak demand over the summer period could be met despite the loss of key reservoirs. Work included:
  - Construction of a new temporary 8 ML/d WTW.
  - Refurbishment, relining and conversion of an existing industrial reservoir to a potable service reservoir.
  - Upgrading and refurbishment of the pumping system and connecting the temporary WTW to our network.
  - Reconditioning of the existing boreholes with new headworks and pipelines to provide a water source for the temporary WTW.
- Reconstruction of the Aylesford Reservoirs has continued throughout the year. 5ML of storage was brought back into service in March 2021 and we remain on target to reinstate an additional 10ML storage on the reservoir site by April 2023.
- Construction and commissioning of a £5.5 million nitrate removal plant to improve water quality at Woodgarston WTW.
- Enabling works at the new permanent Butler WTW including the drilling of two new boreholes and the design of the new 20 ML/d WTW (20,000m3 per day) proposed for completion by 2025. This treatment works will replace the temporary works constructed in the aftermath of the Aylesford sinkholes.
- Site investigation, pilot WTW and design preparation of a chromium treatment works at College Avenue, proposed for completion by 2025.

In addition to this we have laid approximately 21.5 km of water mains, delivering significant successes during the year with the completion of works at Godmersham, the River Stour crossing, A3 Portsmouth Road, the raw water main replacement at Arlington WTW and the Kingston to Affinity transfer main. We delivered a scheme through the National Trust and Sackville Trust land in Sevenoaks, Kent where we were able to ensure a high quality reinstatement of the natural environment. The project had minimal impact to customers using these amenities.

As with the rest of the industry, we submitted our asset management maturity assessment to Ofwat in May 2021. This document laid out our current approach to managing our assets, along with the improvements we plan to make to our capabilities over the next few years. This led to an industry insights and recommendations report being published by Ofwat in October. We have reviewed these recommendations and will be implementing a series of actions in the coming year.

We have also been developing a series of long-term strategies for key parts of our network. This includes developing a 25 year investment strategy for Barcombe Water Treatment Works, in Sussex, our largest treatment works which addresses new treatment approaches to deal with future challenges, such as climate change.

We have also now defined our approach for turning our network “Smart” though the significant deployment of additional sensors and meters, which will allow us to get more real-time information on what is happening on our distribution network. Both of these strategies are critical for improving the resilience of our services, and to address future challenges, and will feed into our next business plan.

For this year we have also led in the establishment of the Water Only Company Asset Management Forum.

This allows the smaller water companies to meet, collaborate and share best practice in asset management. This has already led to the demonstration of a number of innovative approaches to measure and analyse the condition of pipes, which can allow us to pinpoint exactly where we should renew pipes without the need to dig down for a visual inspection.

A good financial performance is an important element of the group being able to meet all the challenges we face as a water company. During the financial year, revenue grew to £251.3 million, an increase of £3.1 million from the prior year and our profit before tax for the year was £8.1 million compared to £23.9 million in the 2020/21 financial year, the decrease being largely attributed to higher indexation charges on our index-linked debt. Further details on our financial performance are set out on page 36.

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The water regulator, Ofwat, has set out a group of 'common' performance measures that it wants all water companies to report against. In addition to these performance measures, we have developed an additional group of performance indicators through asking our customers what they feel we should target. While it is important to remember that no measure can ever capture everything, these metrics reflect the most important aspects of the service that we provide. If we can perform well against these targets, we will be providing a good service to all our customers, both current and future. We are always mindful that, as well as being providers of an essential service, we are also the custodians of a public asset (the water infrastructure).

These targets are referred to as 'performance commitments' (PCs). The following table sets out what these measures are and why they are important.

Performance measures

All the measures in the first table have financial incentives attached to them (also known as Outcome Delivery incentives or ODIs).

Measure	**Purpose**
Supply interruptions	We aim to provide clean, safe water to 2.3 million customers, 24 hours, 365 days of the year. This measure captures the rare occasions on which supplies are interrupted. Our objective is to minimise these interruptions.
Mains repairs	The number of repairs which we have to carry out on the network is an indicator of the general health of the network, and this measure should be understood as a measure to ensure that the health of the network is being maintained. If we keep below our target (based on number of bursts per 1,000 km of main), it shows that the network is being kept in a good condition for future generations.
CRI	The CRI is a measure of water quality compliance. The perfect score is a 0, and our objective is to keep this as low as possible. It should be noted that in addition to this measure there is a very strict legal framework, which includes the potential for prosecution if water is supplied that threatens human health.
Unplanned outage	This measures the frequency with which above ground assets (mostly treatment works and pumps) are out of action. This is also an 'asset health' measure. Keeping this low indicates that these assets are being kept in good health for future generations.
PCC	This is a measure of the amount of water consumed by each person in our supply area (Per Capita Consumption). If we do a good job helping customers to consume water more efficiently we will reduce the amount consumed and do well on this measure.
Leakage	All water networks have distribution losses. We can minimise leakage by keeping the network in a good condition, by fixing leaks quickly when obvious leaks occur; and by having effective systems and processes to identify and repair the many smaller leaks that are not immediately identifiable.
C-MeX	This is a comparative measure of customer experience performance designed by Ofwat. It is based on sample surveys, where a third party specialist company contacts a sample of customers and asks them about their experience of our service.
D-MeX	This is a comparative measure of customer experience performance designed by Ofwat, which targets developer services customers. Developer services are about connecting newly built properties to our network. It is based on sample surveys, where a third party specialist company contacts housing developers who are using our connections service and asks them about their experience of our service.
AIM	The Abstraction Incentive Mechanism is a compound measure that measures how much water we extract during times of water shortage. This is designed to give us an incentive not to extract raw water from the environment in a way that might lead to low flows in rivers and streams.

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Measure	Purpose
Appearance of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the appearance of their water (discolouration). These incidents do not represent a threat to human health.
Taste and odour of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the taste or odour of their water. These incidents do not represent a threat to human health.
Properties at risk of low pressure	This is a measure of how many properties on our network are at risk of receiving low pressure during times of high demand. Usually such properties are at the end of the network or at the top of a hill.
Household voids	This is a measure of how many properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. A small number of properties are genuinely empty.
Non-household voids	This is a measure of how many business and commercial properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. There is always a proportion of commercial property that is empty, but this has increased during the Covid-19 crisis and we are suggesting to Ofwat that this measure should be adjusted to compensate.
WINEP	The Water Industry National Environment Programme is a series of projects designed to protect and enhance the natural environment. This measures whether or not we deliver those projects on time.
Engaging and working with land owners	This measure is designed to protect our raw water resources. By working with land owners we seek to prevent raw water from being contaminated with chemicals which would require costly and environmentally inefficient treatment. This is known as 'catchment management' and the incentive is based on the hectarage of land that we applied catchment management policies to.
Protecting wildlife and increasing biodiversity	This measures the hectarage of land which we proactively manage and monitor in order to produce gains in biodiversity through our conservation work.
Sites protected from flooding	This measures the number of sites that the company has protected against a one in 1,000 flood risk. Although customers will not notice any effect of this work immediately, its completion will mean that customers are receiving a much more resilient service.

The rest of the Performance Commitments do not have ODIs attached to them. For ease of reference, they are grouped into three separate tables below.

Customer satisfaction measures

We have seven measures of customer satisfaction. They are designed to remind us that what we really want to achieve is customer satisfaction, not just good service levels and metric performance. If the metrics are well chosen, then they will automatically achieve customer satisfaction as they will measure the things that customers care about. However, this is not automatic, especially in a rapidly changing world in which these performance metrics are only changed once every five years. We therefore think there is value in measuring customer satisfaction directly.

Measure	Purpose
Customer satisfaction by segment (measures)	This measure is divided into six customer segments. The purpose of these different segments is to remind us that water customers are not all the same. Different people have different needs and priorities. This measure therefore identifies the satisfaction levels of six different groups based on research of our customer base: 'mindful optimists'; 'global advocates'; 'Just me and mine'; 'careful neighbours'; 'busy juggler'; and 'living for today'.
Value for money	This is a measure of customers satisfaction measured via a survey.

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Measures relating to vulnerable customers As a company which operates a natural monopoly we have an unusual public service responsibility to make sure that we take care of vulnerable, or potentially vulnerable, customers within our customer base. The following measures are designed to measure how effectively we do that:

Measure	**Purpose**
Satisfaction of household customers who are experiencing payment difficulties	This measure targets a specific group. It measures (via a customer survey) the satisfaction levels of customers who are finding it hard to pay their bills. This is a group of vulnerable, or potentially vulnerable people and we need to interact with them with particular care and empathy.
Satisfaction of household customers who are receiving, or applying for, non-financial support	This is another measure that is designed to make sure that we pay particular attention to a group of potentially vulnerable customers. In this case, customers who are on, or applying to be on our Priority Services Register. Customers can be on this register for a variety of reasons such as age, health, or disability. Such customers can be prioritised for additional support in certain circumstances, such as the delivery of bottled water to their homes in the case of an interruption.
Measure	**Purpose**
Satisfaction of household customers on our vulnerability schemes during a supply interruption	This measure is another survey measured metric which specifically measures the satisfaction of customers on the Priority Services Register with the services that they receive during a supply interruption. This is designed to measure how well we protect this vulnerable group during supply interruptions.
Household customers receiving financial support	This is a measure of the number of customers that are receiving financial support in the form of bill control or bill reductions. Such reductions are offered to vulnerable customers and this measure tracks our performance in ensuring that these customers are supported.
Satisfaction of stakeholders in relation to assistance offered	This is a measure (based on surveys) of the satisfaction of vulnerable customers and their representatives.
Priority Services for customers in vulnerable circumstances – Reach	This is a measure of the percentage of overall households which appear on our Priority Services Register. Vulnerable customers can be hard to identify and this metric measures our effectiveness at reaching out to them.
Priority Services for customers in vulnerable circumstances – Attempted contact and actual contact	This measures the percentage of customers on our Priority Services Register that we have attempted to contact over a two year period. This is a measure of how effective our proactive contact with these customers is. The actual contact part of the metric measures how many of those customers we have actually made contact with.

Other performance measures

Measure	**Purpose**
Gap sites	Gap sites are properties that exist, but are not included in our billing system. Such properties receive free water at the expense of other customers. This metric incentivises us to find those properties and add them to our system.
Risk of severe restrictions in a drought	This is a measure of the percentage of our customers who are exposed to the risk of severe restrictions during a drought period. Severe restrictions means discontinuity in supply, not just hosepipe restrictions. Our target is nil.
ERI (Event Risk Index)	This is a composite measure produced by the Drinking Water Inspectorate (DWI). It measures the risk to customers of water quality events and incentivises us to reduce the risk of such events.
Delivery of water industry environment programme requirements (WINEP)	This is a simple measure of whether we have ‘met’ or ‘not met’ all of these requirements.

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Measure	Purpose
Greenhouse gas emissions	This measure commits us to achieving a 68 per cent reduction in greenhouse gas emissions by 2025. We have a further commitment to achieve net zero emissions by 2030. This will reduce and then eliminate the carbon footprint of our operations.
Engaging and working with abstractors to improve catchment resilience to low flows	This metric encourages us to engage with other abstractors of water (mostly farmers) to help them find ways to reduce their water use and to thereby help avoid low flows in the environment. This specifically measures the percentage of a target list that we have engaged with. The target list is produced in conjunction with the Environment Agency.

Customers can also visit the website **discoverwater.co.uk** which gives everyone access to comparative information on the performance of water companies. We believe this is an important tool which enables customers and stakeholders, in particular our Customer Challenge Group, to compare the progress against our targets with other water companies to ensure we are striving for continuous improvement and stretching ourselves to provide the best possible service.

The following table shows all of our Performance Commitments, the targets for 2021/22 and the incentives or penalties earned. Overall, there is a net penalty of £3.2 million (including an estimate of penalties under C-MeX and D-MeX), compared to a net penalty of £4.4 million in 2020/21 (including the final C-MeX and D-MeX figures as assessed by Ofwat), despite the fact that targets this year are generally more stretching than previously. This year's leakage performance and CRI performance are both the best levels the company has ever achieved.

We have made representations to Ofwat that they should exclude the supply interruptions which resulted from Storm Eunice and other storms in February 2022, and that they should adjust the WINEP penalty to take account of revised dates agreed with the Environment Agency. If Ofwat accept our representations in full, the net penalty would be £1.4 million.

PCC and business voids penalties have been affected by Covid-19 and have therefore been deferred for reconsideration by Ofwat at PR24. Both of these ODIs are excluded from the totals above.

The net penalty will be returned to customers in the form of bill reductions in the 2023/24 year.

Overall, performance is improved or stable, compared to last year, in 87 per cent of our financial performance measures.

	Performance Commitment	Unit	Target in 2021/22	Actual performance in 2021/22	Penalty or Reward (£m)
Y	Leakage	% reduction	0.4	3.3	1.023
Y	Mains repairs	Per 1,000 km of main 1	171.5	129.3	0.000
Y	CRI	Score	0	1.21	0.000
Y	Unplanned outage	%	3.76	3.44	0.000
N	PCC	% reduction	2.9	-8.3	(2.190)
N	Supply interruptions	Min : Sec	00:6:08	01:12:33	(3.157)
	C-MeX*	Score out of 100	N/A	76.59	(0.770)
	D-MeX*	Score out of 100	N/A	81.34	(0.194)
Y	AIM	ML/d	0	-148	0.000
Y	Appearance of water	Per 10,000 population	1.02	0.98	0.038
Y	Taste and odour of water	Per 10,000 population	0.38	0.36	0.016
Y	Properties at risk of low pressure	Per 10,000 population	0.5	0.3	0.015
Y	Household voids	%	2.1	1.97	0.111
N	Non-Household voids	%	8.1	10.24	(0.717)
N	WINEP	Schemes	43	38	(0.325)

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	Performance Commitment	Unit	Target in 2021/22	Actual performance in 2021/22	Penalty or Reward (£m)
Y	Engaging and working with land owners	Hectares	5,687	5,986	N/A
Y	Protecting wildlife and increasing biodiversity	Hectares	1,218	1,427	N/A
Y	Sites protected from flooding	Number of sites	0	20	N/A
Y	Strategic main Wellwood to Potters Corner	% delivered	0	9.45	N/A
N	Customer satisfaction by segment 1 - 'mindful optimists'	Score out of 5	4.2	4.0	N/A
N	Customer satisfaction by segment 2 - 'global advocates'	Score out of 5	4.4	4.2	N/A
N	Customer satisfaction by segment 3 - 'just me and mine'	Score out of 5	4.3	4.0	N/A
N	Customer satisfaction by segment 4 - 'careful neighbours'	Score out of 5	4.3	4.2	N/A
N	Customer satisfaction by segment 5 - 'busy juggler'	Score out of 5	4.4	4.1	N/A
N	Customer satisfaction by segment 6 - 'living for today'	Score out of 5	4.3	4.0	N/A
N	Value for money	Score out of 5	3.8	3.6	N/A
Y	Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.3	4.3	N/A
Y	Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.2	4.3	N/A
N	Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	3.8	3.2	N/A
N	Household customers receiving financial support	Number	58,000	53,981	N/A
Y	Satisfaction of stakeholders in relation to assistance offered	Score out of 5	3.7	3.8	N/A
Y	Priority Services for customers in vulnerable circumstances – Reach	%	5	5.2	N/A
Y	Priority Services for customers in vulnerable circumstances – Actual Contact	%	35	57.5	N/A
Y	Priority Services for customers in vulnerable circumstances – Attempted Contact	%	90	93.5	N/A
Y	Gap sites	Number of sites	25	42	N/A
Y	Risk of severe restrictions in a drought	%	0	0	N/A
Y	ERI (Event Risk Index)	Score	0	20.463	N/A
N	Delivery of water industry environment programme requirements	Met / Not met	Met	Not Met	N/A
Y	Greenhouse gas emissions	$kgCO_2e/Ml$	119.9	30.4	N/A
Y	Engaging and working with abstractors to improve catchment resilience to low flows	%	0	0	N/A

Group strategic report

* These are relative measures and because of Ofwat's processes, the penalty and reward numbers will not be completely finalised at the time of publication (estimates are shown).

Y = Target met
N = Target not met

For further information on all of our outcomes and targets please refer to our performance, people and planet report at: performance.southeastwater.co.uk.

Across the business our colleagues have continued to show dedication and agility, together with commitment and resilience. We are a 24/7 365 service and our teams rise to all the challenges that brings. We rely on the expertise of a huge range of professionals, including our scientists in our laboratory, specialists out in the field, operational site managers, highly-professional customer service teams, our environmental experts, and our support services behind the scenes.

We set out an ambitious five-year people plan to support our business objectives and to drive our ambition to be the company that people want to work for. Year two of our people plan has been a busy one with activities ongoing under each of the four key areas of focus. To develop our thriving and diverse workforce, our activities have included using specialist skill sets to improve our attraction and recruitment process and to ensure each resourcing manager receives the best level of service and support in recruiting the skills and capabilities they need. We have broadened our channels of attraction to include Linked-In and Facebook for the first time.

Our gender pay gap has improved again this year, reducing by 2.7 per cent this year and by 5.2 per cent over the last two years. We have also increased the number of women in both senior and management roles as we concentrate on diversity of thinking throughout the company. We are committed to developing more equal presence of men and women at each and every opportunity we have, especially more women in our operational roles and indeed, men in our retail roles.

The group has an overall female presence in the workforce of 43 per cent, which compares to the industry average of 20 per cent (EU skills data 2018) and gives us a strong talent base to improve over time.

In addition to our activities, as set out last year, we have taken advantage of the changes in the way of working that the pandemic has created and that has allowed us to promote and develop our agile working practices. We are continuing to improve diversity in parts of the business where there is weighted bias in either direction, through specialist recruitment techniques and broadening our application pool.

We have launched our new wellbeing strategy which focuses on physical, mental, social and financial wellbeing for all our employees. An annual diary of events has been created including lunch & learn activities with external speakers, opportunities to engage with specialist advisors, signposting to support and taking advantage of the great benefits package we offer.

Across the business we now have 37 Wellbeing Champions in the business who have all undertaken level two Understanding Health Improvement training to complement our 42 Mental Health First Aiders who support employees and signpost to our internal and external help. We are proud to be a UK safe space employer which demonstrates we provide exceptional support for those employees and family members suffering from domestic abuse. This year we have engaged with the Leonard Cheshire Foundation and its Change 100 programme. This involves talented graduates who have a disability, but have yet to enter the job market, undertaking an internship for 100 days.

To engage our talented workforce, we have invested in a new learning management system, entitled TAP. It encourages personal development and supports performance across the business. TAP houses more than 5,000 pieces of training collateral which supports that development. In addition, TAP allows us to issue, report and bespoke all mandatory and compliance training which can be completed via e-learning, face-to-face or a combination of the two.

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For the first time all our employees will have a performance development plan which supports their personal and professional development. This is supported by the launch of our new career development opportunities via our Aspire, Inspire and Lead portals which provide training, guidance, courses and professional qualifications at each level of our employees' development, whether they aspire to develop through our business, seek to inspire their teams or lead from the front.

We have redesigned our performance management process, using leadership behaviours and linking performance objectives to company objectives. This has helped our colleagues understand how they help the business to deliver our key targets and make a difference to our customers. We also launched our market leading apprentice plan, which increases the number of apprenticeships in the company by 250 per cent. Made up of new apprentices across the business and apprentice and training opportunities to existing colleagues, this equates to approximately 10 per cent of our workforce undertaking an apprenticeship, which supports our future proofing and engagement with our industry.

Future proofing our business activities has included formulating our hybrid working plan across the business as we come out of the pandemic and move to a more formal agile working approach. We also improved the level of self-service which supports all our colleagues, especially those out in the field.

As always, the health and safety of our colleagues is our number one priority. We have reinforced the message 'no job is too urgent not to be done safely' with internal communications throughout the year. There were five reportable accidents during the year. We traditionally consider not only the actual harm recorded but also the potential for harm. Often the greatest benefit can come from a thorough investigation of events that do not result in injury but have high potential to have done so.

Group strategic report

Our financial performance

We have now completed the second year in the current Asset Management Period (AMP7). The financial performance of the group has been good, especially when set against the background of the continuing effects of Covid-19 during the year and the increasing cost of energy and materials towards the end of the year. The group is continuing to learn new ways of operating in the post-pandemic era. This includes a more flexible approach to how office based staff use technology and revised procedures to ensure field based staff are kept safe. The main focus of these new procedures is to ensure that we can continue to deliver on our service commitments to customers.

We continued our investment plans in infrastructure assets to improve water quality and add flexibility and resilience to the network during the year. The way our customers work continues to change as we all come to terms with the "new normal" which has emerged in the aftermath of Covid-19. An agile approach is being taken to ensure that investment is targeted to meet the changing requirements of customers.

The financial requirements of our shareholders have been met throughout the year. The wider needs of our stakeholders are also high in our priorities as we strive to improve as a responsible business. The impact of Covid-19 and the resultant changes in the operations of the group continued to trigger additional costs in the year and these are discussed below.

Revenue

The turnover for the year was £251.3 million compared to the previous year of £248.2 million. The increase of £3.1 million included an increase in water revenue of £0.4 million and in non-water income of £2.7 million.

Under the regulatory price control mechanism, the tariffs are adjusted to recognise the movements in projected consumption against the revenue set at the publication of the Final Determination. For 2021/22 our tariffs decreased by 0.5 per cent, reflecting the increase in consumption driven by Covid-19 in 2020/21. The reduction in revenue generated from the decrease in prices was £1.2 million.

Water revenue from household usage was £6.7 million lower than 2020/21 but around 5 per cent higher than the pre-Covid-19 position for 2019/20. This shows that customers have continued home working during the year despite the ending of lockdowns. Non-household revenue consumption was £8.3 million more than 2020/21 reflecting the lifting of Covid-19 restrictions for businesses and includes the historic settlement adjustment noted above.

Turnover resulting from non-water sales increased by £2.7 million in the year to £11.7 million. This 30 per cent increase was mainly due to increased demand from developers as they recover from the pandemic. New connections revenue increased by £1.2 million and revenue from infrastructure schemes, for example new mains and diversions, increased by £1.3 million.

Other income has increased by £10.5 million to £21.9 million during the year. Other income includes the receipt of £6 million of insurance receipts in respect of the damage to the reservoirs at Aylesford in 2020/21 and £4 million of insurance receipts for business interruption to cover the increased costs incurred by the failure of these reservoirs. The other income stream that has increased year on year is laboratory income, which has returned to the pre-pandemic levels with an increase of £0.35 million to £2.7 million.

Operating expenditure

Our operating costs for the year, including charges for doubtful debts, have increased from £182.9 million to £189.9 million, an increase in costs of £7.0 million in the year. Depreciation and amortisation increased in the year by £2.3 million, which is consistent with the new assets brought into operation in the financial year.

Another significant impact on costs in the year was Storm Eunice, which generated £1.6 million of operating expenditure, primarily on contractors' costs and customer compensation payments. Within this cost was a goodwill fund in East Grinstead, made to protect reputation in an area where our General Standards of Service meant that individual household compensation payments were not required. We created a £0.1 million Community Chest fund to support charities, community groups and not for profit organisations. Affected customers were invited to vote as to how the fund should be shared. Funds are being distributed during summer 2022.

Group strategic report

Energy costs increased by £1.1 million due to the impact of inflationary pressures on the cost of energy. The group had largely protected itself from increased energy costs during the year, but the continued higher than expected demand due to Covid-19 resulted in additional energy being purchased at the higher prices.

The charge for bad debts in the year was £5.0 million compared to £3.8 million in the prior year. The provision is based on our revised approach adopted in 2020/21 using the cash collection history for the past three years. This places greater emphasis on our recent cash collection history and better reflects the current economic circumstances. The increase in bad debt shows the continuing problems in the collection of older debts through the year, coupled with the increasing inflationary pressures on household finances and anticipated future collection rates.

Off-setting the increases in costs were reductions in reactive maintenance costs of £2.6 million after a relatively mild winter leading to historically low burst and communication pipe repair activity. A further benefit of the more usual temperatures in the summer was a reduction in the costs of bulk supplies of water from other companies of £1 million.

In the financial year 2020/21, an adjustment was made to past service costs on one of the group's defined benefit pension schemes as a result of changes to the index used for future increases in pensions. This reduced staff benefit costs in the prior year by £7.8 million. No similar adjustment has been made in the year ended 31 March 2022.

Profit from Operations

Operating profit has increased from £76.7 million to £83.3 million, an increase of £6.6 million, as detailed above.

Finance costs

We hold a number of different long-term financial instruments to finance our operations, including index linked loans, variable rate loans and fixed rate bonds and loan notes and interest rate swap arrangements. We also use a short-term revolving credit facility to manage our short-term cash flow requirements. The maturity dates of the long-term finance ranges from 2023 to 2042 and further details with respect to these financial instruments are set out in note 19 to the financial statements.

The associated finance cost of these loans is £75.9 million in the year compared with £53.7 million in the prior year. The increase in finance costs is due to higher indexation charges in the year on our index linked debt. Inflation increased from 1.5 per cent in 2020/21 to 9.0 per cent in 2021/22 with most of the increase being seen in the last quarter of the year. This has resulted in an increase of £23.1 million in the indexation attaching to the index linked loans, although a more modest increase of £0.6 million in interest payable in the year on this debt.

Profit before tax

Profit before tax for the year was £8.1 million compared to £23.9 million in the previous year. Despite the good operating performance, profit before tax has been significantly impacted by the increase in finance costs in the year.

Loss after tax

The group returned a loss after tax of £36.9 million in the year compared to a profit of £19.3 million in the prior year. The movement from profit before tax to loss after tax has been caused by the deferred tax charged in the year as a result of the change in corporation tax rates from 1 April 2023.

The tax charge in the year of £45.0 million (2021: £4.6 million) comprises:

- Current tax credit of £0.9 million (2021: charge of £0.7 million). The decrease in current tax reflects the decrease in taxable profit after allowing for appropriate tax deductions.
- Deferred tax of £5.1 million (2021: £3.8 million). The increase in deferred tax is due to a charge for the prior year as a result of changes between the prior year financial statements and the tax computations submitted.
- Deferred tax of £40.8 million as a result of the change in corporation tax rate from 1 April 2023 from 19 per cent to 25 per cent. Further details on the current and deferred tax calculations are set out in note 10 to the financial statements.

Group strategic report

Treasury
Our treasury policy seeks to ensure that sufficient funding is available to meet foreseeable requirements and maintain appropriate headroom for contingencies. We manage the financial risks of the business through a series of hedging policies and ensure that our short and long-term facilities are appropriate to the strategic objectives of the business. Our policy considers inflation risk, interest rate risk, currency risk and investment criteria. The policy is underpinned by the obligations of our securitisation structure. Our assessment of the associated risks are set out in note 20 and details of our long-term loans are set out in note 19.

During the year, a new revolving credit facility was arranged for £125 million, replacing the previous facility of £90 million. The balance owed on the old facility at the beginning of the financial year of £80 million, including £40 million drawn to safeguard against any potential liquidity risk as a result of Covid-19 has been repaid utilising £30 million of cash reserves and through the issuing of £50 million of fixed rate loan notes. The revolving credit facility was undrawn at 31 March 2022.

The interest rate benchmark LIBOR ceased to be used as the reference rate for our floating rate debt at the end of 2021. During the year, the group transitioned its floating rate debt from LIBOR to the SONIA benchmark rate.

Pensions
During the year £4.1 million (2021: £4.0 million) was paid to the South East Water scheme and £1.4 million (2021: £1.4 million) was paid to the Mid Kent Water scheme. The company pays contributions to the South East Water and Mid Kent Water defined benefit schemes which both closed on 31 March 2015 to future accrual.

Further details on these schemes are set out in note 24 to the financial statements. In addition the company operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year 1,140 (2021: 1,000) employees contributed to the scheme and the company made payments of £2.5 million by way of employer contributions to this scheme (2021: £2.5 million).

Net debt and cash flow
We use a combination of long-term funding and short-term working capital to finance the extensive capital programme and to fund the ongoing operations of the business. During the year the operating cash generated was £136.4 million (2021: £121.6 million). Net payments in respect of capital expenditure in the year totalled £85.2 million compared to £93.7 million in the prior year. Net payments in respect of interest and other finance income and costs were £48.6 million in the year compared to £50.8 million in 2020/21.

The group statement of cash flows on page 68 shows a decrease in the cash balance, from £57.0 million at the beginning of the financial year to £29.0 million at the end of the year. The reduction is largely as a result of the net repayment of £80 million of the revolving credit facility and the issuance of £50 million of new loan notes.

Dividend
We pay dividends to our shareholders in accordance with our dividend policy, and the principles that the dividends do not impair our ability to finance our business and that dividends are expected to reward efficiency and the management of economic risk.

Our dividend policy is that dividends should provide a suitable return to shareholders for their investment whilst ensuring that the group is able to finance its functions and meet its obligations as a water undertaker without impairing its long-term financial resilience. When assessing the appropriate level of dividend, considerations will include the group's actual and forecast level of gearing, the need to maintain its credit rating, the allowed cost of capital, any outperformance achieved or forecast and the level of any equity injections received.

No dividends have been paid in either the current or prior years.

Taxation and tax policy
Our taxation policy is set out in the directors' report and SEW's regulatory annual performance report. A more detailed explanation of our tax policy is available on our website.

Group strategic report

Climate related disclosures

The reporting on emission and climate related matters relates to SEW which is the main operating company in the group. HDF (UK) Holdings Limited operates only as a holding company and the other trading companies in the group (excluding SEW) carry out administrative functions. The group emissions are equivalent to those of SEW.

Mandatory reporting on emissions as required under Part 7A, Schedule 7 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is set out below. Voluntary emission reporting and information on the strategy to manage climate change risks and reduce emissions and impact on the environment are discussed in SEW's annual report which is available on that company's website.

Methodology

We measure and report our emissions under scope 1, 2 or 3 using the methodology described below. We use the UKWIR Carbon Accounting Workbook (CAW) provided for all UK water companies to give a consistent and transparent approach for accounting for greenhouse gas (GHG) emissions from annual operational activities. The CAW provides estimates of the GHGs identified in the Kyoto Protocol, which are produced as a result of the operational activities of water companies, including water treatment and distribution and sludge management. Estimates are made following guidance published by Defra and the Department for Business, Energy and Industrial Strategy (BEIS), as well as international guidance.

The tool is used by UK water companies to report progress internally and prepare information for reporting performance to regulatory bodies, voluntary reporting schemes and customers. The tool is updated annually as required in line with UK publication of conversion factors used for estimating GHG emissions. The report is therefore a suitable tool for reporting SECR requirements.

The data is compiled from various sources across the business and placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO2e figures for the company to be compiled, which are then externally audited. This data is then used to calculate the total associated kWh for purchased energy and transport using recent year emission factors.

External assurance of the processes and data for our GHG emissions has been carried out by Ricardo Energy & Environment (REE). In undertaking the verification exercise, REE has reviewed our carbon footprint data collection and calculation methodologies against the requirements of ISO 14064-1 (Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals) and the GHG Protocol Corporate Standard.

REE has carried out a limited level verification, which included the review of:

- The data held within our Carbon Accounting Workbook v15 (CAW) which is used to manage our carbon management and footprinting.
- The primary data on which the CAW is based (contained within the 'Carbon accounting info pack').
- The process manual which defines the methodology we used for our carbon management and reporting processes.

Based on the process and procedures they carried out, REE concluded that there is no evidence that the 2021/22 GHG assertion (i) is not materially correct and is not a fair representation of GHG data and information and (ii) has not been prepared in accordance with the ISO 14064 1 and the GHG Protocol Corporate Standard.

Group strategic report

Streamlined energy and carbon reporting (SECR)

Location Based Greenhouse gas (GHG) emissions	**2019/20**	**2020/21***	**2021/22**	**Unit**
1 Annual quantity of GHG emissions for the purposes of transport	1,785	1,612	1,576	tCO2e
No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.				
2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport)	35,960	33,921	30,530	tCO2e
The electricity usage is divided into four categories: pumping, treatment, administration and transport.				
3 Aggregate equivalent kWh for emissions under 1 and 2 above	149,143,179	153,127,128	151,516,643	kWh
4 GHG emission intensity metric	198	180	164	kgCO2e /Ml
Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.				

Market Based Greenhouse gas (GHG) emissions	**2019/20**	**2020/21**	**2021/22**	**Unit**
1 Annual quantity of GHG emissions for the purposes of transport	1,785	1,612	1,576	tCO2e
No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.				
2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport)	35,960	41,843	0	tCO2e
The electricity usage is divided into four categories: pumping, treatment, administration and transport.				
3 Aggregate equivalent kWh for emissions under 1 and 2 above	149,143,179	153,127,128	151,516,643	kWh
4 GHG emission intensity metric	198	219	8	kgCO2e /Ml
Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.				

* Adjustments were made to the 2020/21 figures for location based greenhouse gas (GHG) emissions to reflect the appropriate SECR recommended emissions factors.

Group strategic report

Engagement to deliver our purpose for the benefit of all

Section 172(1) statement

The directors of the company have due regard to their duties under section 172 of the Companies Act 2006 in making decisions. They also promote high standards of business conduct and governance within the group and in particular have promoted and supported the adoption by SEW, the main operating company in the group, of a stakeholder inclusive approach to governance and decision making.

When considering matters relating to the group, the directors of the company take into account all considerations relevant to the operations of the entire group and in particular those relevant to SEW. Most decisions of the board at a strategic level require balancing all these considerations and we see the long-term success of the company and the group as achieving a fair balance.

Consideration of the interests listed in section 172 is an integral part of promoting high standards of governance at SEW and ensuring the consistency of the decisions made by the directors at the level of the holding company with the governance and statutory obligations of SEW as a regulated undertaker providing an essential service.

As SEW is the main operating and regulated entity providing an essential public service in the group, how the directors of SEW meet their duties under section 172 is an essential aspect of our reporting about the group. We set out below how the directors of SEW had regard to the matters in section 172(1) of the Companies Act 2006 below.

The board's main responsibility is to set the company's strategy and monitor its delivery in alignment with our purpose. The two main aspects of our core purpose are to provide today's public water service and to create tomorrow's water supply solutions, ultimately helping society and the environment to thrive. In this context most decisions taken by the board need to balance the long-term and short-term interests of the company, its customers, employees, the environment and maintaining key relationships with other stakeholders and partners, as well as taking account of current and future regulatory requirements.

Matters for consideration in section 172(1)

- The likely consequences of any decision in the long-term.
- The interests of the company's employees.
- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the company.

An important aspect of governance has been the incorporation of the purpose of SEW into its articles of association and the reformulation of the duty of directors under section 172. This provided a significant shift in emphasis on the duty of directors to fulfil the core purpose (providing the public water service and creating future water solutions) and, in doing so, to provide wider social and environmental benefits following an inclusive approach to stakeholder engagement. Considering all the interests and considerations set out in section 172 has become more crucial since the new articles of association were adopted which reflect the role of SEW as provider of an essential public service.

This section 172(1) statement explains:

- How we and the board have engaged with employees and with key stakeholders (customers and communities, regulators, environmental groups and other stakeholders with an interest in our activities, and suppliers).
- How the board had regard to the relevant matters set out in section 172(1) when performing their duties including how the board has reached key decisions, how they considered the company purpose, and the likely impact of those decisions, including how it has taken account of relevant matters and the interests of stakeholders in doing so.

Group strategic report

Relevant aspect of our decision framework

Our corporate governance framework, corporate governance code, and culture (purpose and values) and board practices.	• A corporate governance framework focused on engagement, stakeholder inclusiveness, integrated thinking (i.e. balancing all relevant considerations in our decision making including those in section 172(1) CA06). • A purpose and values focused on delivery to customers, planning for the future, protecting the environment and contributing to society. • A corporate governance structure that ensures that all aspects of the business receive the appropriate scrutiny including matters in section 172(1) CA06.
Our vision and strategy.	• A vision and strategy focused on our customers, our people and the protection of the environment.
Our long-term planning.	• Long-term water resources and drought planning is a core function to ensure we can meet future demand for water and also encourage our customers to save water. • Our long-term adaptive planning also seeks to ensure that we will be able to provide our service and meet future challenges such as climate change.
Stakeholder participation.	• Engagement which ensures that stakeholders are directly involved in our decision process: including our Customer Challenge Group, our Environmental Scrutiny Group, Affordability Forum and partnerships for the delivery of our environmental programme, our employee and stakeholder engagement programme. • Extensive engagement and consultation for all our key plans.
Our business model and our external environment.	• A business model focused on value creation through responsible business, a long-term focus, engagement with stakeholders and collaboration.

Stakeholder engagement

Our board appreciates the importance of effective stakeholder engagement, and that stakeholders' views should be considered in its decision-making. Here we explain our key stakeholder groups and why they are important to build the relationships that are key to value creation.

Throughout the year we have engaged with these groups as a business, but also the board directly through our board engagement programme. This engagement helps us understand their key issues and expectations and enables us to make decisions based on their feedback. Purposeful companies engage effectively with their customers and stakeholders, so to achieve our ambitions it is essential we collaborate. Stakeholders are experts within their particular field and therefore it is vital their views are listened to and placed at the heart of our decision making and strategy setting processes.

By undertaking quality engagement with our stakeholders and understanding their priorities, values and needs we will be able to achieve our stretching commitments, maintain accountability, educate, build trust and resilience as well as enhance our reputation and drive innovation. Stakeholder engagement is an important part of everyone's role, with the onus on leaders to make sure all levels of the business understand the purpose and importance of engagement and how it will be undertaken to reach business and departmental objectives.

Group strategic report

Our Stakeholder Engagement Strategy clearly sets out why, when and how stakeholder engagement should take place as well as how feedback is recorded and fed into business decisions. It sets a direction of travel in order to embed best practice throughout the business. In 2022/23 a formal review will take place to understand the embedding successes and gaps, before updating the strategy. Our overarching ambition is to gather valuable insights by embedding best practice engagement methods throughout the business. This will create a meaningful two-way partnerships with wide ranging stakeholder networks who represent all relevant environmental and societal areas.

In order to deliver high quality stakeholder engagement, we are committed to adhering to the AccountAbility AA1000 Stakeholder Engagement Standard (2015). This ensures that our stakeholder engagement is:

- Inclusive
  We ensure that departments tailor their engagement towards their specific stakeholder groups, devising stakeholder maps, setting agreed objectives, adapting engagement where necessary, encouraging open dialogue.
- Responsive
  All feedback gathered from stakeholder input is fed into the company Insights Hub. We then ensure that stakeholders understand how they have influenced change.
- Material
  We ensure that engagement is timely and relevant. Stakeholders are made aware when they can/cannot influence plans and why.
- Impactful
  As part of our regulatory requirements we publish the performance, people and planet report annually to highlight our activities and impact on our wider business.

To ensure that previous insight/knowledge is considered, the reason why we need to engage is defined, and the most appropriate engagement method is used to get the best results to inform the business in future planning, we follow a process of:

- Define
  Establish the purpose and scope of the engagement and map it back to a business objective/priority.
- Plan
  Map appropriate stakeholders, understand previous company research, tailor engagement methods, devise appropriate feedback channels, create the engagement plan and mobilise resources.
- Implement
  Invite, engage and listen to stakeholders, document engagement and outputs, co-create an action plan and feedback learnings/ results to stakeholders involved.
- Respond.
  Evaluate engagement outcomes, feed results into the company Insights Hub, respond to stakeholder views and refine plans.

Engagement can take a variety of forms, based on how relationships are mapped on a case-by-case basis. If the objective is to inform, then we will use a variety of routes such as emails, newsletters, website updates or presentations.

We monitor stakeholder feedback through our perceptions audit undertaken every other year, whilst also tracking media coverage, social media and websites. Where we consult and involve our stakeholders, we undertake surveys, focus groups, meetings, workshops and panels to allow for a two-way dialogue, enabling learning for both stakeholders and the company alike.

At its highest levels stakeholder engagement will take the form of collaboration and empowerment. Where we collaborate, we are creating a two-way, or multi-way engagement.

This creates joint learning, decision making and taking of actions. Finally, at its most integrated level, we empower stakeholders with new forms of accountability; decisions are delegated to stakeholders and they play a role in shaping our organisational agenda.

Group strategic report

We continue to monitor and evaluate the tools available with which to engage and will test and embed where appropriate. An example of this is where we are undertaking a pilot of the online Engagement HQ consultation platform, which provides us with an interactive platform to engage, monitor and evaluate our stakeholder engagement activity.

Our customers and communities

How we engage

The development of our plans and strategies (e.g. our business plan and main long-term plans such as WRMP, Drought Plan) always includes significant engagement with customers to understand their priorities, expectations and their support for our proposals.

We carry out regular customer surveys and satisfaction surveys throughout the year to understand issues, identify causes and take corrective actions. Our independent Customer Challenge Group provides challenge to us in a range of areas including vulnerability, engagement, leakage, customer interruptions and our responsible business commitments.

We are members of the Institute of Customer Service which gives us access to benchmarking and advice on good practice to continuously improve our service and demonstrate objectively high standards of services. We work with National Energy Action to help us understand issues of affordability in our supply area. We work with the Kent Kidney Patients Association (KKPA) which cares for dialysis patients as part of our commitment to understand the needs of our customers who may require extra support.

For all capital programme works, we assess the impact on our customers and communities near the works. We consult systematically and extensively with those affected using a range of methods including direct mail, the media, social media and advertising, hosting events, stakeholder meetings and briefings to understand views and how we can mitigate disruptions and to explain the reasons for and benefits of our works.

We engage with CCW and receive feedback on our customer services practices and performance as well as on some escalated complaints. We have partnerships with other organisations to help us support our customers and work jointly to meet our common objectives about customer service, vulnerability, affordability and support to our communities. This includes charities, housing associations, local authorities, government organisations and other utilities.

We hold events for retailers and non-household groups, and developers to discuss and get feedback on service improvements and changes to our tariffs.

Feedback we received and the actions we take

We have implemented data sharing with local authorities (Maidstone Borough Council, Tunbridge Wells Borough Council). This partnership enables us to put low income households automatically onto our social tariff making sure help is given where it is needed most, without our customers needing to ask. We are currently working on further agreements with other councils which will form part of our ongoing strategy. We have been sharing the details of this approach with other water companies and with Ofwat, CCW and Defra and were finalists in the Utility Week Customer Vulnerability Award category for this ground breaking initiative.

We are also working with virtual debt advisers as part of a free arrangement developed with the Money and Pension Service with support given through our new Breathing Space scheme.

We have outcomes and metrics to measure our performance in relation to affordability and vulnerability to increase the number of customers on our social tariff, increase the number of customers registered for our priority services and ensuring the accuracy of customer data on our priority service register to ensure it remains up to date. We have also specific metrics to measure the satisfaction of customers registered for our priority service and those experiencing payment difficulties.

Group strategic report

We have been working closely with Kent County Council to allocate almost £400,000 of government funding directly to those in need of additional financial support during the Covid-19 pandemic. The money was made directly available to councils to help households with utility bills and we were able to step up quickly to the challenge during 2020/21 to allocate the first £175,000. KCC was given extra funding this year and sought our help in bringing together other water companies to deliver the help quickly. As a result of our work we were able to distribute a further £250,000 to customers struggling in Kent with Thames Water, Southern Water and Affinity Water also distributing smaller funds to Kent customers using the same criteria we had defined.

We received recognition for our engagement with communities relating to our engineering works winning the Communications Leadership award by Street Works UK. We have been judged to be providing best practice for customers in the latest annual CCW assessment of seven key support service areas becoming the first water only company to achieve this status. This comprehensive assessment from CCW covered: charitable trust or in-house crisis fund, payment matching to clear debt, payment breaks, benefit entitlement checks, water efficiency home audit, lowest bill guarantee as part of meter option, money and debt advice referral arrangement.

We introduced a number of changes to the communication plan to increase channels and ways to collaborate to get water saving messages across.

Our people

How we engage

Board engagement with our employees takes place through the staff council, our employee representative body. Célia Pronto, an independent non-executive director and Chair of the remuneration committee, has been designated for general engagement with the workforce and, more specifically, in relation to executive remuneration. A board engagement programme provides opportunities for directors to engage with different parts of the business and different levels of management.

Our staff council is there to encourage conversation and idea-sharing with the board, executives and across teams, as well as providing staff representation on business matters. It contributes to continuous improvement and a better working environment through sharing information about company strategy, seeking informed views through consultation with staff and promoting open and timely communication with representatives.

There are several committees, such as the safety committee, that encourage participation of employees to raise issues and monitor the progress of actions.

Our CEO, David Hinton, and other senior managers deliver monthly virtual presentations with Q&A sessions for employees and there are weekly email communications by members of the executive team. These are used to provide updates and information of concern for employees and to provide awareness of current issues that affect our operational and financial performance, and to communicate on business priorities and strategy.

Our employee intranet is also used as a platform to communicate relevant information on the business and practical information for employees. It is also a platform for exchange that promotes news articles, key communication and key events. Managers and employees regularly blog via this platform about important issues and anyone can comment freely on all articles. Managers are provided with a monthly manager toolkit, health and safety briefings and core briefing slides to encourage dialogue.

In 2021 we carried out one of our regular company-wide staff surveys which allows us to measure participation, engagement and get feedback from our employees on key issues.

Feedback we received and the actions we take

Diversity and inclusion was included as a pillar of our people plan which includes specific actions that we are taking between 2020 and 2025.

A wellbeing area was set up on our intranet highlighting where to go for support and our wellbeing and mental health champions send weekly emails with advice and information on events.

We set up a WhatsApp broadcast to communicate key messages to staff especially those in the field that could not easily have access to their emails or to the intranet. We provided specific training for managers to connect with teams remotely.

Group strategic report

An action plan is being developed based on the results of the 2021 staff survey with the direct participation of our employees to ensure that actions are taken based on the survey results. Feedback and ideas for improvements are encouraged and shared.

Our staff council was refreshed this year with new representatives from across the business appointed to the liaison roles and new training delivered to them and to managers on how to engage effectively with the staff council.

Célia Pronto attended the meeting of our new staff council on 1 July 2022 to discuss the board engagement with employees and executive remuneration in the context of the wider workforce remuneration.

We marked the annual celebration of excellence in customer service with events for employees in our contact centre and the wider business. It focussed on training, handling difficult situations and the Service with Respect campaign, which aims to highlight the need to end abuse of customer-facing staff.

Our stakeholders and regulators

How we engage

We engage with our regulators (see page 9) and relevant Government Departments (Defra, BEIS) through direct interaction and consultation responses. This ensures that we understand key issues, discuss our responses to these and collaborate on finding solutions. Through Water UK, the body representing water and sewerage companies in the UK, we engage with decision makers and regulators on the development of policies.

Our independent Customer Challenge Group and our Environmental Scrutiny Group include representatives of key regulators and other experts. This ensures we receive challenge and feedback about a wide range of topics.

We hold an annual event on inclusive and accessible services with delegates representing charities, housing associations, local authorities, government organisations and other utilities. These events help share knowledge on how support offered to customers can be improved, discuss best practice and open doors to future partnership working. The findings from these events help shape how we move forward in supporting those with additional needs.

Our board programme includes, whenever possible, attendance of key regulators or stakeholders' representatives to create opportunities for direct discussions with the board on important topics. This year there were sessions with representatives of Defra, UKCIS and Water UK. Our non-executive directors attend the annual engagement session held by Ofwat which is then discussed at the following board meeting. The CEO updates the board at each meeting on stakeholder activities and feedback and board papers include updates on stakeholder expectations or feedback as appropriate.

We produce a monthly stakeholder report that keeps stakeholders informed of our activities and relevant issues which helps to ensure that we maintain a regular communication with stakeholders and generates feedback. We introduced a new stakeholder contact email to give community stakeholders an easier route into the business. We consult with customers and a wide range of charities, NGOs and regulators on our key strategic and regulatory plans.

Through Water Resources South East (WRSE) we received more than 2,500 contributions on the development of the regional water resources plan which will be the basis for our own water resources management plan. WRSE also created four specific stakeholder groups utilising further environmental, engagement, NGO and industry expertise within our supply area.

We hold regular events with farmers to increase awareness of the range of free advice and financial support we provide farmers and landowners to improve land management to help protect the quality of our raw water and also address other environmental and sustainability topics. We provided our regulators with a monthly update on our activities to protect customers and employees during the Covid-19 pandemic.

Group strategic report

Feedback we received and the actions we take

We have integrated Ofwat requirements relating to long-term delivery plans and common reference scenarios in the development of our water resources management plan, our TCFD scenarios and disclosures and our adaptive planning process. We will incorporate other requirements for PR24 in our long-term plans and our next business plan.

We have developed our drought plan and ensured it meets the Environment Agency guidelines, including moving technical details into the WRMP and building a tactical operational plan and creating clear customer and stakeholder friendly versions. Our final drought plan was published in May 2022.

We took account of the insight on future challenges for the water industry discussed with Water UK for the development of our strategic direction statement. We published our final adaptation report following consultation.

Following feedback on the importance of environmental issues for customers and other stakeholders, we decided to develop a 25 year environment plan to align with Government ambitions. This is being co-created with a diverse range of stakeholders and we plan to publish the final plan later in 2022 following the consultation which took place in April-May 2022.

WRSE undertook a separate public consultation in March 2022 on the regional water resources plan. They published their response document in May 2022. The feedback from the consultation on the regional water resources plan is used to develop a best value regional plan as well as our 2024 company plan which we will consult on during the autumn/winter of 2022.

Our suppliers and partners

How we engage

We involved our key contractors in the planning of our Covid-19 safe methods of working and in the ongoing crisis management throughout the year.

Our procurement processes include a number of checks and reviews to ensure that any suppliers we engage with can meet the requirements of our Ethical Purchasing Policy (which also includes requirements relating to modern slavery) or that they have an equivalent policy themselves. We also have standard contractual provisions to allow for periodic and targeted audits of compliance while using a risk-based approach and our key suppliers have an obligation to report any non-compliance with our ethical purchasing policy. We require that our supply chain carry out due diligence checks and adhere to similar standards as ours in relation to their employees (including paying a living wage) and we also require compliance with our policies (such as data protection and IT security) as appropriate.

We carry out audits of our suppliers' compliance and systems of internal control following a risk based approach. We have regular performance review meetings with our key suppliers to review performance against KPIs that reflect our own performance commitments and where both parties can raise issues and propose improvements. Wherever possible we work with our suppliers to address performance or other contract related issues within the constraints of procurement rules to promote a fair and sustainable relationship and to help them raise their standards where necessary.

We proactively engage with our suppliers to address potential supply chain disruptions (as was the case during the Covid-19 pandemic and in relation to Brexit). This is particularly the case for essential supplies of chemicals that ensure we can maintain water quality. Such issues are often managed at industry level to ensure coordination and facilitate mutual aid between companies and in liaison with relevant government departments.

Feedback we received and the actions we take

We used feedback from our suppliers in defining our Covid-19 safe methods of working and coordinated our actions, especially for our joint teams. We also used their feedback to help resolve their own operational issues arising from the Covid-19 pandemic.

In the context of Covid-19 and Brexit, where appropriate we ensured we had sufficient stock for strategic items in place and also managed this through industry-wide collaboration to ensure there was no risk of any company stock-piling and causing knock-on impacts.

Group strategic report

Working with our supply chain, requests to reduce payment terms were reviewed on a case by case basis by the CFO and shorter more favourable terms have been put in place to assist suppliers during the Covid-19 pandemic. We also take account of the size and nature of the business of our suppliers when agreeing payment terms with them.

We have joint working groups and other forms of coordination and cooperation with our key contractors on health and safety to ensure the highest standards of safety for our entire workforce (directly and indirectly employed) and for exchange of best practice and alerts on potential risks.

We have partnering arrangements with some of our key suppliers where their teams and ours work side by side. We also have forums for early engagement of construction and engineering partners in the planning or design of works which ensure we can identify issues early and benefit from their early input.

We worked with Water UK, the other water companies and relevant suppliers to address the resilience of the chemical supply chain and the availability of certain chemicals during the year caused by specific incidents. Regular updates were provided to the Board by the CEO and the Operations Director.

Our renewal and maintenance contractor (Clancy) raised issues with us on the financial sustainability of some aspects of the contract in relation to traffic management obligations and costs and in relation to reactive work. We worked with them in compliance with procurement rules to set up an improvement programme and we considered several options to improve the management of reactive works and agreed a new method of working collaboratively on how reactive work is issued, controlled and managed with a view to improve the predictability of the work for our contractor.

Key decisions in the year

Consideration of the matters in section 172(1) also determines the regular activities of the board such as the monitoring of performance against our commitments to ensure that we deliver the targeted outcomes for customers, the environment and the investment in the infrastructure needed to support our communities. We provide examples of how the board has had regard to relevant matters in respect of key decisions made this year below.

Covid-19 and “new normal”

At the earliest stage of the pandemic, the board made the decision to ensure the protection of our staff and the public while maintaining our essential service. As the pandemic persisted in 2021/22, our approach to the pandemic remained focussed on keeping everyone safe.

We ensured that all who could work from home were allowed to and had the necessary support. (Early in 2020 the board had decided that introducing home working as early as possible would allow us to test new methods of working and improve our resilience). We ensured that new ways of working and safety protocols were implemented for our critical workers in the field and in the laboratory who could not work from home. Cleaning regimes were enhanced, additional hand sanitisers were installed and face masks were made available.

We continuously monitored the evolution of the pandemic and Government recommendations together with industry best practice in all operations across the business. As the situation evolved and new variants emerged we adapted our protocols. We also provided additional mental health and wellbeing support through our network of mental health first aiders.

Based on our experience during the pandemic, we decided to develop a new agile working approach that should be implemented in phases and based on the feedback from our employees.

How stakeholders were considered: The changes implemented during the pandemic to our method of working and the investment in new technology opened up new possibilities, and it became clear that our employees were developing new expectations about ways of working, their working environment and their work-life balance. We had consulted widely and regularly during the pandemic on health and safety and wellbeing and how to adapt to new ways of working. We also consulted on longer-term changes to our ways of working, recognising that home working and flexible working would be more prominent across our entire workforce.

Group strategic report

From the feedback we received, it became clear that different teams and individuals had different expectations and requirements. New starters needed time in the office and direct interaction with their peers to get to know people, processes and the business as a whole. They valued the learning opportunities and social interaction that working in an office environment could bring. Teams had also different needs and expectations in terms of joint working, use of technology and interactions with other parts of the business. Some of our employees had felt isolated during the pandemic and their home working arrangements were not optimal for them. A lot of emphasis was placed on maintaining the cohesion of teams and our culture. There was also a difference of perception between field teams and those who could work remotely, and it was important that new arrangements should also be relevant to them.

Outcomes and expected long-term impacts: We set up an agile working group to plan for new ways of working post-pandemic. We reviewed the induction process for new starters covering new topics based on the feedback received. We developed a set of minimum principles for attendance in the office but did not impose a central and standard approach. We let managers and local teams decide what was best and efficient for them within those general principles, asking them to consider individual needs and preferences. We recognised the strength that the agility, flexibility and commitment demonstrated by our workforce gave us in our response to the pandemic and that this would also help us find the right balance in our approach for the future. One of our key considerations in setting principles for attendance was to maintain the cohesion of teams and the culture of the business, and we will continue monitoring these two aspects very closely.

Storm Eunice and Community Chest

During Storm Eunice, our customers in East Grinstead were affected by an interruption to their water supply caused by the loss of the power supply to our major water treatment works in Barcombe and a number of other losses of power we were experiencing in the network at the time. Due to the exceptional circumstances, we were not required to make payments under the Guaranteed Standards of Service scheme to these customers. However, we wished to acknowledge the impact that the exceptional events in February had had on the community in and around East Grinstead and we decided to provide an alternative form of support.

How stakeholders were considered: We received feedback from CCW and other stakeholders who recognised the exceptional nature of the storm and power interruptions but were keen that we provide a form of support. We decided to set up a Community Fund of £100,000 for the East Grinstead area that would be distributed amongst charities, community groups and not for profit organisations. We involved our key stakeholders in the area and worked in partnership with them in developing this approach.

Outcomes and expected long-term impacts: Working with local stakeholders, including Mims Davies MP (who has been a prominent supporter of the initiative, sharing details on her social media platforms) and residents of East Grinstead, 20 charities, community groups and not for profit organisations were selected as beneficiaries of the fund. Every affected customer was given the opportunity to vote on how the fund was distributed. The top five organisations to benefit were: East Grinstead Food Bank, Age UK East Grinstead, Jigsaw Child Bereavement, East Grinstead First Responders, and Stone Quarry Community Café. We have been making payments to them based on customers' votes in June and July 2022. This was also an opportunity to engage directly with the community and develop a better understanding of their needs and also explain the challenges that can affect our operations and planning.

25 year environment plan

We have decided to produce a 25 year environment plan which sets out how we will limit our impact on the environment and improve its overall health and how we will work to improve environmental resilience to the effects of drought, flooding and increasing demand for tap water. We are the first water company to produce such a plan. We also decided to consult extensively with customers and stakeholders.

How stakeholders were considered: We received strong and consistent feedback from stakeholders that we should play an active role in protecting the environment and achieving environment and biodiversity gains working with others and going beyond compliance or the delivery of our own environmental obligations. We also recognised the impact that others have on our catchment and on the availability and quality of the raw water we need to provide our service; and the crucial role that environmental issues play in our long-term plans and strategy.

Group strategic report

Given the importance of environmental issues for our customers and other stakeholders, we decided to co-create our plan and to engage widely with them. However, we also recognised that media coverage about wastewater companies, especially relating to storm overflows and pollution was likely to have a negative reputational impact on us (based on our own experience and that of other water only companies), as a number of our customers would confuse us with the wastewater companies operating in our area. In this context, there was a risk that extensive engagement could lead to negative feedback and complaints about issues unrelated to our own activities as a water only company.

Outcomes and expected long-term impacts: Our Chair of our Customer Challenge Group, Zoe McLeod, was involved from the beginning of the development of our environmental plan, joining us in the early stages for an ideas-generating 'sprint' session with stakeholders. We created our draft plan in the space of just seven months, engaging with more than 250 customers, stakeholders and employees.

Despite the reputational risks, we launched the largest consultation we have ever undertaken, asking for feedback and insight from over half a million customers and stakeholders. We have received more than 400 responses and had more than 10,700 visits to the webpage. Nearly 60 per cent of respondents were either 'satisfied' or 'very satisfied' with the draft plan, commenting that the following areas should be a key priority for us in the future: water capacity and storage, sewage discharge, leakage and then improvements to raw water quality and operating as a sustainable business. Of the 40 per cent of respondents that were dissatisfied with the draft plan, a quarter of these comments related to confusion over sewage discharge, whilst other areas of concern related to leakage, water capacity and storage and water quality.

We will use this consultation process as an opportunity to explain our role as a water company and the distinction between water and wastewater companies. We hope that this will allow us to engage more constructively in the future with those customers who commented negatively on issues relating to the performance of wastewater companies.

Overall, we decided that the benefits of consultation outweighed the disadvantages and we were pleased to receive high quality submissions especially pertaining to the reliance in our plans on leakage reduction and demand management and the risks this may present to the water supply if these reductions were not achievable. We will use the feedback we received in finalising our 25 year environment plan that will be published later in 2022.

Parent company position and results

HDF (UK) Holdings Limited is private company limited by shares domiciled and registered in England and Wales. The company's principal activity during the year and for the foreseeable future is that of a holding company.

The company's audited financial statements are presented together with the group statements on pages 62 to 119. The loss after taxation for the company on ordinary activities for the year was £15,000 (2021: £1.1 million) and the net assets of the company at 31 March 2022 were £261.9 million (2021: £261.9 million).

The primary reason for the reduction in the loss in the year was the reduction in the finance expenses on the company's SONIA based loans of £2.5 million. This has been partially offset by the reduction in dividends the company has received from its subsidiaries of £1.2 million.

The company expects the general level of activity to remain constant in the coming year.

Approved by the board and signed on its behalf by:

Merle McArdle

M McArdle
Director
7 November 2022

Corporate Governance statement

The directors of the company are committed to maintaining high standards of governance and leadership and demonstrating to all stakeholders how this is achieved.

As a board we promote transparency, accountability, ethical conduct, engagement with stakeholders, and a fair balance between the various interests that we must consider under section 172 of the Companies Act 2006.

We also promote high standards of governance in the main operating company and regulated entity in the group, SEW, as we recognise that strong environmental, social and governance performance protects its long term value and sustainable success and strengthens its licence to operate. SEW reports on its compliance with the South East Water Corporate Governance Code (“SEW Code”) in the corporate governance statement in its annual report.

The company’s principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to good corporate governance as part of a broader desire to ensure that the company and in particular SEW:

- Incorporates Environmental, Social and Governance (ESG) matters into investment analysis and decision-making processes
- Incorporates the consideration of ESG matters into policies and practices
- Seeks appropriate disclosure on ESG matters
- Reports on activities and progress towards implementing improved ESG consideration
- Promotes better ESG consideration, including corporate governance

The directors of the company confirm that they are aware of and comply with the requirements of the instrument of appointment of SEW, in particular those set out in Condition P.

They fully support the adoption by SEW of its own corporate governance code. This code was updated to include the principles of governance set out in the UK Corporate Governance Code 2018 which can reasonably be applied to a privately owned company and the Ofwat’s principles of board leadership, transparency and governance.

Operation of the regulated business of South East Water
Whilst the directors of the company must in that capacity ensure that they comply with their duties to the company and to the shareholders of the company, the arrangements between shareholders relating to their decision making in relation to SEW recognise the specific requirements applicable to SEW as a regulated water company and the need to operate in compliance with them.

When making decisions relevant to the group as a whole or to SEW, the directors of the company have due regard to the requirements of condition P of SEW’s instrument of appointment which requires that SEW must conduct its regulated business as if it were a public limited company separate from any other business carried out by it.

The directors of the company also have due regard to other requirements of condition P of SEW’s instrument of appointment that SEW must meet the objectives of the board leadership, transparency and governance principles published by Ofwat and in particular that SEW must have an effective board with full responsibility for all aspects of its business as a regulated company for the long term.

Consistent with this principle, no matters of SEW are reserved for shareholders or parent companies, SEW board committees (including but not limited to audit and risk, remuneration and nomination committees) report into the board of SEW, with final decisions made at the level of SEW, and the board of SEW is fully focused on the activities of SEW and acts independently and establishes SEW’s purpose, strategy and values.

As shareholder nominated directors of SEW, the relevant directors of the company who are also directors of SEW must satisfy themselves, as must all other directors of SEW, and certify in accordance with the requirements of Condition P of SEW’s instrument of appointment, that SEW has the necessary financial resources, management resources and systems of planning and internal control to carry out its regulated activities.

Corporate Governance statement

Long term decision making
The directors of the company are focused on the long term sustainable success of the group and of SEW as its main operating company, which also aligns with the long term objectives of investors in the group. The board focuses on how the company and its group generate and preserve value for customers and shareholders in the long term while having a positive impact on wider society and the environment.

The SEW Code, the SEW corporate governance framework and the SEW purpose also reflect this core objective and the importance for a regulated water company to have an ethical and inclusive culture of public service guided by a strong sense of purpose. The purpose of SEW was embedded into the articles of association in November 2020 reinforcing the duties of directors to work to fulfil the company's purpose.

SEW's overall corporate governance framework focuses on culture and ethical conduct reflecting public purpose values; it is designed to be an integral part of how the business is run; it reflects a stakeholder inclusive approach through engagement and cooperation with stakeholders and in balancing their interests, the need for SEW to consider its impact on society and the environment and it promotes a holistic approach to decision making and "integrated thinking".

Board composition
The current directors of the company are set out on page 3 of this annual report. Two directors of the company, Anne Noelle Le Gal and Mark McArdle, are also shareholder nominated directors of Hastings Water (UK) Limited, South East Water (Holdings) Limited, South East Water Limited, Swan Group, Swan Property Limited and MKW Holdco 1. Oliver Schubert is also a director of Hastings Luxembourg Water S.á r.l.

The composition of the board of SEW also meets the requirements of the board leadership, transparency and governance principles. The other commitments and directorships of the directors of SEW are reviewed in accordance with the SEW Code.

Managing risks within the group
The directors of the company are aware of and have due regard to the provisions of SEW's instrument of appointment in particular those relating to ultimate controller undertakings and ring fencing and the provisions of the SEW Code.

Except for Swan Group, Swan Property Limited and Hastings Luxembourg Water S.á r.l, whose activities are explained below, the company acts exclusively as a holding company of SEW and its activities relate only to the management and financing of this investment. This ensures that the regulated business of SEW is not exposed to risks from other unrelated activities in the group. Information in relation to the activities of the company is provided where necessary or as requested to the directors of SEW. The directors of SEW have visibility of the financing structure of the rest of the group.

The availability of financial resources and facilities may be affected by cross-default provisions in the financing documentation of SEW and these provisions have received the required consent from Ofwat. The directors of SEW monitor the main financial ratios required by its securitisation structure, and the investors report produced twice a year and the annual financial statements of the company are available to them.

The directors of the company confirm that they are not aware of any issue at the group level which may impact SEW. The need of the directors of SEW for information is met when necessary through updates provided by the shareholder nominated directors on the board of SEW or communication of specific information.

Group structure
There are two intermediate holding companies between SEW and the company: South East Water (Holdings) Limited and Hastings Water (UK) Limited. SEW is the main operating company in the group of companies headed by the company.

Corporate Governance statement

The ultimate owners of the company are Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia which holds 50 per cent of the shares in the company, three entities of Desjardins, a cooperative financial group based in Quebec (Régime De Rentes Du Mouvement Desjardins which holds 12.5 per cent of the shares in the company, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company which each hold 6.25 per cent of the shares in the company), and NatWest Pension Trustee Limited for the NatWest Group Pension Fund (Main Fund Section), which holds 25 per cent of the shares in the company.

The manager of Utilities Trust of Australia is Morrison & Co Utilities Management (Australia) Pty Limited. Vantage is manager of the equity holdings of the remaining shareholders. There are four directors on the board of the company who have been nominated by the managers of each of the shareholders.

Swan Group is a subsidiary of the company and the holding company of Swan Property Limited whose principal activity is buying land and properties from other members of the group and developing and/or refurbishing them with a view to selling them at some time in the future.

Swan Group and Swan Property Limited are outside SEW's financing group and their liabilities are separate from the rest of the group including SEW. The group structure on page 4 does not include non-trading and dormant companies.

In addition, to ensure transparency to the general public, the structure of the group as set out in the strategic report of SEW, and information on the directors of SEW, including short biographies are available on SEW's website. This information also includes whether these directors represent shareholders.

Group financing
Recent debt financing has been arranged through SEW. Historical debt financing of SEW has been arranged through its only subsidiary, South East Water (Finance) Limited. South East Water (Finance) Limited is a company registered in the Cayman Islands but the company does not gain any tax benefit from this as the company is resident for tax purposes in the UK. SEW also has some existing directly issued debt finance which originated in Mid Kent Water Limited prior to the two companies merging. There is further debt finance in the group which is a mixture of both external and shareholder loans and this debt is issued by a separate group company, Hastings Luxembourg Water S.á r.l.

Approved by the board and signed on its behalf by:

M McArdle
Director
7 November 2022

Group Directors' Report

The directors have pleasure in presenting the group directors' report relating to HDF (UK) Holdings Limited ("HDF" or the "company") and its subsidiaries (together referred to as the "group") for the year ended 31 March 2022, together with the audited financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the group annual report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Principal activities and future developments

The principal activities of the group comprise the supply of water to a population of 2.3 million in an area of 5,700 kms and the provision of certain ancillary services for customers, developers and other bodies within the constraints of the relevant legislation as performed by SEW. The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future. An indication of the likely future developments in the business of the group, including its strategy for the period 2020 to 2025 are set out in the strategic report.

The company acts as a holding company. At 31 March 2022, its principal subsidiaries included Hastings Water (UK) Limited ("HWUK"), South East Water (Holdings) Limited ("SEWH"), South East Water Limited ("SEW"), South East Water (Finance) Limited ("SEWF"), Swan Group ("SG"), Swan Property Limited ("SPL") and Hastings Luxembourg Water S.á r.l. ("HLW"). Further details are given in note15. There are no branches (as defined in section 1046(3) of the Companies Act 2006 of the company outside of the United Kingdom.

The turnover of the group for the year ended 31 March 2022 was £251.3 million (2021: £248.2 million) and group operating profit was £83.3 million for the year (2021: £76.7 million). Profit before taxation for the year was £8.1 million (2021: £23.9 million). The financial position at 31 March 2022 for the group and for the company is shown on pages 64 and 65 respectively.

The group was fully in compliance with its loan covenants at 31 March 2022.

Accounting framework

The financial information presented in these audited financial statements has been prepared in accordance with UK-adopted International Accounting Standards. The financial statements are presented in Sterling.

The results published in this report describe our performance for the year and incorporate the consolidated performance of the HDF Group.

Group Directors' Report

Dividends
There were no dividends declared or paid during the year (2021: £nil) and the directors recommended a final dividend of £nil (2021: £nil). The company's dividend policy is discussed on page 38 of the Strategic report.

Capital expenditure
During the year the group's capital expenditure totalled £105.0 million (2021: £93.3 million). Further details are given in notes 12 and 13 of the financial statements.

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable because of the number of sites and the costs of valuing such sites to precisely quantify this.

Taxation
The Group's profits are typically sheltered with a combination of tax losses from other HDF Group entities and the application of capital allowances from the extensive investment programme currently being undertaken by SEW. In practice we prioritise the purchase of group relief in sheltering tax charges and the payment of group relief is made at the statutory rate for corporation tax so does not impact the effective tax rate. The effective rate after making allowance for the future rate change and prior year adjustments is 16.8 per cent. Additional information on taxation is provided in note 10.

Directors and their interests
The directors of the company who were in office during the year and up to the date of signing the financial statements were:

O Schubert (Non-Executive Director)
R Drew (Non-Executive Director)
A N Le Gal (Non-Executive Director) (appointed 18 June 2021)
M McArdle (Non-Executive Director) (appointed 2 March 2022)
R Khakhar (Non-Executive Director) (resigned 2 March 2022)
M Szczepaniak (Non-Executive Director) (resigned 18 June 2021)
V Rosati (Non-Executive Director) (appointed 13 September 2021)

V Rosati was appointed as an alternate director for A N Le Gal on 13 September 2021 for the purpose of attending Board meetings where A N Le Gal is unavailable to attend.

No director held any shares or loan stock in the company or other associated companies, which is required to be disclosed under the Companies Act 2006 during the financial year.

Directors' indemnities
The group has granted an indemnity to its directors and those of its subsidiary companies against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions were in force during the year and remain in force as at the date of approving this group directors' report.

Principal risks and uncertainties
A description of the principal risks and uncertainties and an explanation of the steps the board takes to mitigate these risks are provided in the strategic report on page 12.

The financial risk management and polices of the group a presented in note 20 to the financial statements.

Corporate governance arrangements
Information on South East Water's corporate governance arrangements are set out in the corporate governance statement on page 52.

Environmental and corporate social responsibility
The group's approach to the sustainable development of its business includes a strong commitment to the environment and corporate social responsibility. Details of our actions in this respect are given throughout the strategic report.

Group Directors' Report

Disclosures on greenhouse gas emissions

Information on greenhouse gas emissions, energy consumption and energy efficiency action (including as required under Part 7, Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 are set out on page 40 of the strategic report and relate to the period from 1 April 2021 to 31 March 2022.

Employment policies on disability and engagement with employees, suppliers, customers and others

The group offers equal opportunities to all employees and applicants for employment. Our managers and officers are trained to ensure there is no unlawful discrimination on grounds of race, gender, age, religion, union membership, disability or sexual orientation. Employment policies are intended to confirm SEW as an employer of choice through provision of a safe work environment, satisfying work, personal development and fair rewards.

The group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled it is the group's policy to provide continuing employment, wherever practicable, in the same position or in an alternative position and to provide appropriate training to achieve this aim.

The group places considerable value on the involvement of our employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the group. This is achieved through formal and informal meetings, regular bulletins on the intranet and an employee magazine. Employee representatives are consulted regularly through the Staff Council on a wide range of matters affecting their current and future interest.

The group has developed a comprehensive engagement program to ensure that we capture the differing views of our customers, suppliers and other stakeholders in the wider community. This program has helped SEW shape our plans for the 2020 to 2025 AMP. There are a number of examples, as discussed on page 43, of how the group has interacted with stakeholders in forming its policies and decisions.

The strategic report also discusses how the directors have had due regard to the engagement with employees, customers, suppliers and other business relationships on page 42.

Financial instruments

Information about the use of financial instruments by the company and its subsidiaries is given in note 20 of the financial statements. The group financial risks have been reported under our principal risks section in our strategic report on page 12.

Political Donations

No political donations were made by the group in either the current or prior period.

Research and development activities

SEW is a member of UK Water Industry Research (UKWIR) and participates in their research programmes.

Going concern

In adopting the going concern basis of preparation for these financial statements, the Directors have considered HDF Group's liquidity position, financial forecasts, stress testing of principal risks and uncertainties described above, and the impact of these stress tests on committed funding facilities levels and applicable covenants. They have also considered the ability of Hastings Luxembourg Water S.a.r.l. to refinance the £150m loan which is due for repayment on 18 December 2023

The Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the Group financial statements.

In making this determination, the directors have considered two key uncertainties.

1. The uncertainties relating to the refinancing of the £150m loan of a direct subsidiary, Hastings Luxembourg Water S.a.r.l., which is due for repayment on 18 December 2023 and;
2. The covenant position at HDF Group level under the severe but plausible downside scenario.

Group Directors' Report

These uncertainties represent material uncertainties at the date of this report that could cast significant doubt upon the Group's ability to continue as a going concern. Note 3 on page 76 sets out further information on how the going concern assessment has been undertaken and why the two uncertainties above are considered to be material uncertainties.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Post balance sheet events

Details of significant events that occurred after the balance sheet date and before the signing of the balance sheet are provided in note 29.

Directors' statement on audit information

Following a tender process during the early part of the financial year, PricewaterhouseCoopers LLP were appointed as statutory auditors in August 2021. The appointment has been made for an intended initial five years starting with this year ended 31 March 2022, with the option to extend for a further three years. This term is within current FRC guidance that the audit should be tendered every 10 years.

Each of the directors, whose names and functions are listed in the group Directors' report confirm that, to the best of their knowledge:

- The group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the group and loss of the company.
- The strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Each of the persons who are directors at the time the group Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's and the group's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's and the group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with provisions of s418 of the Companies Act 2006.

Approved by the board on 21 September 2022 and signed on its behalf by:

Nicolas Truillet
Company Secretary
7 November 2022

Independent auditors' report to the members of HDF (UK) Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, HDF (UK) Holdings Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's and parent company's loss and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Group Financial Statements (the "Annual Report"), which comprise: the Group statement of financial position and the Company statement of financial position as at 31 March 2022; the Group income statement, the Group statement of other comprehensive income, the Company income statement, the Group statement of changes in equity, the Company statement of changes in equity, the Group statement of cash flows and the Company statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3.1 to the financial statements concerning the group's and the parent company's ability to continue as a going concern. We note that as at the date of approval of the financial statements there is a material uncertainty relating to going concern as there are uncertainties relating to (1) the refinancing of the £150m loan of a direct subsidiary, Hastings Luxembourg Water S.a.r.l., which is due for repayment on 18 December 2023; and (2) the covenant position at HDF Group level under the severe but plausible downside scenario.

The Directors have appointed financial advisers to assist with the refinancing and after making appropriate enquiries with these advisers, believe that Hastings Luxembourg Water S.a.r.l will be able to refinance prior to 18 December 2023. However, there is currently no commitment from a finance provider and therefore no certainty this loan will be refinanced prior to 18 December 2023.

In the event that the Group’s financial performance is in line with or below the severe but plausible downside case, the Group will breach covenants at 31 March 2023. In this situation, the shareholders would be able to “cure” the covenant breach by injecting additional funding in the form of share capital.

However, in the absence of a definitive commitment from shareholders to provide additional equity to cure any covenant breach and in the absence of a commitment from a finance provider to refinance the £150m loan due for repayment on 18 December 2023, some uncertainties exist regarding the ability of the Group to continue as a Going Concern.

These conditions, along with the other matters explained in note 3.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group’s and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Group strategic report and Group Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Group strategic report and Group Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Group strategic report and Group Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Group Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974), environment regulation, UK tax legislation and pensions legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, including consideration of known or suspected instances of non-compliance with laws, regulation and fraud;
- Evaluation of management's controls to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements; in particular in relation to the recoverability of trade debtors, the capitalisation of costs in fixed assets and accuracy of the household measured income accrual, including the disclosure of such matters in the financial statements;
- Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes with credits to revenue where the debit entry is not to an expected account and credits to the income statement (excluding staff costs) where the debit entry is to property, plant and equipment, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Owen Mackney (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
7 November 2022

Group income statement
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Revenue	4	**251,276**	248,156
Bad debts	17	**(5,010)**	(3,788)
Net operating costs	5	**(184,875)**	(179,083)
Other income	4	**21,928**	11,439
Profit from operations		**83,319**	76,724
Finance expense	9	**(75,905)**	(53,746)
Finance income	8	**735**	889
Profit before taxation		**8,149**	23,867
Taxation	10	**(45,024)**	(4,593)
(Loss)/profit for the year		**(36,875)**	19,274
(Loss)/earnings per share attributable to the ordinary equity holders of the group			
Basic and diluted	11	**(204.64p)**	106.96p

The group activities above are derived from continuing operations.

The notes on pages 70 to 120 form part of these financial statements.

Group statement of other comprehensive income
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
(Loss)/profit for the year		**(36,875)**	19,274
Other comprehensive income/(loss):			
Items that will not be reclassified to the income statement:			
Net actuarial gain/(loss) on pension schemes	24	**17,408**	(14,967)
Deferred tax (charge)/credit on net actuarial gain/(loss)	10	**(4,352)**	2,844
Impact of deferred tax rate change in respect of pension schemes	10	**1,639**	-
Other comprehensive income/(loss) for the year		**14,695**	(12,123)
Total comprehensive (loss)/income		**(22,180)**	7,151

The notes on pages 70 to 120 form part of these financial statements.

Company income statement
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Net operating costs	5	**(449)**	(741)
Income from shares in other group undertakings	7	**6,798**	7,964
Finance expense	9	**(6,304)**	(8,804)
Finance income	8	**30**	70
Profit/(loss) before taxation		**75**	(1,511)
Taxation	10	**(90)**	376
Loss for the year		**(15)**	(1,135)
Loss per share attributable to the ordinary equity holders of the company			
Basic and diluted	11	**(0.08p)**	(6.30p)

The company activities above are derived from continuing operations.

The notes on pages 70 to 120 form part of these financial statements.

Group statement of financial position

Registered number: 05462865
as at 31 March 2022

	Note	2022 £000	2021 £000
Non-current assets			
Intangible assets	12	**8,294**	8,787
Property, plant and equipment	13	**1,678,147**	1,631,312
Right of use assets	13	**10,980**	11,952
Investment property	14	**900**	900
Defined benefit pension surplus	24	**57,346**	34,368
		1,755,667	1,687,319
Current assets			
Inventories	16	**851**	673
Trade and other receivables	17	**84,117**	86,738
Cash and cash equivalents	18	**29,031**	56,998
		113,999	144,409
Total assets		**1,869,666**	1,831,728
Current liabilities			
Loans and borrowings	21	**(339)**	(80,317)
Trade and other payables	21	**(90,048)**	(78,619)
Deferred income	23	**(5,740)**	(5,336)
Provisions	22	**(8,314)**	(7,984)
		(104,441)	(172,256)
Non-current liabilities			
Loans and borrowings	19	**(1,362,061)**	(1,280,122)
Derivative financial instruments	19	**-**	(2,835)
Trade and other payables	19	**(4,154)**	(4,623)
Deferred tax liability	10	**(228,868)**	(166,689)
Defined benefit pension liabilities	24	**(2,869)**	(3,172)
Deferred income	23	**(4,315)**	(3,625)
		(1,602,267)	(1,461,066)
Total liabilities		**(1,706,708)**	(1,633,322)
Net assets		**162,958**	198,406
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Revaluation reserve		**218,375**	236,243
Accumulated losses		**(304,073)**	(286,493)
Total equity		**162,958**	198,406

The notes on pages 70 to 120 form part of these financial statements.

The financial statements on pages 62 to 120 were approved and authorised for issue by the board of directors on 21 September 2022 and were signed on its behalf by:

A N Le Gal
Director
7 November 2022

M McArdle
Director
7 November 2022

Company statement of financial position

Registered number: 05462865
as at 31 March 2022

	Note	2022 £000	2021 £000
Non-current assets			
Investments	15	**412,950**	412,950
Deferred tax asset	10	**-**	539
		412,950	413,489
Current assets			
Trade and other receivables	17	**4,483**	3,997
Cash and cash equivalents	18	**10,467**	13,220
		14,950	17,217
Total assets		**427,900**	430,706
Current liabilities			
Trade and other payables	21	**(2,097)**	(5,462)
Non-current liabilities			
Loans and borrowings	19	**(163,875)**	(163,379)
Deferred tax liability	10	**(78)**	-
		(163,953)	(163,379)
Total liabilities		**(166,050)**	(168,841)
Net assets		**261,850**	261,865
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Retained earnings		**13,194**	13,209
Total equity		**261,850**	261,865

The notes on pages 70 to 120 are an integral part of these financial statements.

The financial statements on pages 62 to 120 were approved and authorised for issue by the board of directors on 21 September 2022 and were signed on its behalf by:

A N Le Gal
Director
7 November 2022

M McArdle
Director
7 November 2022

Group statement of changes in equity
for the year ended 31 March 2022

	Issued share capital £000	Share premium account £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
At 1 April 2020	244,084	4,572	242,773	(300,174)	191,255
Profit for the year	-	-	-	19,274	19,274
Other comprehensive expense:					
Net actuarial loss on pension schemes	-	-	-	(14,967)	(14,967)
Deferred tax credit on net actuarial loss	-	-	-	2,844	2,844
Total other comprehensive expense	-	-	-	(12,123)	(12,123)
Total comprehensive income	-	-	-	7,151	7,151
Amortisation of revaluation reserve	-	-	(6,127)	6,127	-
Disposal of investment property	-	-	(918)	918	-
Revaluation of infrastructure assets	-	-	(783)	783	-
Release revaluation reserve on disposals	-	-	(15)	15	-
Deferred tax on revaluation and retained earning transfer[1]	-	-	1,313	(1,313)	-
At 31 March 2021	**244,084**	**4,572**	**236,243**	**(286,493)**	**198,406**
At 1 April 2021	244,084	4,572	236,243	(286,493)	198,406
Loss for the year	-	-	-	(36,875)	(36,875)
Other comprehensive income:					
Net actuarial gain on pension scheme	-	-	-	17,408	17,408
Deferred tax charge on net actuarial gain	-	-	-	(4,352)	(4,352)
Impact of deferred tax rate change in respect of pension schemes	-	-	-	1,639	1,639
Total other comprehensive income	-	-	-	14,695	14,695
Total comprehensive expense	-	-	-	(22,180)	(22,180)
Amortisation of revaluation reserve	-	-	(6,112)	6,112	-
Revaluation of infrastructure asset	-	-	283	-	283
Release revaluation reserve on disposals	-	-	(21)	21	-
Deferred tax on revaluation and retained earning transfer[1]	-	-	1,533	(1,533)	-
Impact of deferred tax rate change	-	-	(13,551)	-	(13,551)
At 31 March 2022	**244,084**	**4,572**	**218,375**	**(304,073)**	**162,958**

The notes on pages 70 to 120 form part of these financial statements.

All transactions relate to the equity holders of the group.
[1]The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift of assets at the time of transition to IFRS.

Company statement of changes in equity
for the year ended 31 March 2022

	Issued share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 April 2020	244,084	4,572	14,344	263,000
Total comprehensive loss for the year	-	-	(1,135)	(1,135)
At 31 March 2021	**244,084**	**4,572**	**13,209**	**261,865**
At 1 April 2021	244,084	4,572	13,209	261,865
Loss for the year	-	-	(15)	(15)
At 31 March 2022	**244,084**	**4,572**	**13,194**	**261,850**

Group statement of cash flows
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Operating activities			
Net cash flow from operating activities		**136,388**	121,641
Interest received		**42**	277
Interest paid		**(48,492)**	(50,967)
Interest element of lease payments		**(100)**	(128)
UK income tax received		**68**	84
Foreign tax paid		**(4)**	(4)
Net cash generated from operating activities		**87,902**	70,903
Investing activities			
Proceeds from sale of property, plant and equipment		**314**	215
Proceeds from sale of investment properties		**-**	918
Purchase of property, plant and equipment		**(89,016)**	(92,128)
Purchase of intangible assets		**(2,520)**	(2,716)
Insurance proceeds from loss of property, plant and equipment		**6,000**	-
Net cash outflow from investing activities		**(85,222)**	(93,711)
Financing activities			
Loan notes issued		**50,000**	-
Issue costs of debt		**(305)**	-
Repayment of lease liabilities		**(337)**	(329)
(Repayment)/drawdown of borrowings		**(80,000)**	50,000
Repayment of debentures		**(5)**	-
Net cash (outflow)/inflow from financing activities		**(30,647)**	49,671
(Decrease)/increase in cash and cash equivalents		**(27,967)**	26,863
Cash and cash equivalents at the beginning of the year		**56,998**	30,135
Cash and cash equivalents at the year end	18	**29,031**	56,998

	2022 £000	2021 £000
(Loss)/profit for the year	**(36,875)**	19,274
Adjustments for:		
Taxation on profit	**45,024**	4,593
Finance income	**(735)**	(889)
Finance expense	**75,905**	53,746
Depreciation and impairment of property, plant and equipment	**55,666**	55,259
Amortisation and impairment of intangible assets	**3,013**	3,497
Insurance proceeds from loss of property, plant and equipment	**(6,000)**	-
Loss on disposal of property, plant and equipment	**884**	723
Difference between pension contributions paid and amounts recognised in the income statement	**(5,181)**	(12,605)
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**3,285**	(2,573)
(Increase)/decrease in inventory	**(178)**	16
Increase in trade and other payables	**1,580**	600
Net cash flow from operations	**136,388**	121,641

Company statement of cash flows
for the year ended 31 March 2022

	Note	2022 £000	2021 £000
Operating activities			
Net cash flow from operating activities		**6,568**	6,994
Interest received		**30**	74
Interest paid		**(9,349)**	(8,492)
UK tax received/(paid)		**43**	(43)
Net cash outflow from operating activities		**(2,708)**	(1,467)
Financing activities			
Issue costs of new loan		**(45)**	-
Net cash outflow from financing activities		**(45)**	-
Decrease in cash and cash equivalents		**(2,753)**	(1,467)
Cash and cash equivalents at the beginning of the year		**13,220**	14,687
Cash and cash equivalents at the year end	18	**10,467**	13,220

Company	2022 £000	2021 £000
Loss for the year	**(15)**	(1,135)
Adjustments for:		
Tax charge/(credit)	**90**	(376)
Finance income	**(30)**	(70)
Finance expense	**6,304**	8,804
Changes in working capital:		
Increase in trade and other receivables	**(1)**	(58)
Increase/(decrease) in trade and other payables	**220**	(171)
Net cash flow from operations	**6,568**	6,994

Notes to the financial statements
for the year ended 31 March 2022

1. Basis of preparation and authorisation of financial statements

The financial statements of HDF UK (Holdings) Limited and its subsidiaries (the “group”) for the year ended 31 March 2022 were authorised for issue by the board of Directors on 21 September 2022 and the Statement of Financial Position was signed on the board’s behalf by A N Le Gal and M McArdle. HDF UK (Holdings) Limited is a private company that has a limited liability by shares and is incorporated in the United Kingdom and domiciled in England and Wales.

On 31 December 2020, International Financial Reporting Standards (“IFRS”) as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021.

These consolidated and Company only financial statements have been prepared under IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK’s exit from the EU on 31 January 2020 and cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

Details of the group's accounting policies, including changes during the year, are included in note 3.

The group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

1.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	**Measurement basis**
Pension assets	Fair value
Certain assets in property, plant and equipment	Measured at deemed cost by reference to fair value on adoption of IFRS on 1 April 2014

1.2 Changes in accounting policies

i) New standards, interpretations and amendments effective from 1 April 2021

The group has adopted all new accounting standards and interpretations with mandatory adoption date on or before 1 April 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC Agenda Decision for IAS 38 – Software-as-a-Service
The International Financial Reporting Interpretations Committee (IFRIC) released an Agenda Decision in 2021 that clarifies the accounting treatment of Software-as-a-Service “SaaS” arrangements under IAS 38 Intangible Assets. Under this decision IFRIC concluded that, in general, a SaaS arrangement is a service contract and not a lease of the software code or an intangible asset of the software code.

The group has revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements. Costs incurred to configure or customise the application will be recognised as operating expenses when the services are received. The exception is where costs are incurred that modify or enhance existing on-premise systems, and these may be recognised as intangible assets subject to the recognition criteria being satisfied.

Costs incurred in relation to SaaS arrangements in the year ended 31 March 2022 have been expensed where appropriate in line with the IFRIC Agenda Decision and the group’s revised accounting policy. No costs had been capitalised in prior periods relating to SaaS.

Notes to the financial statements
for the year ended 31 March 2022

1. Basis of preparation and authorisation of financial statements *(continued)*

ii) New standards, interpretations and amendments not yet effective

At the date of these financial statements, the following Standards and Interpretations were in issue but not yet effective (and in some cases had not yet been adopted by the UK) and have not been applied to these Financial Statements:

New standard or interpretation		
IFRS 9 (amended)	Financial Instruments	1 April 2022
IFRS 17	Insurance contracts (replaces IFRS 4)	1 April 2023
IAS 1 (amended)	Presentation of Financial Statements	1 April 2023
IAS 8 (amended)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2023
IAS 12 (amended)	Income taxes	1 April 2023

The directors do not anticipate that the adoption of the Standards and Interpretations listed above will have a material impact on the finances of the group or company, but may have an impact on the presentation in the financial statements of the group or company in future periods.

2. Key judgements and sources of estimation uncertainty

2.1 Key judgements

The preparation of financial statements requires the application of judgements and assumptions by management which affects the value of assets and liabilities at the balance sheet date and income and expenditure for the year. Actual results may differ from those arrived at based on management's judgements and assumptions.

Our key judgements and sources of estimation uncertainty have been considered in light of the ongoing Covid-19 pandemic. Where a judgement or assumption is impacted by Covid-19, this is noted in the relevant section. Where there is no reference to Covid-19, this is because it is not considered that Covid-19 affects a particular judgement or assumption.

The capitalisation of costs including employee and other directly attributable costs
The group incurs significant expenditure on its infrastructure assets and management has to exercise judgement in determining the classification of these costs between capital and operating expenditure. The group capitalises expenditure where the expenditure enhances assets or increases the capacity of the network. Expenditure which maintains the asset's potential to deliver future economic benefits is commonly referred to as "repairs and maintenance" and is recognised in the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works can be subjective, particularly where projects may include both activities.

The group determines employee costs directly attributable to capital projects based on the time spent on the projects. Other directly attributable costs are then assessed. The costs relating to capital projects are then capitalised into individual projects. During the year £8.7 million of directly attributable employee costs (2021: £8.5 million) and £4.5 million of other attributable costs (2021: £4.1 million) have been capitalised. This represents 6.7 per cent of total operating costs before capitalisation (2021: 6.6 per cent). In addition, the group capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for property, plant and equipment for the year ended 31 March 2022 were £2.2 million (2021: £2.7 million).

Notes to the financial statements
for the year ended 31 March 2022

2. Key judgements and sources of estimation uncertainty *(continued)*

Provisions for other liabilities and charges – recognition of other provisions
A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These could include contractual, regulatory, employment and environmental matters which are managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 22, total £3.0 million at 31 March 2022 (2021: £3.5 million).

Retirement benefit obligations – recognition of a defined benefit asset
The Trust Deeds for the South East Water Pension Scheme (SEWPS) and the Mid Kent Group Pension Scheme (MKGPS) provide the group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan winding-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind-up the schemes or otherwise augment the benefits due to members of the schemes. Based on these rights, the Group considers that under IFRIC 14, it is appropriate to recognise the net surpluses in SEWPS and MKGPS of £26.2 million (2021: £10.7 million) and £31.2 million (2021: £23.7 million) respectively in full.

Climate change
We have identified climate change as our leading principal risk. The natural environment in which the group operates is continually changing and the expected impact on the group from climate change is set out within the climate related disclosures in the strategic report on page 40. The consequences of global warming could affect the quantity and quality of water resources and potentially disrupt our operations or those of others on whom we rely, such as energy suppliers.

The risks associated with climate change are long term in nature, and will create a need for us to adapt our infrastructure to improve resilience. Our assessment of transitional risks has identified a potential impact on asset values to the extent that investment in new low carbon technology could reduce remaining useful economic lives of existing assets. However, at this stage of our assessment and long term planning we have not identified any material impact on the value or lives of specific assets that can be directly linked to climate change.

2.2 Key sources of estimation uncertainty

Estimates are required to be made by management when preparing the financial statements. These estimates affect the value of assets and liabilities at the balance sheet date and income and expenditure for the year. The estimates and underlying assumptions are reviewed on an ongoing basis with any revisions to accounting estimates recognised in the period in which the estimate is revised and future periods where the revision affects both current and future periods. The actual results may differ from those arrived at based on management's estimates.

Unbilled water income
Unbilled water income at the year-end (Household customers): metered customers are billed on a six monthly cycle. This means that at the year-end there is a large volume of water which has been supplied but not billed to customers. The value of unbilled water income at 31 March 2022 is estimated to be £34.3 million (2021: £36.6 million).

The methodology for arriving at the value of unbilled consumption incorporates estimates of water used based on historical consumption data and the relevant tariffs for customers. Previously billed consumption history provides a reliable basis for the estimate that is included in the financial statements. Our historical analysis of consumption indicates that billed revenue has been within 2 per cent of our previous estimates of the value of unbilled consumption.

Notes to the financial statements
for the year ended 31 March 2022

2. Key judgements and sources of estimation uncertainty *(continued)*

Our analysis for 2020/21 indicated that there was a difference of £2.8 million or 7.7 per cent between the estimate of unbilled consumption at 31 March 2021 and subsequent bills issued to customers. This under estimate was caused by exceptional Covid-driven household demand over the winter of 2020/21 that was originally assumed to relate to higher levels of leakage.

To provide further confidence in the existing methodology for calculating the value of unbilled consumption, we have tested the September 2021 accrual against subsequent billing. The result of this validation has demonstrated that the accrual at September was within 0.5 per cent (£0.2 million) of the reported interim figure, confirming the view that the methodology is sound and the variance was due to exceptional Covid-related factors that existed during the winter of 2020/21.

The sensitivity of the estimate of unbilled consumption is illustrated in the table below where the impact of fluctuations in estimated water consumption in one year of one per cent and two per cent have been set out. These variants have been selected because our annual assessment of unbilled revenue is usually within 2 per cent of actual billed revenue.

Unbilled water income		**Sensitivity**			
		+1%	+2%	-1%	-2%
31 March 2022	**£34.3m**	**+£0.3m**	**+£0.7m**	**-£0.3m**	**-£0.7m**
31 March 2021	**£36.6m**	**+£0.4m**	**+£0.7m**	**-£0.4m**	**-£0.7m**

Unbilled water income at the year-end (Wholesale customers): Water revenue chargeable to wholesale customers is governed by the Market Settlement Process and information provided by the Central Market Operating System. System data is used to estimate the amount of unbilled revenue in respect of wholesale customers. As at 31 March 2022, the level of unbilled revenue was estimated to be £6.7 million (2021: £3.3 million).

Unbilled water income		**Sensitivity**			
		+1%	+2%	-1%	-2%
31 March 2022	£6.7m	+£0.07m	+£0.13m	-£0.07m	-£0.13m
31 March 2021	£3.3m	+£0.03m	+£0.07m	-£0.03m	-£0.07m

Our calculations are prepared at the year-end but based on consumption patterns over the last six months. The restrictions that have applied to households and businesses over the last two years as a result of the Covid-19 pandemic are therefore factored into the calculation of the estimates of unbilled water income and no further adjustments are necessary.

The useful lives of infrastructure and non-infrastructure assets
Management estimates the useful economic lives of infrastructure and non-infrastructure assets employed by the group in meeting its business objectives. Tangible and intangible assets are categorised by type of asset or equipment and an appropriate estimate of how long the assets in each category will remain operational and economically viable is made. This estimate will determine the value of depreciation charged to the income statement each year and the carrying value of fixed assets in the balance sheet.

The estimates are based on management's judgement and experience and are reviewed annually to ensure they are still suitable. Additionally, an impairment review of assets is undertaken each year to identify any assets that may be impaired and to write down the value of those assets to the future economic value.

The sensitivity on the annual depreciation charge due to the estimates of asset lives is illustrated in the tables below using examples of the lives attributed to:
- Wells & boreholes of 60 years
- Light plant and machinery of 20 years
- Computer software of 5 years

Notes to the financial statements
for the year ended 31 March 2022

2. Key judgements and sources of estimation uncertainty *(continued)*

Wells & boreholes		Sensitivity			
		+5 years	+20 years	-5 years	-20 years
31 March 2022	£3.2m	-£0.2m	-£0.8m	+£0.3m	+£1.6m
31 March 2021	£3.0m	-£0.2m	-£0.8m	+£0.3m	+£1.5m

Light plant and machinery		Sensitivity			
		+5 years	+10 years	-5 years	-10 years
31 March 2022	£21.5m	-£4.3m	-£7.2m	+£7.2m	+£21.5m
31 March 2021	£20.8m	-£4.6m	-£6.9m	+£6.9m	+£20.8m

Computer software		Sensitivity			
		+1 year	+3 years	-1 year	-3 years
31 March 2022	£3.0m	-£0.5m	-£1.1m	+£0.8m	+£4.5m
31 March 2021	£1.7m	-£0.3m	-£0.6m	+£0.4m	+£2.6m

Provision for doubtful trade receivables

Household Debt
Our Household customer base includes customers who cannot or will not pay their bills and, therefore, we need to make a provision for the level of doubtful debt. The value of the provision for doubtful debts as at 31 March 2022 was £31.5 million (2021: £27.5 million).

Our methodology establishes the expected credit loss of our household debt at the year-end by identifying customer debt categories and projecting historic cash collections across these customer groups to determine an estimate of irrecoverable debt. The expected credit loss is calculated based on estimated cash collection percentages that take into account historical performance, and also on our expectations of the future impact of external economic factors on the group's collection of household debt. A number of emerging economic factors including higher energy and fuel prices, rising inflation and increases in taxation are already impacting household disposable income and are expected to continue to do so.

Our cash collection history over the past three years has been used to determine future collection rates, in line with the approach for 2020/21. This marks a change in practice from earlier years where cash collection history over the past four years had been used. This change in approach was initially as a result of Covid-19 and the impact that the pandemic has had on household finances, and places a greater weight on cash collection history over the last two years when the economic pressures from Covid-19 have been a factor.

The sensitivity of the bad debt provision is illustrated in the table below where the impact of using a cash collection history over the past four years, as was the case up until 2019/20, and over the last two years as the basis for determining the expected credit loss is shown.

The impact of reducing the cash collection history to three years is equivalent to a reduction in cash collection rates of 1.6 per cent. In addition, in our calculations of the expected credit loss we do not take credit for cash collections expected to be received after more than four years. This is equivalent to reducing cash collection percentages by an additional 2.4 per cent. We consider that these adjustments fairly reflect the potential future impact of wider economic factors on cash collection rates.

Notes to the financial statements
for the year ended 31 March 2022

2. Key judgements and sources of estimation uncertainty *(continued)*

Bad debt provision estimate		**Cash collection history**	
		2 years	4 years
31 March 2022	£31.5m	+£0.9m	-£1.0m
31 March 2021	£27.5m	+£0.8m	-£0.7m

Retailer Debt
South East Water provides wholesale supply to Retailers through the Non-household market/MOSL. Trading terms are governed under the Wholesale Code and as such we secure collateral from Business Retailers in the form of bank guarantee, deposit or other form of security. At the year-end, our assessment is that the security provided by Business Retailers obviates the need to make a provision against retailer debt.

Management has reviewed the estimates included in the wholesale provisions and we do not consider there to be any need for further adjustment to reflect the impact of Covid-19 due to the security and guarantees held by the group as is noted above.

Pension and other post-employment benefits
There are a range of variables required to be determined to value the company's defined benefit pension schemes and the underlying costs of providing post-employment benefit.

The costs of defined benefit pension schemes are determined using actuarial valuations. The actuarial valuations are determined by using certain assumptions for discount rates, mortality rates, expected return on assets and corporate bond performance projections as set out in note 24. Pension increases are based on expected future inflation rates. The net defined benefit pension scheme asset at 31 March 2022 is £57.3 million (2021: asset of £34.4 million) and is recognised in full.

The sensitivity of the estimate of the surplus in the pension schemes is illustrated in the table below where the impact of fluctuations in prevailing market conditions on key assumptions of discount rate, inflation and life expectancy have been set out.

Sensitivities	**Decrease in schemes' surplus**			
	2022	**2022**	2021	2021
0.1% decrease to the discount rate	**£3.9m**	**1.5%**	£4.0m	1.5%
0.1% increase to inflation	**£3.5m**	**1.4%**	£3.5m	1.3%
One year increase in life expectancy	**£11.1m**	**4.4%**	£12.5m	4.6%

The impact of Covid-19 will potentially be seen in the membership of the Scheme at the year end and in the assumption for future improvements in life expectancy.

In 2020 and 2021 mortality rates were significantly higher than the long-term trend as a result of Covid, although 2021 was an improvement on 2020. The latest version of the CMI projections model (CMI_2021) allows users to choose what weight to place on 2020 and 2021 mortality experience.

The choice of weighting to apply to recent data is a complex area and will require judgements to be made.

The group's current view of an appropriate best estimate position is to adopt a weighting of 10 per cent of mortality experience in 2020 and 2021. This is broadly equivalent to assuming mortality rates in 2022 are worse than the 2019 rates, but subsequently improve back to 2019 rates over several years.

Moving from a weighting of 0 per cent to 10 per cent for 2020 and 2021 data in the CMI_2021 model results in a reduction in liabilities of around 2 per cent at the 2022 year-end.

As this is a roll-forward calculation, the liabilities are based on the membership as at the last formal valuation at 31 March 2020 and will ignore any excess deaths experienced over the remainder of 2020 and 2021.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies

Our accounting policies have been considered against the background of the Covid-19 outbreak and, where appropriate, relevant factors have been taken into account in preparing our financial statements.

The principal accounting policies adopted by the group are set out below. These policies have been consistently applied in both the current and prior years, except for those changes required due to the mandatory adoption of new reporting standards.

3.1 Going Concern

HDF Group reviews and considers the risks to which the Company and its subsidiaries ("the Group") are exposed and potential impacts on viability on an ongoing basis. This includes structured, systems-based risk identification processes and management controls, robust budgeting and forecasting and continuous sensitivity analysis.

Principal risks represent all factors that could prevent the Group from delivering its strategic objectives and business plan. Based on the principal risks, we have identified relevant risk factors that can cause negative impact on the financial position of the Group. Where it is assessed that (1) a principal risk is likely to occur and (2) the financial impact could be material, the implications for financial resilience are assessed through defined downside sensitivities.

During the Covid-19 pandemic the government advised the public to work from home. This resulted in an unprecedented demand for water within our region due to the high population of London commuters. The worst of the pandemic is now behind us and work-from-home guidance is no longer in place. However, many people continue to work from home on a full or part time basis as companies have embraced agile working on a more permanent basis. This change in working culture continues to drive higher demand for water within our region compared with pre-pandemic levels.

Russia's invasion of Ukraine has triggered wider political uncertainty and contributed towards a surge in power prices. UK inflation is currently at its highest level in over 30 years. The cost-of-living pressures now being experienced by our customers are expected to have some impact on cash collection, notwithstanding our additional support to help make bills affordable for our customers most in need.

The Group's forecasts and projections include assumptions on continuing higher demand for water. In addition we have made allowance for the general pressures on household finances via additional bad debt provisions in our base case. We have also allowed for additional power cost headwinds within our base case assumptions.

Our sensitivities combine qualitative and quantitative criteria and cover the risk associated with inflation, interest rates, Outcome Delivery Incentives ("ODIs") penalties, Operating cost and Capital ("Totex") overspend and retail cost overspend, to assess their impact on liquidity and compliance with financial ratios.

The severe but plausible downside case represents a situation where several of the severe scenarios above occur simultaneously. This downside scenario implies a recession and is considered in parallel to severe underperformance on both Totex and ODIs, and c.£7m of additional bad debts during the remaining years in AMP7 to 31 March 2025.

The results of our assessment revealed that under the severe but plausible downside scenario it is likely that certain of SEW's financial covenant thresholds would be breached, constituting a Trigger Event. The impact of a Trigger Event would be to prevent cash payments out of the ring-fence group (comprising South East Water Limited, South East Water (Finance) Limited and South East Water (Holdings) Limited) to affiliated entities, providing a degree of protection to these companies and specifically to the operation of the regulated business of South East Water.

The Trigger Event and dividend-lock up could give rise to a default event in servicing Hastings Luxembourg Water S.a.r.l.'s (HLux) debt. In this situation, the shareholders of HDF would be able to "cure" the covenant breach by injecting additional funding in the form of share capital.

Notes to the financial statements
for the year ended 31 March 2022

In adopting the going concern basis of preparation for these financial statements, the Directors have considered HDF Group's liquidity position, financial forecasts, stress testing of principal risks and uncertainties described above via the severe but plausible downside scenario, and the impact of these stress tests on committed funding facilities levels and applicable covenants. They have also considered the ability of HLux to refinance the £150m loan which is due for repayment on 18 December 2023

The Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the Group financial statements.

In making this determination, the directors have considered two key uncertainties.

1. The uncertainties relating to the refinancing the £150m loan of a direct subsidiary, Hastings Luxembourg Water S.a.r.l., which is due for repayment on 18 December 2023 and;
2. The covenant position at HDF Group level under the severe but plausible downside scenario.

The directors have appointed financial advisers to assist with the refinancing and after making appropriate enquiries with these advisers, believe that Hastings Luxembourg Water S.a.r.l will be able to refinance prior to 18 December 2023. However, there is currently no commitment from a finance provider and therefore no certainty this loan will be refinanced prior to 18 December 2023.

In the event that the Group's financial performance is in line with or below the severe but plausible downside scenario, the Group will breach covenants at 31 March 2023. In this situation, the shareholders would be able to "cure" the covenant breach by injecting additional funding in the form of share capital.

However, in the absence of a definitive commitment from shareholders to provide additional equity to cure any covenant breach and in the absence of a commitment from a finance provider to refinance the £150m loan due for repayment on 18 December 2023, some uncertainties exists regarding the ability of the Group to continue as a Going Concern. These uncertainties represent material uncertainties at the date of this report that could cast significant doubt upon the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

3.2 Basis of consolidation

These financial statements incorporate the financial information of HDF (UK) Holdings Limited and its subsidiaries (together the "group").

Transactions and balances between the company and its subsidiaries and between fellow subsidiary companies have been eliminated fully on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

3.3 Revenue

Revenue represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided. All revenue arises within the United Kingdom and is recorded net of VAT. The company only recognises revenue in respect of "named" customers, that is the company will not bill an address without first knowing the name of the person living at the address. Specific recognition criteria must also be met before revenue is recognised as detailed below.

Metered and unmetered income
The performance obligation of the group for metered and unmetered income is the supply of potable water to each named customer in the period under review.

Metered water income is recognised when water has been delivered to the customer and the performance obligation has been satisfied for the period. This income includes an estimation of the volume of mains water supplied but unbilled at the year-end. This is estimated using a defined methodology as detailed under key sources of estimation uncertainty above.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

Unmetered water income was invoiced in full for the financial year 2021/22 on 1 April 2021 and is recognised over the year as water is supplied to the named customer and the performance obligation is satisfied.

Cash received in advance from customers is not treated as current year revenue, being recognised as payments received in advance within creditors.

Infrastructure charges
Infrastructure charges represent the fees charged to property developers and others for connecting new properties and water outlets to the group's network. The performance obligation within these contracts is the completed connection of the relevant properties and outlets to the mains supply. These fees are recognised in the income statement upon completion of the performance obligation.

Contributions
Contributions are received in respect of both infrastructure and non-infrastructure assets and are usually received in advance of the work being undertaken by the group. The receipts are recognised as deferred income on the balance sheet upon receipt. The performance obligation for this income stream is the completion of the work to which contributions relate. The income is recognised in the income statement upon completion of the specific performance obligations.

Rechargeable works
Rechargeable works includes the administration work required to be performed for developers in managing new connections and other mains related projects. Also included in rechargeable works are the sales of plumbing and related services to third parties.

The performance obligations for rechargeable works are the installation of meters, the connection of new property developments to the mains supply and the completion of specific contracted work. The income for rechargeable works is recognised when the performance obligations are completed.

Other income
Other income includes charges for engineering, scientific, laboratory, billing and cash collection services.

The performance obligations for the supply of these services are detailed in the specific contracts with customers and the income is recognised in the income statement when the work to which it relates is complete.

Finance income
Finance income is recognised using the effective interest rate method.

3.4 Taxation

Current tax, being UK Corporation Tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tax relating to items recognised directly in equity is also recognised directly in equity and not in the income statement.

Deferred tax is provided using the balance sheet method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences and the carry forward of unused tax assets and losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax assets and losses can be utilised.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

Deferred tax assets are recognised for the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. In accordance with IAS 12 Income Taxes, deferred taxes are not discounted.

Overseas taxation is charged on the group's Luxembourg incorporated subsidiary, Hastings Water (Luxembourg) S.a r.l.. The liability is estimated for the financial year and charged to the income statement where this subsidiary has not been assessed yet. Advance payments are disclosed in the assets of the balance sheet. The subsidiary is subject in Luxembourg to the applicable general tax regulations.

3.5 Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the board.

3.6 Investments in subsidiaries

Investments are recorded at historical cost. Where the directors are of the opinion that there has been a permanent diminution in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

3.7 Intangible assets

i) Intangible assets
Externally acquired and internally generated intangible assets, once in use, are recognised at cost. They have finite useful lives and are amortised over three to five years on a straight-line basis. Residual values and useful lives of all assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

Employee and other costs directly attributable to intangible asset projects are capitalised in the financial statements as part of the cost of the intangible asset to which they relate. Training costs, administration and other general overhead costs including interest are not capitalised.

Intangible assets under development are amortised once brought in to use.

(ii) Derecognition of intangible assets
An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the year in which the item is derecognised.

(iii) Software-as-a-Service "SaaS" arrangements
SaaS arrangements are service contracts that allow the group the right to access the cloud service provider's software over the contract period. Costs incurred to configure or customise the application, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where costs are incurred relating to the development of software code that enhances or modifies existing on-premise systems, the costs are recognised as intangible software assets, subject to meeting the recognition criteria for an intangible asset. These are amortised over the useful life of the software on a straight line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

3.8 Property, plant and equipment

Infrastructure assets
Infrastructure assets comprise a network of systems relating to water distribution. Infrastructure assets in the course of construction are depreciated from the time they are brought into use. All other infrastructure assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the assets, being between 20 years and 100 years for all infrastructure assets, except surface reservoirs, which have useful economic lives of 250 years.

Non-infrastructure assets
Freehold land is not depreciated. Assets in the course of construction are depreciated from the time they are brought into use. All other non-infrastructure assets are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings: 80 years – part of land, wells, reservoirs and buildings in note 13
Operational structures: 50-80 years – part of land, wells, reservoirs and buildings in note 13
Fixed plant and machinery: 10-35 years – part of plant, equipment and vehicles in note 13
Meters, vehicles, mobile plant, computers, furniture and office equipment: 3-10 years – part of plant, equipment and vehicles in note 13

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Residual values and useful lives
Residual values and useful lives of all assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

Capitalisation of employee and other directly attributable costs
Employee and other costs, including borrowing costs, directly attributable to capital projects are capitalised in the financial statements as part of the cost of the property, plant and equipment to which they relate. Training costs, administration and other general overhead costs are not capitalised.

Leased assets
Property, plant and equipment held under leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. These assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Impairment of property, plant and equipment, investments and intangible assets
At each reporting date an assessment is carried out to determine whether there is any indication that property, plant and equipment, investments and software intangible assets may be impaired. If there is an indication of impairment, the recoverable amount of the asset or respective cash-generating unit is compared to the carrying amount. Where the recoverable amount is less than the carrying amount, the asset value is reduced to the recoverable amount with an impairment loss recognised as an operating cost in the income statement in the year in which the respective assessment takes place.

3.9 Borrowing costs

Borrowing costs are incurred on the group's general borrowings. Where appropriate borrowing costs are attributed to qualifying assets in line with IAS 23 Borrowing Costs. Otherwise borrowing costs are expensed as incurred. See note 9 for further details.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

3.10 Inventories

Inventory is valued at the lower of average cost or net realisable value. The stocks of treated water held by the group are valued at £nil. Consumable chemical purchases are recognised as an expense in the income statement at the point they are received on site for use, either from central stores or from suppliers direct.

Work-in-progress for chargeable services is valued at the lower of cost and net realisable value.

3.11 Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

3.12 Short term trade and other receivables

Short-term trade and other receivables are initially measured at their transaction price in line with the provisions of IFRS 9. The carrying value for trade receivables includes an allowance for the lifetime expected credit loss (doubtful debts) of the outstanding debts. The group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. An estimate for the expected credit loss for trade receivables that are assessed not to be impaired individually is calculated by the group's management in accordance with the defined methodology detailed under key sources of estimation uncertainty above.

3.13 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Included within cash and cash equivalents are amounts that are held in designated bank accounts as short-term deposits in order to meet the interest falling due in respect of listed debt and other long-term borrowings.

3.14 Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

3.15 Trade payables

Trade payables are measured at fair value and subsequently measured at amortised cost.

3.16 Financial instruments

The group's financial instruments comprise fixed and variable rate borrowings, index linked loans, fixed rate debentures, lease liabilities, cash, short-term and medium-term bank deposits, trade receivables and trade and other payables.

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

Recognition
Financial instruments are recognised on the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group determines the classification of its financial liabilities at initial recognition.

Derivative financial instruments
The group uses an interest rate swap to hedge its risks associated with certain interest rate fluctuations. This use does not qualify for hedge accounting. Derivative financial instruments are recognised initially and subsequently in the statement of financial position at fair value with any movements during the year charged or credited to the income statement. The fair value is determined by reference to market values for similar instruments.

Impairment of financial assets other than trade receivables
A provision for twelve month expected credit loss on new financial assets is recognised in the income statement to establish a loss allowance on initial recognition in line with the impairment requirements of IFRS 9.

At each reporting date an assessment is carried out to determine whether there is any indication that the credit risk on financial assets has increased significantly. If this is considered to be the case, full life-time expected credit loss is recognised in the income statement.

Where there is objective evidence that an impairment loss has arisen, the loss is recognised in the income statement in the year in which the respective assessment takes place. Impaired debts are derecognised when they are assessed as irrecoverable.

Derecognition
Financial liabilities are removed from the statement of financial position when the related obligation is discharged, cancelled or it expires.

Financial assets are removed from the statement of financial position when the rights to the cash flows from the asset expire, or when the risks and rewards of ownership of the asset are transferred or when control of the asset is transferred.

Embedded derivatives
Financial instruments that are not carried at fair value through the income statement are reviewed to determine if they contain embedded derivatives. Embedded derivatives are accounted for separately as derivative financial instruments when the economic characteristics and risks are not closely related to the respective host financial instrument or contracts.

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Liabilities arising on leases
The initial values of lease liabilities equate to the present value of future lease payments under the relevant lease contracts. The group has applied the practical expedient of using a single discount rate to leases with reasonably similar characteristics. The discount rates used in calculating the liabilities reflect the interest rates at which the group would be able to borrow in order to finance similar assets to those under the lease (the incremental borrowing rate).

Notes to the financial statements
for the year ended 31 March 2022

3. Accounting policies *(continued)*

3.17 Revaluation reserve

The revaluation reserve was created on the adoption of IFRS when the group took the option to treat the revalued amounts as deemed cost. This reserve is released over the life of the underlying assets to which it relates in line with the depreciation of the revalued assets and transferred to retained earnings. The revaluation uplift remaining on any assets that are disposed of is also transferred to retained earnings at the time of the disposal.

3.18 Research and development

Research costs are charged to the income statement in the year in which they are incurred.

Development costs are capitalised based on management's judgement that the technological and economic feasibility of a project is confirmed, usually when a project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

3.19 Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

3.20 Defined benefit schemes

The pension scheme asset or liability in the statement of financial position represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date. The present value of the defined benefit obligation is analysed between the funded and unfunded pension plans.

The present value of the defined benefit obligation and the cost of providing benefits under defined benefit plans is determined on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method, discounted at an interest rate equivalent at measurement date to the rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

The pension cost in the income statement includes current and past service cost and the effect of any settlements and curtailments. A net finance charge or credit is recognised within finance costs in the income statement and comprises the net of the expected return on pension scheme assets and the interest on pension scheme liabilities.

All actuarial gains and losses and the related deferred taxation are recognised in the statement of comprehensive income.

Notes to the financial statements

for the year ended 31 March 2022

4. Total Income

The following is an analysis of the group's revenue and other income for the year from continuing operations:

	2022	2021
	£000	£000
Revenue		
Unmetered water income	**20,343**	19,983
Metered water income	**219,244**	219,168
Other sales	**11,689**	9,005
Total revenue	**251,276**	248,156
Other income		
Rent receivable	**1,134**	1,174
Other income	**20,794**	10,265
Total other income	**21,928**	11,439
Total income	**273,204**	259,595

All revenue is from customers within the United Kingdom.

Other sales comprise a number of income streams, including those associated with activities typically performed for property developers, which impact the group's infrastructure network assets, including diversions works to relocate water assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water services. Other sales includes new connections income of £5.2 million (2021: £3.9 million), infrastructure income of £2.7 million (2021: £1.8 million), capital contributions of £2.3 million (2021: £1.8 million) and rechargeable works of £1.3 million (2021: £1.1 million).

Other income includes charges for billing and cash collection services amounting to £6.9 million (2021: £8.0 million), interim insurance proceeds in respect of an insurance claim relating to the Aylesford sinkholes of £10.0 million (2021: £nil) and laboratory income of £2.7 million (2021: £2.3 million).

Under the terms of the Group's insurance policies we are able to claim for the additional costs of working, or business interruption, arising from the damage to the service reservoirs at Aylesford in 2020 caused by a series of sinkholes. The cover is for additional costs of working incurred for up to a year from the date of the damage. An interim payment of £4.0 million (2021: £nil) was received in respect of business interruption cover in March 2022. We also received insurance proceeds of £6.0 million (2021: £nil) in respect of the damage caused to the service reservoirs.

Notes to the financial statements
for the year ended 31 March 2022

5. Net operating costs

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Employee benefits expense (See note 6)	**32,528**	25,531	**112**	116
Asset expense/(income):				
Depreciation – owned assets	**54,702**	51,922	**-**	-
Depreciation – right-of-use-assets	**964**	985	**-**	-
Impairment of property, plant and equipment	**-**	2,353	**-**	-
Amortisation of intangible assets	**2,994**	3,497	**-**	-
Impairment of intangible assets	**19**	-	**-**	-
Loss on disposal of property, plant and equipment	**884**	723	**-**	-
	59,563	59,480	**-**	-
Other operating expenses/(income):				
Operating lease rentals:				
vehicles and office equipment	**364**	255	**-**	-
land and buildings	**63**	16		-
Fees payable to the Group's auditors (see below)	**507**	536	**77**	79
Other expenses (see below)	**96,401**	97,404	**260**	546
Other operating expenses charged to capital projects	**(4,551)**	(4,139)	**-**	-
	92,784	94,072	**337**	625
	184,875	179,083	**449**	741

Asset expense in 2020/21 includes an amount of £2.3 million written off the book value of the service reservoirs at Aylesford following the damage caused by sinkholes (see note 13 for further details).

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Fees payable to the Group's auditors in respect of:				
Audit of the Group and Company financial statements	**71**	63	**71**	69
Audit of subsidiaries	**356**	365	**6**	10
Total audit	**427**	428	**77**	79
Regulatory accounts	**65**	84	**-**	-
Other assurance services	**15**	22	**-**	-
Services relating to iXBRL account coding	**-**	2	**-**	-
Total non-audit services	**80**	108	**-**	-
Total fees charged to income statement	**507**	536	**77**	79

Notes to the financial statements
for the year ended 31 March 2022

5. Net operating costs *(continued)*

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Other expenses comprise:				
Energy costs	**20,858**	19,795	**-**	-
Rates	**18,470**	18,403	**-**	-
Contractors	**26,894**	28,727	**-**	-
Bulk water supplies and abstraction licences	**8,326**	9,251	**-**	-
Chemicals	**4,037**	3,797	**-**	-
Insurance	**2,990**	3,442	**150**	92
Other	**14,826**	13,989	**110**	454
	96,401	97,404	**260**	546

6. Directors and employees

The average monthly number of persons, including salaried directors, employed by the group and company during the year was:

	Group		Company	
	2022	2021	**2022**	2021
	Number	Number	**Number**	Number
Operations	**429**	416	**-**	-
Management and administration	**573**	571	**1**	1
	1,002	987	**1**	1
	£000	£000	**£000**	£000
The aggregate payroll costs of these persons are as follows:				
Wages and salaries	**34,643**	34,938	**94**	97
National insurance	**3,476**	3,512	**11**	11
Defined benefit scheme charge/(credit)	**586**	(6,895)	**-**	-
Defined contribution pension costs	**2,519**	2,489	**7**	8
	41,224	34,044	**112**	116
Less: direct salary costs charged to capital projects and infrastructure renewals schemes	**(8,696)**	(8,513)	**-**	-
	32,528	25,531	**112**	116

The key management personnel of the company are the directors. The directors are appointed by the shareholders and no remuneration is paid to the directors by the company or by any subsidiary company in the group.

7. Income from shares in other group undertakings

Company	**2022**	2021
	£000	£000
Investment income from Hastings Water (UK) Limited	**5,400**	5,600
Investment income from Swan Group	**1,398**	2,364
	6,798	7,964

Notes to the financial statements
for the year ended 31 March 2022

8. Finance income

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Interest receivable on bank balances and short term deposits	**43**	128	**30**	70
Pension fund finance income (see note 24)	**692**	761		-
	735	889	**30**	70

9. Finance expenses

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Debenture interest	**42**	30	**-**	-
Effective interest on listed debt	**13,997**	13,755	**-**	-
Indexation on variable rate bonds	**13,563**	2,383	**-**	-
Interest rate swap charges	**1,686**	1,568	**-**	-
Fair value movements on interest rate swap	**(3,148)**	(669)	**(3,148)**	(669)
Interest payable on loan notes	**5,760**	5,425	**-**	-
Bank interest and other finance charges	**6,724**	7,032	**-**	-
Financing guarantee fees	**1,291**	949	**-**	-
Interest payable on index linked loans	**13,114**	12,745	**-**	-
Interest payable to shareholders	**5,546**	5,598	**-**	-
Interest payable on leases	**100**	128	**-**	-
Amortisation of the revaluation of liabilities	**(350)**	(350)	**-**	-
Indexation on index linked loans	**18,601**	6,694	**-**	-
Interest payable on group company loans	**-**	-	**8,911**	8,936
Amortisation of loan issue costs	**1,165**	1,152	**541**	537
Interest and related fees payable	**78,091**	56,440	**6,304**	8,804
Interest capitalised	**(2,186)**	(2,694)	**-**	-
	75,905	53,746	**6,304**	8,804

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 3.7 per cent (2021: 3.7 per cent)

Indexation on index linked bonds and loans are higher due to the increased inflation and higher RPI compared to prior year.

Notes to the financial statements
for the year ended 31 March 2022

10. Taxation

10.1 Income tax recognised in income statement

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Current tax				
Current tax on profits for the year	**-**	827	**(527)**	(641)
Adjustments in respect of prior years	**(895)**	(85)	**-**	138
Foreign tax	**4**	4	**-**	-
Total current tax (credit)/charge	**(891)**	746	**(527)**	(503)
Deferred tax expenses/(credits)				
Origination and reversal of timing differences	**1,981**	4,622	**598**	127
Adjustments in respect of prior years	**3,091**	(775)	**-**	-
Relating to impact of change in tax rate	**40,843**	-	**19**	-
Total deferred tax charge	**45,915**	3,847	**617**	127
Tax charge/(credit) reported in the income statement	**45,024**	4,593	**90**	(376)

The reasons for the difference between the actual tax charge or credit for the year and the standard rate of corporation tax in the United Kingdom applied to profits or losses for the year are as follows:

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Profit/(loss) before taxation	**8,149**	23,867	**75**	(1,511)
Tax using the company's domestic rate of 19% (2021: 19%)	**1,548**	4,535	**14**	(287)
Expenses not deductible for tax purposes	**357**	(200)	**-**	-
Tax effect of income not taxable in determining taxable profit	**(972)**	312	**(1,292)**	(1,513)
Adjustments to current tax charge in respect of prior years	**(895)**	(85)	**-**	138
Adjustments to deferred tax charge in respect of prior years	**3,091**	(775)	**-**	-
Adjustments to deferred tax in respect of rate change	**40,843**	-	**19**	-
Fair value movements not subject to current tax	**-**	-	**-**	-
Other timing differences for which no deferred tax asset is recognised	**1,052**	806	**1,052**	806
Group relief losses surrendered at no cost	**-**	-	**297**	480
Total tax charge/(credit) reported in the income statement	**45,024**	4,593	**90**	(376)

As enacted by the Finance Act 2021, the main rate of UK corporation tax increases from 19 per cent to 25 per cent, effective 1 April 2023. The impact of the change in corporation tax has been included in the deferred tax liability. The total impact amounts to £52.7 million, of which £40.8 million is charged to the income statement; a liability of £13.5 million relating to revaluation reserves is charged directly to equity and an asset of £1.6 million relating to pension is recognised in other comprehensive income.

Notes to the financial statements
for the year ended 31 March 2022

10. Taxation *(continued)*

The deferred tax on temporary differences as at 31 March 2022 has been calculated using 25 per cent, the enacted future rate for the periods during which the temporary differences are expected to unwind.

The adjustments to current and deferred tax charge in respect of previous years represent the changes between the prior year financial statements and the prior year tax computations submitted. The expenses not deductible for tax purposes are primarily driven by the movement on general provisions, non-deductible entertainment expenditure, and depreciation on non-qualifying capital expenditure.

Changes in tax rates and factors affecting the future tax charges
The UK Government's Budget announcement to grant 130 per cent super-deduction capital allowance for qualifying plant and machinery (and 50 per cent allowance for special rate assets) expenditures from 1 April 2021 provides greater incentive to boost capital allowance availability to mitigate future tax charges.

10.2 Income tax recognised directly in equity

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Deferred tax				
Impact of deferred tax rate change	**(13,551)**	-	**-**	-

The impact of the rate change in respect of revaluation reserves amounts to £13.5 million, which is recognised directly in equity.

10.3 Income tax recognised in other comprehensive income

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Deferred tax				
Deferred tax (charge)/credit on net actuarial gain/(loss)	**(4,352)**	**2,844**	**-**	-
Impact of deferred tax rate change in respect of pension schemes	**1,639**	**-**	**-**	-
	(2,713)	**2,844**	**-**	-

The net liability recognised in other comprehensive income at 31 March 2022 of £2.7 million (2021: £2.8 million net asset) consists of a liability of £4.4 million relating to pension valuation and an asset of £1.6 million relating to the impact of rate change on pension that goes to equity.

10.4 Deferred tax

The following is the analysis of deferred tax liabilities/(assets) presented in the consolidated statement of financial position:

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Deferred tax liabilities/(assets)	**228,868**	166,689	**78**	**(539)**

Notes to the financial statements
for the year ended 31 March 2022

10. Taxation *(continued)*

10.4 Deferred tax *(continued)*

Group

	Opening balance £000	Recognised in Profit and loss £000	Recognised in OCI £000	Recognised directly in equity £000	Closing balance £000
2022					
Deferred tax liabilities/(assets) in relation to:					
Property, plant and equipment	161,330	2,976	-	-	164,306
Impact of rate change on property, plant and equipment	-	37,314	-	13,551	50,865
General provision – NI & incentive plan	(29)	29	-	-	-
Fair value swap	(539)	598	-	-	59
Rate change impact on swap fair value	-	19	-	-	19
Remeasurement of defined benefit obligation	5,927	1,469	4,352	-	11,748
Impact of deferred tax rate change in respect of pension scheme	-	3,510	(1,639)	-	1,871
	166,689	**45,915**	**2,713**	**13,551**	**228,868**
2021					
Deferred tax liabilities/(assets) in relation to:					
Property, plant and equipment	160,319	1,011	-	-	161,330
General provision – NI & incentive plan	(198)	169	-	-	(29)
Fair value swap	(666)	127	-	-	(539)
Remeasurement of defined benefit obligation	6,231	2,540	(2,844)	-	5,927
	165,686	3,847	(2,844)	-	166,689

Company

	Opening balance £000	Recognised in Profit and loss £000	Closing balance £000
2022			
Deferred tax (assets)/liabilities in relation to:			
Fair value swap	**(539)**	**598**	**59**
Rate change impact on swap fair value	**-**	**19**	**19**
	(539)	**617**	**78**
2021			
Deferred tax liabilities/(assets) in relation to:			
Fair value swap	(666)	127	(539)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax liability at 31 March 2022 was £228.9 million (2021: £166.7 million).

Notes to the financial statements
for the year ended 31 March 2022

10. Taxation *(continued)*

10.4 Deferred tax *(continued)*

Timing differences
All temporary timing differences are recognised in the deferred tax calculation.

The total amount of Tangible Fixed Assets (TFA) for R&D claims recognised in deferred tax asset for the year ended 31 March 2022 is £169,000 (2021: £236,000).

In respect of corporate interest restrictions, as of 31 March 2022, a cumulative £29.3 million disallowance is permanently unrecognised as a transfer pricing adjustment in respect of interest on related party debts. The disallowance relating to the year ended 31 March 2022 was £5.5 million (all prior years: £23.8 million).

11. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and shares data used in the basic and diluted earnings per share computations:

	Group		**Company**	
	2022 £000	2021 £000	**2022 £000**	2021 £000
(Loss)/profit for the year from continued operation	**(36,875)**	19,274	**(15)**	(1,135)
	2022 Number	2021 Number	**2022 Number**	2021 Number
Basic and diluted weighted average number of shares	**18,019,792**	18,019,792	**18,019,792**	18,019,792
Basic and diluted (loss)/earnings per share from continued operation	**(204.64p)**	106.96p	**(0.08p)**	(6.30p)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Notes to the financial statements
for the year ended 31 March 2022

12. Intangible assets

Group	Computer software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 April 2021	**27,679**	**1,257**	**28,936**
Additions	-	2,499	2,499
Transfers	1,365	(1,365)	-
Disposal	(82)	-	(82)
Reclassifications (to)/from tangible assets	42	-	42
At 31 March 2022	**29,004**	**2,391**	**31,395**
Accumulated amortisation and impairment			
At 1 April 2021	**(20,149)**	**-**	**(20,149)**
Charge for the year	(2,994)	-	(2,994)
Disposal	82	-	82
Reclassifications to/(from) tangible assets	(21)	-	(21)
Impairment charges	(19)	-	(19)
At 31 March 2022	**(23,101)**	**-**	**(23,101)**
Net book amount at 31 March 2022	**5,903**	**2,391**	**8,294**
Cost			
At 1 April 2020	27,245	206	27,451
Additions	-	2,822	2,822
Transfers	1,771	(1,771)	-
Disposal	(1,231)	-	(1,231)
Reclassifications (to)/from tangible assets	(106)	-	(106)
At 31 March 2021	27,679	1,257	28,936
Accumulated amortisation and impairment			
At 1 April 2020	(17,883)	-	(17,883)
Charge for the year	(3,497)	-	(3,497)
Disposal	1,231	-	1,231
At 31 March 2021	(20,149)	-	(20,149)
Net book amount at 31 March 2021	7,530	1,257	8,787

The company does not hold any intangible assets in the current or prior year.

Notes to the financial statements
for the year ended 31 March 2022

13. Property, plant and equipment

Group	Land, wells, reservoirs and buildings £000	Mains £000	Plant, equipment and vehicles £000	Assets in the course of construction £000	Total £000
Deemed cost					
At 1 April 2021	**261,075**	**1,187,201**	**433,972**	**81,231**	**1,963,479**
Additions	-	-	-	102,465	102,465
Transfers between classes	7,698	29,859	40,846	(78,403)	-
Reclassifications (to)/from intangible assets	-	-	(42)	-	(42)
Disposals	(3,606)	(178)	(3,427)	-	(7,211)
Revaluation	-	-	283	-	283
At 31 March 2022	**265,167**	**1,216,882**	**471,632**	**105,293**	**2,058,974**
Accumulated depreciation and impairment					
At 1 April 2021	(32,594)	(126,567)	(161,054)	-	(320,215)
Charge for the year	(5,183)	(20,510)	(29,973)	-	(55,666)
Disposals	2,487	115	3,411	-	6,013
Reclassification to/(from) intangible assets	-	-	21	-	21
Transfer between classes	181	-	(181)	-	-
At 31 March 2022	**(35,109)**	**(146,962)**	**(187,776)**	**-**	**(369,847)**
Net book amount at 31 March 2022	**230,058**	**1,069,920**	**283,856**	**105,293**	**1,689,127**
Assets under construction relate to the following categories	**13,582**	**65,413**	**26,298**	**-**	**105,293**
Deemed cost					
At 1 April 2020	249,274	1,144,337	421,850	59,669	1,875,130
Additions	-	-	-	90,434	90,434
Transfers	12,030	42,871	13,971	(68,872)	-
Reclassifications (to)/from intangible assets	(181)	97	190	-	106
Disposals	(48)	(104)	(2,039)	-	(2,191)
At 31 March 2021	261,075	1,187,201	433,972	81,231	1,963,479
Accumulated depreciation and impairment					
At 1 April 2020	(25,179)	(106,895)	(134,211)	-	(266,285)
Charge for the year	(5,135)	(19,722)	(28,050)	-	(52,907)
Eliminated on disposals	8	50	1,272	-	1,330
Impairment	(2,288)	-	(65)	-	(2,353)
At 31 March 2021	(32,594)	(126,567)	(161,054)	-	(320,215)
Net book amount at 31 March 2021	228,481	1,060,634	272,918	81,231	1,643,264
Assets under construction relate to the following categories	7,900	12,020	61,311	-	81,231

Notes to the financial statements
for the year ended 31 March 2022

13. Property, plant and equipment (*continued)*

During 2020/21, a series of significant sinkholes opened up underneath the service reservoirs at our site in Aylesford. These reservoirs held a maximum storage capacity of 20 ML of treated water and were severely damaged and put out of action. The site needed extensive ground stabilisation before work could commence on restoring the reservoirs to operational use. At 31 March 2021 only 25 per cent of the original storage capacity had been returned to use. In 2021/22 work at the site has continued. One of the reservoirs with a capacity of 5 ML was demolished as it was not possible to bring it back into service and it was deemed unsafe. Work has progressed on the remaining reservoir with a capacity of 10 ML, and it is anticipated that this work will be completed during 2022/23.

In 2020/21 the book value of the severely damaged reservoirs was written down to nil, leaving only the book value of the element that was returned to use in that year on the balance sheet. The loss recorded in 2020/21 amounted to £2.3 million.

An insurance claim was made in respect of the damage caused by sinkholes at the site. During the year an interim payment was received in respect of the damage amounting to £6.0 million.

A disposal has been recorded during the year, removing the cost and accumulated depreciation of the severely damaged reservoirs from the books. The insurance payment received is included in other income (see note 4).

The net book value of owned and leased assets included as “Property, plant and equipment” in the group statement of financial position is as follows:

Group	**2022 £000**	2021 £000
Property, plant and equipment owned	**1,678,147**	1,631,312
Right-of-use assets, excluding investment property	**10,980**	11,952
	1,689,127	1,643,264

Information about right-of-use assets is summarised below:

	2022 £000	2021 £000
Net book value		
Property	**7,200**	**7,753**
Plant and machinery	**3,780**	**4,199**
	10,980	**11,952**

There are no substantial additions to the leases during the financial year.

Notes to the financial statements
for the year ended 31 March 2022

14. Investment property

	2022 **£000**	2021 £000
Valuation		
At 1 April	**900**	1,818
Disposal of land at Hermitage Lane, Maidstone	**-**	(918)
At 31 March	**900**	900

The valuation of the land at Henwood in Ashford has been assessed on 18 May 2022 after taking advice from an independent valuer, Dalcour Maclaren Limited, 20 Hollingworth Court, Turkey Mill, Ashford Road, Maidstone, Kent, ME14 5PP, with a relevant professional qualification and recent relevant experience. The 2022 valuations were made by Dalcour Maclaren on an open market value for existing use basis. This valuation resulted in a small increase in the value of the property but was considered not sufficiently material to necessitate a change in the carrying value of the asset in the company's financial statements at 31 March 2022.

15. Investments

The parent company has investments in the following subsidiary undertakings. All investments held are for 100% of the voting rights and share capital of each subsidiary.

Subsidiary	Principal activity
Hastings Water (UK) Limited *^	Holding company
Hastings Luxembourg Water S.a r.l. *	Raising finance and lending to group companies
South East Water (Holdings) Limited	Holding company
South East Water Limited	Supply and distribution of water
South East Water Finance Limited	Raising finance and lending to group companies
Swan Group *^	Holding company
Swan Property Limited^	Property company
MKW Holdco 1 *^	Holding company

* Held directly by HDF (UK) Holdings Limited

^ The individual financial statements of these undertakings for the year ended 31 March 2022 were entitled to exemption from audit under s479A of the Companies Act 2006 as their outstanding liabilities as at 31 March 2022 have been provided with a parent company guarantee under s479C of the Companies Act 2006.

All subsidiary companies are incorporated in the United Kingdom and are registered at Rocfort Road, Snodland, Kent, ME6 5AH except Hastings Luxembourg Water S.a r.l., which is incorporated in Luxembourg and registered at 15, Boulevard F.W. Raiffeisen, L-2411 Luxembourg, RCS Luxembourg: B 100413 and South East Water (Finance) Limited, which is incorporated and registered at P O Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Island.

	£000
Cost and net book amount	
At 31 March 2021 and at 31 March 2022	**412,950**

16. Inventories

Group	**2022** **£000**	2021 £000
Consumables	**677**	636
Work in progress	**174**	37
	851	673

Notes to the financial statements
for the year ended 31 March 2022

17. Trade and other receivables

	Group		Company	
	2022	2021	**2022**	2021
	£000	£000	**£000**	£000
Financial asset receivables				
Trade receivables	**35,547**	39,524	**-**	-
Accrued income	**41,953**	40,835	**-**	-
Other receivables	**2,079**	2,250	**1**	4
Amounts due from subsidiary undertakings	**-**	-	**4,404**	3,920
	79,579	82,609	**4,405**	3,924
Non-financial asset receivables				
Prepayments and accrued income	**4,538**	4,129	**78**	73
Total trade and other receivables	**84,117**	86,738	**4,483**	3,997

At 31 March 2022 amounts owed to HDF by subsidiary undertakings relate to group relief which is payable on demand.

All trade receivables at 31 March 2022 and 31 March 2021 are denominated in sterling.

Trade receivables are stated after provision for doubtful debts of £34.8 million (2021: £30.9 million).

They are non-interest bearing and settlement is due within 12 months. Receivables are determined to be impaired where there is a poor payment history or insolvency of the debtor and are fully or partially provided for.

Movements in the provision for impairment of receivables were as follows:

	2022	2021
	£000	£000
Balance brought forward	**30,898**	28,085
Charge for the year	**5,010**	3,788
Amounts utilised	**(1,151)**	(975)
Provision carried forward	**34,757**	30,898

At 31 March, the analysis of trade receivables past due but not impaired is as follows:

	Total £000	<30 days £000	30-60 days £000	60-90 days £000	90-120 days £000	120-150 days £000	150-365 days £000	>365 days £000
2022	**35,547**	**7,978**	**3,034**	**1,746**	**1,059**	**1,004**	**7,745**	**12,981**
2021	39,524	7,872	3,773	2,280	1,548	1,410	7,953	14,688

Notes to the financial statements
for the year ended 31 March 2022

18. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 March:

	Group		Company	
	2022 **£000**	2021 £000	**2022** **£000**	2021 £000
Cash at bank and in hand	**20,031**	43,439	**1,467**	-
Short term bank deposits	**9,000**	13,559	**9,000**	13,220
	29,031	56,998	**10,467**	13,220

Included in the group cash at bank and in hand balance at 31 March 2022 was £12.1 million (2021: £38.8 million) held on an on demand deposit account.

At 31 March 2022, £0.1 million (2021: £0.8 million) of restricted cash was held for the group in designated bank accounts in order to meet interest and associated swap payments falling due in respect of the listed debt and interest payments on index linked loans (note 9).

19. Non-current financial liabilities

Group		**2022** **£000**	2021 £000
Loans and borrowings	(i)	**1,362,373**	1,280,122
Trade and other payables	(ii)	**4,154**	4,623
Derivative financial instruments	(iii)	**(312)**	2,835
		1,366,215	1,287,580

		2022 **£000**	2021 £000
(i) Loans and borrowings			
Irredeemable debenture stock	(a)	**950**	948
Listed bonds	(b)	**357,696**	344,328
Index linked loans	(c)	**418,475**	399,704
Other term loans and creditors	(d)	**149,033**	148,538
Amounts due to shareholders	(e)	**90,395**	90,395
Variable rate loan	(f)	**118,905**	118,725
Fixed rate loan	(g)	**223,744**	173,891
Lease liability	(h)	**3,175**	3,593
		1,362,373	1,280,122

Notes to the financial statements
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19. Non-current financial liabilities *(continued)*

	2022 **£000**	2021 £000
(a) Irredeemable debenture stock		
3 % perpetual stock	**25**	26
3 ½ % perpetual stock	**367**	364
4 % perpetual stock	**175**	176
5 % perpetual stock	**345**	342
5 ½ % perpetual stock	**1**	2
6 % perpetual stock	**37**	38
	950	948

Interest on irredeemable debenture stock is payable six monthly.

(b) Listed bonds

The group holds bonds listed on the London Stock Exchange with an original value of £296 million (2021: £296 million), with effective terms, as follows:

- £166 million (2021: £166 million) at a fixed rate of 5.5834%, falling due for repayment on 29 March 2029 (or earlier at the option of the group); and
- £130 million (2021:130 million) at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the group).

The carrying values of listed bonds were revalued when the group was restructured in October 2006. The movements in the values of the bonds are being amortised on a straight-line basis over the life of the bonds. Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate. Indexation also accrues on the bond repayable in 2041 under the terms of the bond.

Listed bonds are stated at the original consideration received plus accrued indexation less issue costs unamortised at the balance sheet date as follows:

	Loan due 2029 £000	Loan due 2041 £000	Total £000
2022			
Original loan consideration	166,000	130,000	296,000
Unamortised revaluations	2,502	-	2,502
	168,502	130,000	298,502
Indexation on bonds	-	60,932	60,932
Less: unamortised issue costs	(775)	(963)	(1,738)
Listed bonds	**167,727**	**189,969**	**357,696**
2021			
Original loan consideration	166,000	130,000	296,000
Unamortised revaluations	2,859	-	2,859
	168,859	130,000	298,859
Indexation on bonds	-	47,369	47,369
Less: unamortised issue costs	(886)	(1,014)	(1,900)
Listed bonds	167,973	176,355	344,328

Notes to the financial statements
for the year ended 31 March 2022

19. Non-current financial liabilities *(continued)*

(c) Index linked loans
The group holds index linked loans with an original value of £269 million (2021: £269 million) and with effective terms as follows:

- £135 million (2021: £135 million) at a variable rate linked to inflation, falling due for repayment on 30 September 2032 (or earlier at the option of the group);
- £34 million (2021: £34 million) at a variable rate linked to inflation, falling due for repayment on 30 September 2033 (or earlier at the option of the group); and
- £100 million (2021: £100 million) at a variable rate linked to inflation, falling due for repayment on 1 December 2037 (or earlier at the option of the group).

Indexation on the loans accrues under the terms of the loans. Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate. Index linked loans are stated after the uplift for accrued indexation and the deduction of issue costs to be amortised at the balance sheet date as follows:

	Loan due 2032 £000	Loan due 2033 £000	Loan due 2037 £000	Total £000
2022				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	100,886	21,102	29,705	151,693
Less: unamortised issue costs	(871)	(171)	(1,176)	(2,218)
Loans due	**235,015**	**54,931**	**128,529**	**418,475**
2021				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	92,159	19,064	21,869	133,092
Less: unamortised issue costs	(952)	(184)	(1,252)	(2,388)
Loans due	226,207	52,880	120,617	399,704

The irredeemable debentures, listed bonds and index linked loans detailed in (a), (b) and (c) above are secured on the assets of South East Water (Holdings) Limited, South East Water Limited and South East Water (Finance) Limited (the South East Water (Holdings) Limited group) as far as allowed by the Water Industry Act 1991 and South East Water Limited's licence. The agreements for the bonds and loans contain a number of covenants that the group is required to meet to safeguard the interests of the lenders. The current position of the covenants and the required targets are detailed in the strategic report.

***(d)* Other term loans and creditors**
The group's other loans and creditors comprise of a loan facility of £150 million (2021: £150 million) with effective terms, having taken account of a related interest rate swap are:

- £96 million (2021: £96 million) was drawn down from the facility in December 2018 at the rate of 2.5% plus Sterling Overnight Index Average "SONIA" maturing on 20 December 2023;
- £54 million (2021: £54 million) was drawn down from the facility in September 2019 at the rate of 2.5% plus Sterling Overnight Index Average "SONIA" maturing on 20 December 2023.

Notes to the financial statements
for the year ended 31 March 2022

19. Non-current financial liabilities *(continued)*

	Loan due 2023 £000	Loan due 2023 £000	Total £000
2022			
Original loan consideration	96,000	54,000	150,000
Unamortised revaluations	(619)	(348)	(967)
Other long term loans and creditors	**95,381**	**53,652**	**149,033**
2021			
Original loan consideration	96,000	54,000	150,000
Unamortised revaluations	(936)	(526)	(1,462)
Listed bonds	95,064	53,474	148,538

The group has agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to Sterling Overnight Index Average "SONIA" on its other loan facility borrowing, being the £150 million floating rate loan. This has taken effect from 1 April 2022, after UK LIBOR has ceased.

Issue costs incurred by the group in securing the subordinated loans were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate. The unamortised issue costs at 31 March 2022 were £1.0 million (2021: £1.5 million).

The subordinated loans are secured upon the assets of the group as far as allowed by the Water Industry Act 1991 and South East Water Limited's licence.

***(e)* Amounts due to shareholders**
The group has loans due to its shareholders totalling £90.3 million as follows:

- unsecured loan notes of £45.2 million (2021: £45.2 million) from UTA International Holdings 1 Pty Limited;
- unsecured loan notes of £22.6 million (2021: £22.6 million) from NatWest Pensions Trustees Limited as Trustee for the NatWest Group Pension Fund – Group Fund Section;
- unsecured loan notes of £11.3 million (2021: £11.3 million) from Régime de Rentes du Mouvement Desjardins;
- unsecured loan notes of £5.6 million (2021: £5.6 million) from Desjardins Financial Security Life Assurance Company;
- unsecured loan notes of £5.6 million (2021: £5.6 million) from Certas Home and Auto Insurance Company;

The terms of the above shareholder loans are at an interest rate of LIBOR plus 6% and falling due for repayment on 16 October 2026 (or earlier at the option of the group).

The group has agreed amendments with its shareholders to the fall back provisions to move from GBP LIBOR to Sterling Overnight Index Average "SONIA" on its other loan facility borrowing, being the £90.3 million floating rate loan. This has taken effect from 1 April 2022, after UK LIBOR has ceased in December 2021.

(f) Variable rate loan

	2022 £000	2021 £000
Original loan amount	**120,000**	120,000
Less: unamortised issue costs	**(1,095)**	(1,275)
	118,905	118,725

Notes to the financial statements
for the year ended 31 March 2022

19. Non-current financial liabilities *(continued)*

In December 2018 the group entered into a loan facility for £120 million which matures in December 2025. This loan facility was drawn down in full in September 2019 at a variable rate of London Inter-Bank Offered Rate "LIBOR" plus 1.2 per cent.

The group has agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to Sterling Overnight Index Average "SONIA" on its other floating rate borrowing, being the £120.0 million floating rate loan. This has taken effect from 28 December 2021, after UK LIBOR has ceased.

(g) Fixed rate loan notes

	2022 £000	2021 £000
Loan note series 1	**75,000**	75,000
Loan note series 2	**100,000**	100,000
Loan note series 3	**50,000**	-
Less: unamortised issue costs	**(1,256)**	(1,109)
	223,744	173,891

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

- £75 million at an interest rate of 2.94% and falling due for repayment on 16 September 2031
- £100 million at an interest rate of 3.22% and falling due for repayment on 16 September 2042

On 1 December 2021 the company issued new fixed rate loan notes totalling £50 million.
- £50 million at an interest rate of 2.04% falling due for repayment on 1 December 2035

(h) Lease liability

	2022 £000	2021 £000
Balance as at 1 April	**3,910**	4,239
Lease revaluation	**(59)**	-
Less: capital repayment	**(337)**	(329)
Balance as at 31 March	**3,514**	3,910

The total cash outflow in the year in respect of the group's leasing activities was £0.4 million (2021: £0.5 million).

	2022 £000	2021 £000
Non-current lease liability	**3,175**	3,593
Current lease liability	**339**	317
	3,514	3,910

(ii) Trade and other payables
Trade and other payables comprise deposits payable to developers of £4.2 million (2021: £4.6 million).

(iii) Derivative financial instruments

	2022 £000	2021 £000
Derivative financial instruments	**(312)**	2,835

Notes to the financial statements
for the year ended 31 March 2022

19. Non-current financial liabilities *(continued)*

Company	**2022**	2021
	£000	£000
Loans and borrowings		
Amounts due to group undertakings	**164,842**	164,842
Issue costs on loans due to shareholders	**(967)**	(1,463)
	163,875	163,379

20. Group financial instruments

Financial risk management objectives and policies
The group's financial instruments comprise index linked loans, fixed and variable rate loans, fixed rate debentures, interest rate swaps, cash, short-term and medium-term deposits, trade receivables and trade and other payables. The main purpose of the group's financial instruments other than the interest rate swaps is to raise finance for the group's operations.

Derivative activity is undertaken as determined by the board of directors. The board considers the overall risk profile of the group and enters into derivatives to mitigate or hedge any risks identified, as appropriate. The group does not use derivative financial instruments for speculative purposes.

The group's treasury operations are managed within parameters defined by the board and its shareholders. It is the group's policy to minimise liquidity risk within an acceptable range of interest rates. The group does not use foreign currency financial instruments. The main risks arising from the group's financial instruments are liquidity and interest rate risk. There are no regulatory capital requirements placed on the group.

Liquidity risk
The group aims to maintain a balance between continuity of funding and flexibility. Continuity of funding has been guaranteed throughout the period by the existence of long-term funding facilities. Short-term flexibility is achieved by varying the drawdown amounts under the group's committed revolving credit facilities. Further details are given below. Cash is put on deposit with variable maturity dates so as to mitigate liquidity risk.

Interest rate and cash flow risk
The group finances its activities through a mixture of cash generated from operations, irredeemable debentures and other fixed rate long-term loans, variable rate loans and long-term index linked loans. Debentures are long-term fixed rate loans. Other fixed rate loans include listed bonds and loan notes and long-term index linked loans comprise loans linked to inflation.

The group's policy is to manage short term interest rate risk and cash flow risk by using short term fixed rate drawdowns under a revolving committed facility. During the year to 31 March 2022 there was a net outflow of £80 million to repay the committed facility (2021: net inflow of £50 million). It is the view of the group that long-term fluctuations in interest rates will be within the parameters that are considered acceptable by the group.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the group's profit before tax (through the impact on floating rate borrowings). The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes those recognised at fair value as well as all non-derivative floating rate financial instruments.

Notes to the financial statements
for the year ended 31 March 2022

20. Group financial instruments *(continued)*

	Increase/ decrease in basis points	Effect on profit before tax £000	Effect on shareholders' equity £000
2022			
Sterling	+300	(22,782)	(18,226)
Sterling	-100	7,594	6,075
2021			
Sterling	+300	(25,182)	(20,146)
Sterling	-100	8,394	6,715

Credit risk
The group's financial assets include short-term and medium-term bank deposits and trade receivables, which represent the group's maximum exposure to credit risk in relation to financial assets. The group's credit risk is primarily attributable to its trade receivables, which are stated in the statement of financial position at original invoice amount less an allowance for any doubtful debts (see note 17). An estimate for the provision for doubtful debts is calculated by management based on the application of expected recovery rates to an aged debt profile. We have no significant concentration of credit risk with exposure spread over a large number of domestic customers and a number of retail customers. For our retail customers, we have secured adequate collateral under the Market Codes to mitigate any risk.

Inflation risk
The group manages its inflation risk on financial liabilities through the use of index linked bonds and index linked loans (note 19). The group considers that the inflation rate risk is largely managed as OFWAT allows revenues to be increased in line with inflation.

Capital management risk
The objectives and management of the group's capital management risk are discussed under financial resilience in the strategic report.

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.

The following table provides a comparison by category of the carrying amount and the fair values of the group's financial assets and financial liabilities at 31 March. The fair values of loan instruments as at 31 March 2021 have been updated to a third party valuation in the year, in line with the approach for fair values at 31 March 2022.

Notes to the financial statements
for the year ended 31 March 2022

20. Group financial instruments *(continued)*

	Book Value 2022 £000	**Fair Value 2022 £000**	Book Value 2021 £000	Fair Value 2021 Restated £000
Loans and receivables				
Trade receivables other receivables	**84,968**	**84,968**	82,609	82,609
Cash and short term investments	**29,031**	**29,031**	56,998	56,998
	113,999	**113,999**	139,607	139,607
Financial liabilities at amortised cost				
Trade and other payables	**47,720**	**47,481**	41,499	40,978
Irredeemable debentures	**950**	**681**	948	861
Listed bonds	**357,696**	**501,184**	344,328	430,369
Index linked loans	**418,475**	**628,059**	399,704	630,114
Fixed rate loan notes	**223,744**	**214,687**	173,891	183,015
Variable rate loan	**118,905**	**125,073**	118,725	126,514
Lease liability	**3,514**	**3,325**	3,910	3,910
Committed loan facility	**-**	**-**	80,000	80,000
Other long-term loans	**239,428**	**269,704**	238,933	278,493
Trade and other payables over one year	**4,154**	**4,133**	4,623	4,598
	1,414,586	**1,794,327**	1,406,561	1,778,852
Financial liabilities at fair value through income statement				
Interest rate swaps	**(312)**	**(312)**	2,835	2,835

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

The fair value of the group's other long term debt, consisting of listed bonds, index linked loans, variable rate loans and fixed rate loan notes have been calculated based on the expected future yields on each of the debt instruments except where a current market valuation is available.

Fair value hierarchy
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 which have 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.

Notes to the financial statements
for the year ended 31 March 2022

20. Group financial instruments *(continued)*

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

31 March 2022	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial assets at fair value through income statement				
Interest rate swap	**(312)**	**-**	**(312)**	**-**
31 March 2021				
Financial liabilities at fair value through income statement				
Interest rate swap	2,835	-	2,835	-

The group held the following financial instruments which are not measured at fair value but fair value disclosures are required:

31 March 2022	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	47,481	-	47,481	-
Irredeemable debentures	681	-	681	-
Listed bonds	501,184	193,611	307,573	-
Index linked loans	628,059	-	628,059	-
Fixed rate loan notes	214,687	-	214,687	-
Variable rate loan	125,073	-	125,073	-
Lease liability	3,325	-	3,325	-
Other long term loans	269,704	-	269,704	-
Trade and other payables over one year	4,133	-	4,133	-
Total fair value of financial liabilities at amortised cost	**1,794,327**	**193,611**	**1,600,716**	**-**

31 March 2021 (restated)	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	40,978	-	40,978	-
Irredeemable debentures	861	-	861	-
Listed bonds	430,369	430,369	-	-
Index linked loans	630,114	-	630,114	-
Fixed rate loan notes	183,015	-	183,015	-
Variable rate loan	126,514	-	126,514	-
Lease liability	3,910	-	3,910	-
Committed loan facility	80,000	-	80,000	-
Other long term loans	278,493	-	278,493	-
Trade and other payables over one year	4,598	-	4,598	-
Total fair value of financial liabilities at amortised cost	1,778,852	430,369	1,348,483	-

During the reporting year ended 31 March 2022 a transfer between level 1 and level 2 fair value measurements was made as there was no current market valuation for one of the group's listed bonds available. No transfers between level 1 and level 2 were made in the reporting year ended 31 March 2021. No transfers into or out of level 3 fair value measurements were made in the reporting years ended 31 March 2022 and 2021.

Notes to the financial statements
for the year ended 31 March 2022

20. Group financial instruments *(continued)*

Maturity of financial instruments
The table below summarises the maturity profile of the group's financial assets and liabilities based on contractual undiscounted cash flows:

Year ended 31 March 2022	Within 1 year £000	1 – 2 Years £000	2 – 5 years £000	More than 5 years £000	Total £000
Fixed rate					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	125	1,082	1,291
Listed bond	9,268	9,268	27,805	184,537	230,878
Loan note	6,445	6,445	19,335	287,017	319,242
Other long-term financial liabilities	5,594	155,594	-	-	161,188
Total fixed rate financial liabilities	**21,349**	**171,349**	**47,265**	**472,636**	**712,599**
Floating rate					
Floating rate financial assets:					
Cash	29,031	-	-	-	29,031
Short-term financial assets	84,968	-	-	-	84,968
Total floating rate financial assets	**113,999**	**-**	**-**	**-**	**113,999**
Floating rate financial liabilities:					
Short-term financial liabilities	47,720	-	-	-	47,720
Listed bond	4,786	4,891	15,306	347,798	372,781
Index linked loans	13,773	14,040	43,724	629,572	701,109
Bank loan	1,990	1,990	121,434	-	125,414
Lease liability	444	430	1,268	1,630	3,772
Other long-term financial liabilities	6,137	6,137	108,805	-	121,079
Trade and other payables over 1 year	-	4,153	-	-	4,153
Total floating rate financial liabilities	**74,850**	**31,641**	**290,537**	**979,000**	**1,376,028**

Notes to the financial statements
for the year ended 31 March 2022

20. Group financial instruments *(continued)*

Year ended 31 March 2021	Within 1 year £000	1 – 2 Years £000	2 – 5 years £000	More than 5 years £000	Total £000
Fixed rate					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	125	1,087	1,296
Listed bond	9,268	9,268	27,805	203,074	249,415
Loan note	5,425	5,425	16,275	240,258	267,383
Other long-term financial liabilities	5,594	5,594	155,594	-	166,782
Total fixed rate financial liabilities	20,329	20,329	199,799	444,419	684,876
Floating rate					
Floating rate financial assets:					
Cash	56,998	-	-	-	56,998
Short-term financial assets	82,609	-	-	-	82,609
Total floating rate financial assets	139,607	-	-	-	139,607
Floating rate financial liabilities:					
Short-term financial liabilities	41,499	-	-	-	41,499
Listed bond	4,464	4,569	14,339	344,364	367,736
Index linked loans	12,860	13,127	40,985	642,212	709,184
Bank loan	82,452	2,353	126,471	-	211,276
Lease liability	446	429	1,268	2,497	4,640
Other long-term financial liabilities	6,137	6,137	18,410	96,532	127,216
Trade and other payables over 1 year	-	4,623	-	-	4,623
Total floating rate financial liabilities	147,858	31,238	201,473	1,085,605	1,466,174

The £150 million floating rate instrument was classified as a fixed rate financial liability due to the associated interest rate swap arrangement.

Borrowing facilities
The group has committed borrowing facilities of £183.0 million (2021: £148.0 million), of which Nil (2021: £80 million) was drawn down. Any drawdowns under these facilities are repayable in less than one year.

Items of income, expense, gains and losses
The net gains or losses of the different classes of financial instruments on the income statement are:

	2022 £000	2021 £000
Financial assets, loans and receivables (see note 8)	**735**	889
Financial liabilities at amortised cost (see note 9)	**(79,053)**	(56,307)
Financial liabilities at fair value through profit or loss (see note 9)	**3,148**	669
Financial assets due to impairment (see note 17)	**(5,010)**	(3,788)

Notes to the financial statements
for the year ended 31 March 2022

21. Current liabilities

Group		**2022**	2021
		£000	£000
Loans and borrowings	(i)	**339**	80,317
Trade and other payables	(ii)	**90,048**	78,619
		90,387	158,936

(i) Loans and borrowings	**2022**	2021
	£000	£000
Bank loan	**-**	80,000
Lease liabilities	**339**	317
Loans and borrowings	**339**	80,317

(ii) Trade and other payables	**2022**	2021
	£000	£000
Financial liabilities payable		
Trade payables	**10,975**	11,450
Other payables	**2,364**	2,333
Accruals	**34,381**	27,716
	47,720	41,499
Non-financial liabilities payable		
Other taxes and social security	**1,121**	1,921
Payments received in advance	**41,207**	35,199
	42,328	37,120
	90,048	78,619

Company	**2022**	2021
	£000	£000
Financial liability payables		
Amounts due to group undertakings	**1,978**	5,216
Accruals	**119**	246
	2,097	5,462

As at 31 March 2022 and 2021, amounts due to subsidiary undertakings represent unsecured non-interest bearing balances relating to the surrender of group tax relief and interest due on debt with the subsidiary company.

Notes to the financial statements
for the year ended 31 March 2022

22. Provisions

Group	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2021	2,031	2,426	3,527	7,984
Additional amounts provided	853	5,792	3,742	10,387
Unused amounts reversed	(379)	-	(51)	(430)
Amounts utilised	(890)	(4,550)	(4,187)	(9,627)
As at 31 March 2022	**1,615**	**3,668**	**3,031**	**8,314**
As at 1 April 2020	1,655	2,802	-	4,457
Additional amounts provided	1,306	3,064	3,527	7,897
Amounts utilised	(930)	(3,440)	-	(4,370)
As at 31 March 2021	2,031	2,426	3,527	7,984

Other provisions relates to various contractual and legal claims against the group. The amount recorded represents management's best estimate of the value of settlement and any associated costs.

The timing of settlement/court judgement for these claims is uncertain but management consider that settlement is more likely than not within the next year, and therefore amounts provided have been classified as current.

The group needs to determine the chances of a claim against it being successful, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

The group has taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

23. Deferred income

Group	**2022 £000**	2021 £000
As at 1 April	**8,961**	8,856
Received in the year	**9,215**	6,338
Released during the year	**(8,121)**	(6,233)
As at 31 March	**10,055**	8,961
Non-current	**4,315**	3,625
Current	**5,740**	5,336
	10,055	8,961

Contributions received towards below ground assets are released to the income statement on completion of the performance obligations within the contracts with customers.

Notes to the financial statements
for the year ended 31 March 2022

24. Retirement benefit schemes

Group and company (hereafter referred to as “group” in this note)
The South East Water pension scheme provides benefits to current and former group employees. From 17 June 2011 onwards, benefits from the South East Water pension scheme have been provided solely on a defined contribution basis.

The scheme was originally contracted-out under the Guaranteed Minimum Pension Test. From 6 April 1997, after taking independent actuarial advice, the group decided to contract-out via the Protected Rights Test. With effect from 6 April 2012, the Government removed the option for schemes to contract-out via a Protected Rights basis. From 6 April 2012, the group decided to contract-out via a salary related basis.

The final salary defined benefit section of the scheme was closed to new entrants with effect from July 2002.

The last full actuarial valuation of the South East Water scheme took place as at 31 March 2020. The next full actuarial valuation will be performed at 31 March 2023.

The group contribution rate for the defined benefit pension scheme during the year was £nil (2021: £nil) of pensionable remuneration plus an annual contribution of £4.1 million (2021: £4.0 million) in respect of the deficit as at 31 March 2020. The group’s future annual contribution is expected to be £4.0 million, uplifted for RPI on 1 April each year.

As a result of the merger of South East Water and Mid Kent Water Limited in October 2006, the group acquired the Mid Kent Group Pension Scheme, which is a defined benefit scheme in the UK.

The last full actuarial valuation of this scheme took place as at 31 March 2020. The next full actuarial valuation will be performed at 31 March 2023.

The group contribution for the defined benefit pension scheme during the year was £nil (2021: £nil) of pensionable remuneration plus an annual contribution of £1.4 million (2021: £1.4 million) in respect of the deficit as at 31 March 2020. The group’s future annual contribution is expected to be £1.4 million, uplifted for RPI on 1 April each year.

Both of the defined benefit schemes are separate funds that are legally separate from the group. The trustees of the pension schemes are required by law to act in the interests of the funds and all relevant stakeholders in the plans. The trustees of the pension funds are responsible for the investment policies with regard to the assets of the funds.

On 31 March 2015 both of the group’s defined benefit schemes closed to further benefit accrual. This was advised to the schemes’ members on 13 December 2012. From 31 March 2015 all active members became deferred members and their accrued benefits will increase in line with statutory deferred revaluation. All members were invited to join the group’s defined contribution scheme from 1 April 2015.

The group also has obligations to pay a number of former employees’ pensions on a defined benefit basis which are not included in either of the pension schemes. These pensions are paid by the group directly. The payments are treated as contributions for unfunded pensions in the tables below and equal to the benefits paid. The value of future obligations has been calculated on an actuarial basis and the liability of £2.9 million (2021: £3.2 million) is recognised on the statement of financial position.

Following the High Court ruling on 26 October 2018 regarding the equalisation of Guaranteed Minimum Pension (‘GMP’) benefit within the Lloyds pension scheme, the Schemes were required to adjust benefits to remove the inequalities between the GMP benefits awarded to males and females. The company included an allowance of £273,000 for the impact of GMP equalisation within its 2019 accounting figures and this estimate remains unchanged.

Notes to the financial statements
for the year ended 31 March 2022

24. Retirement benefit schemes *(continued)*

On 20 November 2020 the High Court issued a supplementary ruling in the Lloyds bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The results of this mean that:

- trustees are obliged to make transfer payments that reflect equalised benefits and are required to make top up payments where this was not the case in the past
- a DB scheme that received a transfer is concurrently obliged to provide equalised benefits in respect of the transfer payments
- there were no exclusions on the grounds of discharge forms, CETV legislation, forfeiture provisions or the Limitation Act 1980

This additional cost was recognised through the income statement as a past service cost in the 2021 financial statements amounting to £6,000 for the SEWPS and £3,000 for the MKGPS.

The indexation of pension increases in payment in the MKGPS changed from RPI to CPI with effect from 30 April 2020. A Deed of Record was signed to formalise the change of inflation index from RPI to CPI, with members being written to and notified of the change at the end of April 2020. The first pension increase that was determined with reference to CPI instead of RPI was awarded on 1 April 2021. This event was treated at a plan amendment as at 30 April 2020. The impact of this plan amendment was recognised as a past service credit of £7.8 million, based on market conditions at 30 April 2020.

The impact of Covid-19 is reflected in the assumptions for future improvements in life expectancy. In 2020 and 2021 mortality rates were significantly higher than the long-term trend as a result of Covid-19, although 2021 was an improvement on 2020. The latest version of the CMI projections model (CMI_2021) allows users to choose what weight to place on 2020 and 2021 mortality experience. The group has placed a weighting of 10 per cent of mortality experience in 2020 and 2021 to take account of the impact of Covid-19. This is equivalent to assuming that mortality rates in 2022 are worse than in 2019, the last full year before Covid-19, but that they subsequently improve back to 2019 rates over several years.

Pension costs recognised in the income statement for the defined contribution scheme were as follows:

	2022 £000	2021 £000
Defined contribution scheme	**2,512**	2,481

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2022 %	SEW Pensions 2021 %	**MKW Pensions 2022 %**	MKW Pensions 2021 %
Main assumptions:				
Rate of increase in pensions in payment				
CPI – Linked	**2.95**	2.55	**2.95**	2.55
Rate of increase in deferred pensions	**2.95**	2.55	**2.95**	2.55
Discount rate	**2.70**	2.05	**2.70**	2.05
RPI assumption	**3.65**	3.25	**3.65**	3.25
CPI assumption	**3.00**	2.55	**3.00**	2.55

Notes to the financial statements
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24. Retirement benefit schemes *(continued)*

	SEW Pensions 2022 Years	SEW Pensions 2021 Years	**MKW Pensions 2022 Years**	MKW Pensions 2021 Years
Life expectancies from age 65				
Currently aged 65 – male	**21.0**	21.6	**21.0**	21.6
Currently aged 65 – female	**23.6**	24.0	**23.6**	24.0
Currently aged 45 – male	**23.3**	24.0	**23.3**	24.0
Currently aged 45 – female	**25.8**	26.3	**25.8**	26.3

The following table demonstrates the sensitivity to a reasonably possible change in the above key assumptions, with all other variables held constant, on the schemes' liabilities:

	(Decrease)/ increase in liabilities	**(Decrease)/ increase**	(Decrease)/ increase in liabilities	(Decrease)/ increase
	2022 £000	**2022 %**	2021 £000	2021 %
0.1% decrease to the discount rate	**3,900**	**1.5**	4,000	1.5
0.1% increase to inflation	**3,500**	**1.4**	3,500	1.3
One year increase in life expectancy	**11,100**	**4.4**	12,500	4.6

The fair value of the assets in the schemes and the present value of the liabilities in the schemes were:

	SEW Pensions £000	MKW Pensions £000	Total £000
2022			
Fair value of scheme assets	180,591	125,891	306,482
Present value of defined benefit obligations	(154,400)	(94,736)	(249,136)
Surplus in the schemes	**26,191**	**31,155**	**57,346**

	£000
Unfunded obligation 2022	
Present value of unfunded obligations	**(2,869)**

	SEW Pensions £000	MKW Pensions £000	Total £000
2021			
Fair value of scheme assets	177,704	126,513	304,217
Present value of defined benefit obligations	(166,991)	(102,858)	(269,849)
Surplus in the schemes	10,713	23,655	34,368

	£000
Unfunded obligation 2021	
Present value of unfunded obligations	(3,172)

Notes to the financial statements
for the year ended 31 March 2022

24. Retirement benefit schemes *(continued)*

SEW Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2022				
Equities	20,616	98	20,714	12%
Corporate bonds	57,497	41,560	99,057	55%
Government bonds	49,234	-	49,234	27%
Cash	6,075	143	6,218	3%
Insured persons	-	5,368	5,368	3%
Total fair value of assets	**133,422**	**47,169**	**180,591**	**100%**

SEW Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2021				
Equities	32,527	-	32,527	18%
Corporate bonds	51,583	34,532	86,115	49%
Government bonds	47,547	-	47,547	27%
Cash	5,600	281	5,881	3%
Insured persons	-	5,634	5,634	3%
Total fair value of assets	137,257	40,447	177,704	100%

MKW Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2022				
Corporate bonds	25,218	37,515	62,733	50%
Government bonds	57,474	-	57,474	45%
Cash	574	136	710	1%
Insured persons	-	4,974	4,974	4%
Total fair value of assets	**83,266**	**42,625**	**125,891**	**100%**

MKW Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2021				
Equities	17,406	-	17,406	14%
Corporate bonds	23,371	40,184	63,555	50%
Government bonds	37,323	-	37,323	30%
Cash	2,790	193	2,983	2%
Insured persons	-	5,246	5,246	4%
Total fair value of assets	80,890	45,623	126,513	100%

Equity investments include Global Tactical Asset Allocation, Private Equity Fund and Absolute Return Investments.

Notes to the financial statements
for the year ended 31 March 2022

24. Retirement benefit schemes *(continued)*

Analysis of amounts charged/(credited) to income statement:

	SEW Pensions £000	MKW Pensions £000	Unfunded £000	Total £000
2022				
Net interest on defined asset	(258)	(496)	62	(692)
Past service costs	-	-	-	-
Administrative expenses	305	281	-	586
Total amount charged to income statement	**47**	**(215)**	**62**	**(106)**
2021				
Net interest on defined asset	(388)	(441)	68	(761)
Past service costs	6	(7,802)	-	(7,796)
Administrative expenses	495	406	-	901
Total amount charged to income statement	113	(7,837)	68	(7,656)

The amount charged to the income statement for 2021 in respect of MKW Pensions includes a past service costs credit of £7.8 million due to the change in indexation in pension increases from RPI to CPI.

Also included in the past service costs for 2021 are costs of £6,000 for SEW Pensions and £3,000 for MKW Pensions in respect of GMP equalisation.

Analysis of amounts recognised in the statement of comprehensive income:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2022				
Return on schemes' assets excluding interest income	3,599	280	-	3,879
Actuarial gains due to changes in financial assumptions	6,400	3,969	42	10,411
Actuarial gains due to changes in demographic assumptions	2,321	2,163	36	4,520
Experience loss on obligation	(865)	(537)	-	(1,402)
Actuarial gains recognised in the statement of comprehensive income	**11,455**	**5,875**	**78**	**17,408**
Cumulative actuarial losses	**(2,144)**	**(9,724)**	**(3,515)**	**(15,383)**
2021				
Return on schemes' assets excluding interest income	8,304	4,981	-	13,285
Actuarial losses due to changes in financial assumptions	(20,454)	(14,906)	(240)	(35,600)
Actuarial losses due to changes in demographic assumptions	(336)	(323)	(34)	(693)
Experience gains on obligation	4,206	3,835	-	8,041
Actuarial losses recognised in the statement of comprehensive income	(8,280)	(6,413)	(274)	(14,967)
Cumulative actuarial losses	(13,599)	(15,599)	(3,593)	(32,791)

Notes to the financial statements
for the year ended 31 March 2022

24. Retirement benefit schemes *(continued)*

Reconciliation of defined benefit obligations:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2022				
Opening defined benefit obligations	166,991	102,858	3,172	273,021
Interest cost	3,341	2,062	62	5,465
Actuarial losses	(7,856)	(5,595)	(78)	(13,529)
Benefits paid	(8,076)	(4,589)	(287)	(12,952)
Closing defined benefit obligations	**154,400**	**94,736**	**2,869**	**252,005**
2021				
Opening defined benefit obligations	154,121	102,575	3,115	259,811
Interest cost	3,462	1,748	68	5,278
Actuarial losses/(gains)	16,584	11,394	274	28,252
Past service cost	6	(7,802)	-	(7,796)
Benefits paid	(7,182)	(5,057)	(285)	(12,524)
Closing defined benefit obligations	166,991	102,858	3,172	273,021

Reconciliation of fair value of plans' assets:

	SEW Pensions £000	MKW Pensions £000	Total £000
2022			
Opening fair values of schemes' assets	177,704	126,513	304,217
Interest income on assets	3,599	2,558	6,157
Return on scheme assets excluding interest income	3,599	280	3,879
Contributions by employer	4,070	1,410	5,480
Administrative expenses	(305)	(281)	(586)
Benefits paid	(8,076)	(4,589)	(12,665)
Closing fair values of schemes' assets	**180,591**	**125,891**	**306,482**
2021			
Opening fair values of schemes' assets	169,198	123,410	292,608
Interest income on assets	3,850	2,189	6,039
Return on scheme assets excluding interest income	8,304	4,981	13,285
Contributions by employer	4,029	1,396	5,425
Administrative expenses	(495)	(406)	(901)
Benefits paid	(7,182)	(5,057)	(12,239)
Closing fair values of schemes' assets	177,704	126,513	304,217

The Trust Deed provides South East Water with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

Notes to the financial statements
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25. Issued Share Capital

	2022	2021
	£000	£000
Called up, allotted and fully paid		
13,514,844 A class ordinary shares of £0.125 (2021: 13,514,844)	**1,688**	1,688
2,252,474 B class ordinary shares of £0.125 (2021: 2,252,474)	**282**	282
2,252,474 C class ordinary shares of £0.125 (2021: 2,252,474)	**282**	282
241,831,558 non-voting redeemable preference shares of £1 (2021: 241,831,558)	**241,832**	241,832
	244,084	244,084

The company has the right to redeem all or any part of the non-voting redeemable preference shares at any time upon giving suitable notice to the shareholders. The redemption price may be any amount up to the value paid for the shares.

Notes to the financial statements
for the year ended 31 March 2022

26. Movements in liabilities arising from financing activities

Group non-current loans and borrowings	Irredeemable debenture stock £000	Leases £000	Shareholder loans £000	Listed bonds £000	Bank Loan and Loan Notes £000	Indexed linked loans £000	Non-current loans and borrowing £000
Balance 1 April 2020	941	3,910	90,395	342,142	440,332	392,839	1,270,559
Changes from other financing activities:							
Right of use liability	-	-	-	-	-	-	-
Indexation on index linked instruments	-	-	-	2,382	-	6,695	9,077
Lease liability reclassified to current liabilities	-	(317)	-	-	-	-	(317)
Amortisation of issue costs	-	-	-	161	822	170	1,153
Amortisation of revaluation reserves	7	-	-	(357)	-	-	(350)
Balance at 31 March 2021	948	3,593	90,395	344,328	441,154	399,704	1,280,122
Balance 1 April 2021	948	3,593	90,395	344,328	441,154	399,704	1,280,122
Changes from cash flow activities:							
Debentures redeemed	(5)	-	-	-	-	-	(5)
New loan notes issued	-	-	-	-	50,000	-	50,000
Loan fee incurred	-	-	-	-	(305)	-	(305)
Changes from other financing activities:							
Indexation on index linked instruments	-		-	13,563	-	18,601	32,164
Lease liability reclassified to current liabilities	-	(359)	-	-	-	-	(359)
Amortisation of issue costs	-	-	-	162	833	170	1,165
Lease revaluation	-	(59)	-	-	-	-	(59)
Amortisation of revaluation reserves	7	-	-	(357)	-	-	(350)
Balance at 31 March 2022	950	3,175	90,395	357,696	491,682	418,475	1,362,373

Notes to the financial statements
for the year ended 31 March 2022

26. Movements in liabilities arising from financing activities *(continued)*

Group current loans and borrowings	**2022 £000**	2021 £000
Balance 1 April	**80,317**	30,329
Changes from financing cash flows:		
New loans received during the period	**50,000**	50,000
Loan repayment	**(130,000)**	-
Lease liability repaid	**(337)**	(329)
Changes from other financing activities:		
Amortisation of issue cost	**-**	-
Amortisation of revaluation reserves	**-**	-
Lease liability reclassified	**359**	317
Balance 31 March	**339**	80,317

Group derivative financial instruments	**2022 £000**	2021 £000
Balance 1 April	**2,835**	3,505
Changes from financing cash flows:		
Payment of loan on maturity	**-**	-
Changes from other financing activities:		
Movement in fair value of interest rate swap	**(3,147)**	(670)
Balance 31 March	**(312)**	2,835

27. Capital commitments

Group and company	**2022 £000**	2021 £000
Contracts placed for future capital expenditure not provided in the financial statements	**28,227**	47,119

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

Contingent liabilities

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

28. Obligations under operating leases

Group and company	**2022 £000**	2021 £000
Minimum lease payments under operating leases recognised as an expense in the year (see note 5)	**427**	271

29. Events after the reporting date

There are no post balance sheet events.

Notes to the financial statements
for the year ended 31 March 2022

30. Related party transactions

The group of companies into which results of the group are consolidated is that headed by HDF, a company registered in England and Wales.

Balances and transactions between the company and its subsidiary, which is related party of the company, have been eliminated on consolidation and are not disclosed in this note. Details of balances and transactions between the Group and other related party are disclosed below.

30.1 Transactions with Shareholders

	2022	2021
	£000	£000
Shareholder loans		
Opening balance as at 1 April	**90,515**	92,077
Interest charged	**5,546**	5,598
Interest paid	**(5,532)**	(7,159)
Closing balance as at 31 March	**90,529**	90,516

Key management compensation is disclosed in note 6.

31. Ultimate controlling parties

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

The immediate shareholders are UTA Hong Kong Holdings Limited, a holding company incorporated in Hong Kong, NWPF, RRMD, DFSL and Certas.

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