HDF (UK) Holdings Limited

Annual Report and Group Financial Statements

31 March 2023

Registered number 05462865

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Officers and professional advisers

Directors

O Schubert (Director)
M McArdle (Director)
G Luschen (Director) (appointed 4 April 2023)
P Minguell Maria (Director) (appointed 1 March 2023)

Company Secretary

N Truillet

Company's Bankers

HSBC Bank plc
60 Queen Victoria Street
London
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Company's Independent Auditors

PricewaterhouseCoopers LLP, Statutory Auditors
Cambridge

Registered Office

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Snodland
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Registered No. 05462865

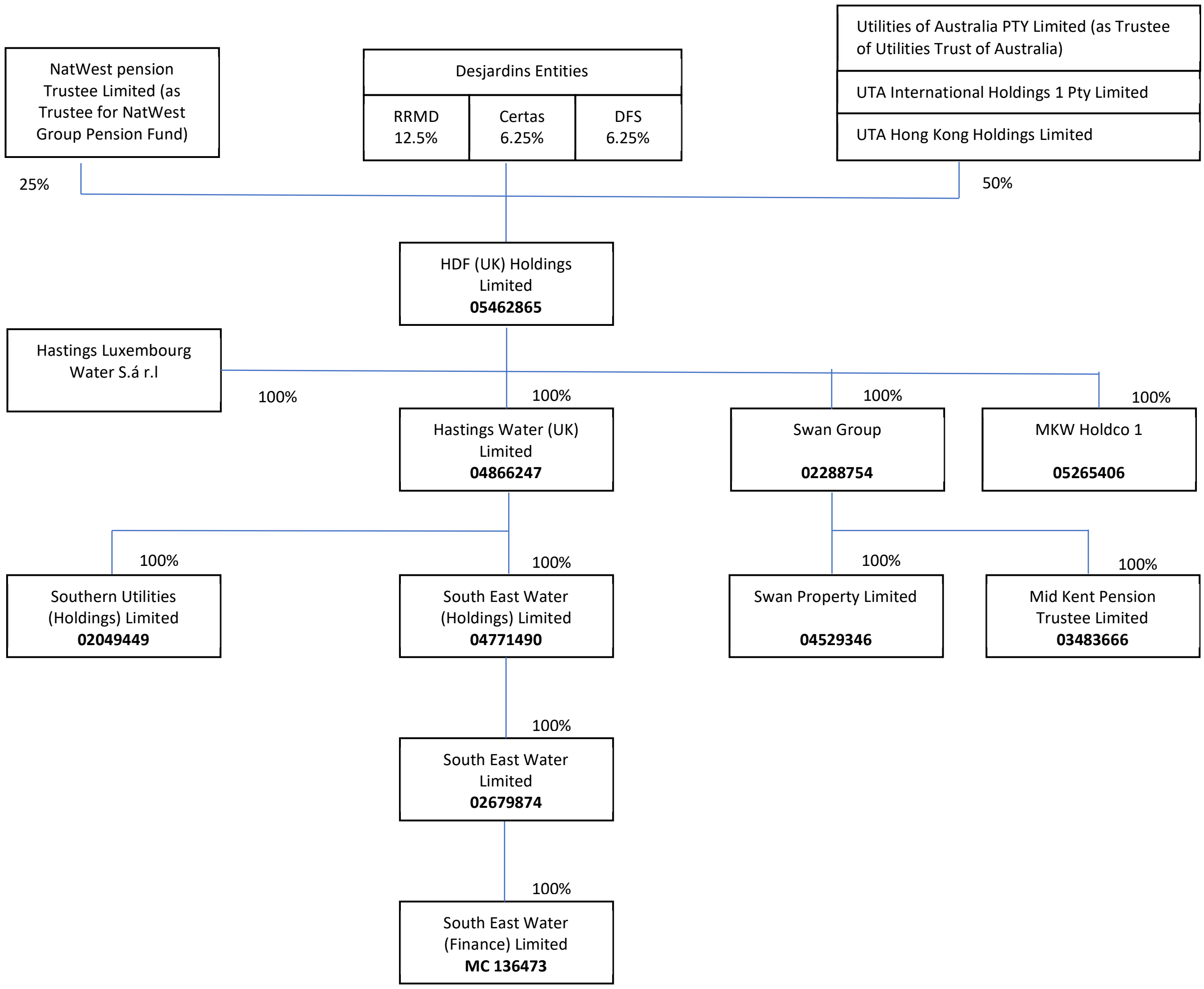
Country of domicile and registration: England and Wales

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 2023.

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 ("SEWL").



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.
- 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.

Wholesale activities account for 89 per cent of total income, retail activities for seven per cent and non-regulated activities for four per cent.

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.

Group strategic report

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.

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 1,012 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
The regulated business and the group benefits from open and constructive working relationships with our regulators: Ofwat, the Environment Agency, the Drinking Water Inspectorate (DWI) and Natural England.

How we create economic value

We generate revenue through:

- Billing for (i) water supplies to household end-user consumers based predominantly on metered consumption with an overall level of metering of circa 90 per cent of household premises and (ii) wholesale water supplies to retailers on the non-household retail market and new appointees.
- We also provide new water mains and connections to our water network that are needed to supply new premises or similar new connection services to developers, self-lay providers or new appointees. The payments we receive for providing these new connection services are limited to a proportion of the costs we incur as determined in accordance with regulatory charging rules.
- Non-regulated activities which maximise the value of the business know-how and assets (laboratory services, water and sewerage billing and retail services as well as plumbing and water management services).

The turnover of the regulated business (“SEWL”) equates to approximately 95 per cent of the group’s total turnover. After allowing for finance income and costs, the regulated business made a loss of £78.2 million before tax.

Group strategic report

Revenue from the regulated business
The revenue that the regulated business is allowed to generate as a 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.

Factors impacting revenue and profit
When setting price controls, Ofwat takes account of how efficiently we operate our business and deliver our investment programme and of the quality of our services, as measured by performance commitments. Our revenue allowances are also adjusted by regulatory mechanisms for outperformance or underperformance of the targets set in Ofwat's determination (Outcome Delivery Incentives). The business generates stable revenue streams but hot weather may cause seasonal increases in demand and revenue. However regulatory mechanisms operate to adjust revenue back to the revenue allowances set 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.

Revenue from the non-regulated business
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 create 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.

Public trust
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.

Group strategic report

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.

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 1,012 direct employees. 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 group and strengthens our licence to operate.

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.

Group strategic report

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, our input costs, 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 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, and high inflation and interest rates, which could impact on the ability of our customers to pay their bills. 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. Interest rates and inflation, also impact us, but we reduce risk as far as possible through prudent financial management and five-year planning.

Political and regulatory environment

The political and regulatory environment changes significantly over time and 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. For example, we will continue to ensure we understand and influence changing policy that may come from leaving the European Union. 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 our regulators to deliver a great service 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 operates under a licence granted by the Secretary of State.
- Centre for the Protection of National Infrastructure (CPNI) is the government authority for protective security advice to the UK national infrastructure.

<u>Our business strategy</u>

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, which has meant we have a clear direction of travel; one which we believe is better signposted as a result of our innovative and holistic approach to measuring our future performance through outcomes.

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.

Group strategic report

Customer satisfaction remains a core theme of our 2020 to 2025 plan. We believe our plan is the right one for our customers and society, both now and in the future. We are driven by the same values of trust as our customers. We are a business made up of dedicated water people who want to make a difference – to customers, communities, the environment and society – so that everyone and everything thrives as a result of what we collectively do.

We are immensely proud of operating a local water company with a passion for sharing our 'Pure know h2ow' – and we have used our customers' desire to know more about their water supply service to develop our 'resilient customer' concept. 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 result is a plan which:

- Remains built around customer satisfaction, but which has improved 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.
- Strengthens the link between satisfaction and resilience, making customers part of the solution by giving them targeted information, and as such, greater control over their water use. We have developed this approach further through our resilient customer concept.
- Has a focused innovation strategy which targets our customers' and stakeholders' priorities; and where we can make the most difference to lead the industry, not least using our toolboxes to deliver greater customer satisfaction.
- 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 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.

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.

Group strategic report

Our plans for 2020 to 2045 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.
- 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 continue 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.

25 year environment plan

We are the first water company to develop a dedicated 25 year environment plan.

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 group, to protect and enhance the environmental resilience of our supply area, short and long-term.

This will exceed our statutory obligations and planning cycles, such as the Water Industry National Environment Programme, water resources management plan and drought plan. We recognise an important part of this is making sure that we consider wider environmental impacts from our own operations. To do this, we need to do all we can to create and maintain a resilient environment.

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 SEWL'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. SEWL'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 group 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.

Key characteristics of our risk management model

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.

Risks are reviewed regularly by the executive team and the board.

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 are discussed in SEWL's annual report which is available on that company's website.

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.

Group strategic report

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 water company. We consider their impact on our business model, future performance, solvency and liquidity. We also review the adequacy of the mitigations in place as recorded in our risk register.

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.

We describe our principal risks, their potential impact and how they are managed on the following pages. These principal risks have been considered in the context of our business model and strategy and in the context of our current and foreseeable environment.

The principal risks described represent an aggregation of individual underlying risks in our risk register. The current risk exposure and trend presented reflects the risk levels and trends of the related underlying individual risks in our risk register.

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.

There was no significant change this year to the definitions and presentation of our principal risks other than the updated assessment of potential exposure, trends and to reflect changes in our environment. Covid-19 was removed this year as a stand-alone principal risk, but the generic risk of pandemic and other public health issues is recorded and monitored in our risk register.

Group strategic report

Risks description	Mitigation
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. Failure to adapt our infrastructure, to improve its resilience and to manage demand 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 water 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. Our ability to invest in the adaptations needed to be able to meet our future obligations also depends on external factors such as the outcome of successive price determinations and how effectively the mitigation of and adaptation to climate change is addressed by policymakers and regulators. The adaptation of other sectors on which we rely for our operations will also have an impact on our own resilience. The UK's climate is changing, with recent decades warmer, wetter and sunnier than the 20th century. The 10 warmest years on record have occurred since 2002 and 2022 was the UK's warmest year on record and saw summer temperatures exceeding 40°C. Extreme weather such as the 2020 heatwave and in 2022 Storm Eunice, the exceptional drought and flooding, put significant pressure on our water supply system. The latest contributions to the sixth assessment report of the Intergovernmental Panel on Climate Change (IPCC) concludes that emissions are not reducing fast enough and that 1.5°C of global warming is expected to be reached sooner than expected by the mid-2030s. The Emission Gap Report 2022 from the United Nations Environment Programme concludes that the international community is falling far short of the Paris goals, and that only an urgent system-wide transformation can deliver the required emission reductions. There are concerns regarding the potential effects of tipping points in the climate system which heightens the need for adaptation. The uncertainty 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 and long-term delivery strategy (developed for the 2024 price review) 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 adaptation reports regularly updated and assessment of climate-related risks in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (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.

Group strategic report

Risks description	Mitigation
2 Macroeconomic risk Our financial performance and resilience are influenced by external macroeconomic factors. The global and UK economies have been significantly affected by high inflation and rising interest rates in 2022/23. Increases in operating costs combined with high interest rates adversely affect our cost of debt and financial performance. Increases in our input costs make delivering our services and investment within our totex allowance more challenging and our costs may be greater than the increase in our wholesale revenue which is indexed on November CPIH, eroding financial resilience and profitability. Financial markets performance may negatively affect the valuation of the assets of our defined benefit pension scheme relative to the value of the scheme's liabilities and result in a deficit requiring an increased level of contribution. In the UK, persistent inflation and core inflation, a tight job market with signs of a potential wage-price spiral make further interest rate increases likely in a challenging environment, with low growth expectations and some of the fundamental causes of inflation less likely to respond directly to monetary policy. This also increases the risk of a recession following further tightening of the Bank of England monetary policy. These conditions are resulting in significant increases in our input costs, especially energy and chemical costs as well as contractors' costs. Increasing cost of debt and operating costs put substantial pressure on financial resilience. The cost of living crisis increases the likelihood of bad debt for both domestic and business customers and the costs of supporting vulnerable domestic customers (e.g. increase in our social tariff and support to vulnerable customers). Revenue from our non-regulated activities may be negatively affected by current economic conditions, as well as the level of new connections and contributions from development activities.	• 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.

Group strategic report

Risks description	Mitigation
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 many customers or cause damage to third parties. Disruption to our water supply has an impact on public health, on daily life and 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 affect our own water infrastructure or those of other water companies which provide us with a bulk supply of treated water. We also 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 also lead to ODI penalties for exceeding our targets on supply interruption. They generally affect customer complaints, satisfaction and the perception of the water company by customers and other stakeholders and may lead to ODI underperformance or penalty under the C-MeX regulatory metric for customer experience. They may also lead to liabilities to third parties due to damage to their equipment. We must ensure that our response to incidents always puts the safety of our workforce first. The general condition of our assets is stable, but sinkholes at our reservoirs in Aylesford combined with higher demand resulted in an increasing level of risk although mitigating actions were put in place. Increases in demand and changes in demand patterns with more people working from home since the Covid-19 pandemic, combined with extreme weather have put unprecedented pressure on parts of our supply system where demand is close to supply capacity and where disruptions caused by extreme weather are more likely to cause service interruptions. 2022 saw an unprecedented combination of successive extreme weather events with Storm Eunice in February, followed by the summer heatwave and exceptional drought, flooding and a significant freeze-thaw event in December.	• 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 each significant incident with implementation of action plans to improve our readiness, resilience and our response capabilities.

Group strategic report

Risks description	Mitigation
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 heatwaves and 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. Similarly freeze-thaw events have also resulted in sudden surges in demand. 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. During the heatwave 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. In 2022 the heatwave and drought and freeze-thaw also put pressure on parts of our supply system where demand has risen to levels close to our supply capacity and where sudden increases in demand are more likely to result in service interruptions. In the long-term, underlying risk factors for hot and dry weather will continue to increase with further reductions to abstraction due to sustainability measures, population growth and climate change. We expect that the combination of extreme weather we experienced in 2022 will be exceptional, but pressure in certain areas of the network have led to the trend to be updated to increasing.	• 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. • Regional approach to investment in our long-term delivery strategy and our business plan for 2025 to 2030 focused on demonstrating to our regulator the need to invest regularly in enhancing resilience in a way that matches the specific characteristics and challenges of each of our three different regions (West, Sussex and Kent). • 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.

Group strategic report

Risks description	Mitigation
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. Ofwat's approach to performance commitments and ODI rates at PR24 may exacerbate these challenges. Their approach to investment and especially enhancement expenditure to improve resilience is still uncertain at the time of writing but a restrictive approach would not enable the level of investment required to deliver the performance improvements implicit in Ofwat's ODI rates. In November Ofwat launched an investigation into our supply resilience. We acknowledge the decision by Ofwat to open this investigation and will fully cooperate with them on this matter. Resilience forms a major focus for us, and is a significant part of our PR24 business plan, which was submitted to Ofwat in October. There is a risk that the investigation could result in regulatory enforcement action or the imposition of penalties.	• 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 water company for the next regulatory period. • Executive remuneration targets aligned with regulatory outcomes. • Responding to Ofwat's investigation into supply resilience and working constructively with Ofwat to achieve a mutually acceptable resolution and a clear plan of how interruptions to supply can be minimised in the short term as well as the longer term.

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Risks description	Mitigation
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 water company and other utilities such as electricity companies is assessed as increasing since the invasion of Ukraine by Russia. There is also a correlation between an increased risk of theft and current macroeconomic conditions.	• 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.

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Risks description	Mitigation
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 finance ability 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 deliverability of the PR19 final determination, the impact of in-period penalties and increasing operating costs and cost of debt arising from current macroeconomic conditions, especially high inflation and rising interest rates, have substantially increased the finance ability challenges that we are facing and will face in the next few years. Our current credit ratings have been maintained at Baa2 stable and BBB with negative outlook but recent changes to our instrument of appointment requiring us to maintain a higher credit ratings from 2025 will also increase our financial resilience challenges.	• 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. • Regular engagement with credit rating agencies to understand how they will interpret the position of water companies. • Robust and comprehensive finance ability testing for our business plan, corporate plan and annual budget and corporate plan updates, and for our long-term viability statement.

Group strategic report

Risks description	Mitigation
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. 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 helping 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 developments 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 is underway, bringing with it a level of uncertainty on the final determination and how Ofwat will address priorities and the need for investment by companies in its final determinations.	• A long-term delivery strategy and business plan focused on demonstrating to our regulator the need to invest regularly in enhancing resilience in a way that matches the specific characteristics and challenges of each of our three different regions. • 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 considered. • Engagement with customers and stakeholders to understand their expectations and perception of the water 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 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
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. We need to keep pace with changes to these obligations as failure to do so could lead to non-compliance. Environmental regulators increasingly expect us to widen our programme of environmental work beyond what had previously be deemed to be the responsibility of water companies. 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 South East Water by customers, regulators and other stakeholders and affect their trust in us as a provider of an essential public service. There is greater scrutiny on environmental performance in the sector with more stringent enforcement of abstraction licences, discharge consents and other environmental permits. Following the unprecedented number of incidents caused by extreme weather in 2022 and interruptions to our service there is additional scrutiny on our incident preparedness and response. 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.	• Policies, processes and controls to ensure that we meet our duties and obligations, emergency plans and procedures for managing incidents and implementation of improvement plans to address lessons learnt. • 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.

Group strategic report

<table>
<tr><th>Risks description</th><th>Mitigation</th></tr>
<tr><td>10. 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.</td><td>• 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.</td></tr>
</table>

Group strategic report

Risks description	Mitigation
11. Health, safety and wellbeing The underlying risks to health and safety are stable. We have a strong safety culture, and the health and safety of our colleagues is our number one priority. We have a dynamic wellbeing and mental health strategy with 37 Wellbeing Champions and 42 Mental Health First Aiders, a comprehensive audit programme and systematic reviews of near misses at panel reviews. The Health & Safety committee monitors the effectiveness of health and safety practices, policies, procedures, training and communication. It analyses safety audit reports and through sub-committees ensures practices are adapted to the different areas of the business and encourage participation of employees to raise issues and monitor the progress of actions. Managers are provided with a monthly manager toolkit, health and safety briefings and core briefing slides to encourage dialogue. 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. Health and safety metrics are included in our annual incentive plan (AIP) and our senior managers bonus scheme.	• 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.
12. 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. • Designated independent non-executive director for employee engagement, giving employees direct opportunities to share their opinions and voice any concerns directly to the board

Group strategic report

Our business performance

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 water 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.

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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.

Measures relating to vulnerable customers
As a group 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.

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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.
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 2022/23 and the incentives or penalties earned. Overall, there is a net penalty of £5.4 million (including an estimate of penalties under C-MeX and D-MeX), compared to a net penalty of £2.9 million in 2021/22 (including the final C-MeX and D-MeX figures as assessed by Ofwat).

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.

Group strategic report

The net penalty will be returned to customers in the form of bill reductions in the 2024/25 year.

	Performance Commitment	Unit	Target in 2022/23	Actual performance in 2022/23	Penalty or Reward (£m)
N	Leakage	% reduction	2.0	0.6	(0.590)
N	Mains repairs	Per 1,000 km of main 1	169.1	170.3	(0.084)
Y	CRI	Score	0	1.49	0.000
Y	Unplanned outage	%	3.24	2.71	0.000
N	PCC	% reduction	4.6	-9.9	N/A
N	Supply interruptions	Min : Sec	00:5:45	03:02:21	(3.230)
	C-MeX*	Score out of 100	N/A	73.47	(1.012)
	D-MeX*	Score out of 100	N/A	82.74	(0.880)
Y	AIM	ML/d	0	-79	0.000
Y	Appearance of water	Per 10,000 population	0.94	0.88	0.057
Y	Taste and odour of water	Per 10,000 population	0.35	0.28	0.056
N	Properties at risk of low pressure	Per 10,000 population	0.5	0.6	(0.009)
Y	Household voids	%	2.1	1.8	0.255
N	Non-Household voids	%	8.1	10.29	N/A
N	WINEP	Schemes	38	39	0.000
N	Engaging and working with land owners	Hectares	8,530	8,289.9	N/A
Y	Protecting wildlife and increasing biodiversity	Hectares	1,268	1,514	N/A
Y	Sites protected from flooding	Number of sites	31	45	N/A
Y	Strategic main Wellwood to Potters Corner	% delivered	0	37.45	N/A
N	Customer satisfaction by segment 1 - ‘mindful optimists’	Score out of 5	4.3	3.8	N/A
N	Customer satisfaction by segment 2 - ‘global advocates’	Score out of 5	4.4	4.0	N/A
N	Customer satisfaction by segment 3 - ‘just me and mine’	Score out of 5	4.3	3.9	N/A
N	Customer satisfaction by segment 4 - ‘careful neighbours’	Score out of 5	4.3	4.1	N/A
N	Customer satisfaction by segment 5 - ‘busy juggler’	Score out of 5	4.4	4.0	N/A
N	Customer satisfaction by segment 6 - ‘living for today’	Score out of 5	4.3	3.9	N/A
N	Value for money	Score out of 5	3.9	3.6	N/A
N	Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.4	4.2	N/A
N	Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.3	4.1	N/A
N	Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	3.9	3.3	N/A
N	Household customers receiving financial support	Number	66,000	60,275	N/A
N	Satisfaction of stakeholders in relation to assistance offered	Score out of 5	3.8	3.3	N/A

Group strategic report

	Performance Commitment	Unit	Target in 2022/23	Actual performance in 2022/23	Penalty or Reward (£m)
Y	Priority Services for customers in vulnerable circumstances – Reach	%	7	8.0	N/A
Y	Priority Services for customers in vulnerable circumstances – Actual Contact	%	35	54.5	N/A
Y	Priority Services for customers in vulnerable circumstances – Attempted Contact	%	90	90.3	N/A
Y	Gap sites	Number of sites	25	47	N/A
N	Risk of severe restrictions in a drought	%	0	14.2	N/A
N	ERI (Event Risk Index)	Score	0	286.929	N/A
Y	Delivery of water industry environment programme requirements	Met / Not met	Met	Met	N/A
N	Greenhouse gas emissions	$kgCO_2e/Ml$	81.8	206.6	N/A
Y	Engaging and working with abstractors to improve catchment resilience to low flows	%	7	14	N/A

* 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

Our financial performance

The financial year ended 31 March 2023 was the third year in the current Asset Management Period (AMP7). The financial performance of the group in the year has been impacted by a number of exceptional weather related events and other challenging external factors including unprecedented wholesale energy prices and cost pressures on chemicals, materials and other energy intensive products.

During the year the country, and the rest of Europe, experienced three exceptional weather related events which resulted in significant additional costs being incurred by the group. Additionally, Storm Eunice, which preceded the financial year but had an on-going effect on the start of the year, also contributed to additional costs being incurred by the group.

The cost of the exceptional weather related incidents together with the direct and indirect impacts of higher power prices and significantly higher indexation charges on our index linked debt contributed to the loss before tax of the group.

During the financial year, we continued to make progress on our commitments in our five year plan in areas such as our local environment, support for our more vulnerable customers and the resilience of our network.

Investments in infrastructure assets to improve water quality and add flexibility and resilience to the network have been a major part of our capital programme during the year. An agile approach is being taken to ensure that investment is targeted to meet the changing requirements of customers. More information is available in SEWL's annual report which is available on that company's website.

Group strategic report

Revenue

The turnover for the year was £257.5 million compared to the previous year of £251.3 million. The increase of £6.2 million included an increase in water revenue of £7.7 million offset by a decrease non-water income of £1.5 million.

Under the regulatory price control mechanism, the tariffs are adjusted to take into account the impact of inflation and changes in projected consumption. The regulatory model set the inflationary uplift in this year's allowed revenue from CPIH in November 2021. This lag meant our regulated revenue for the year included an increase of only 3.3 per cent while inflation on key operating costs was significantly higher than this. The additional revenue generated from the increase in prices was £7.9 million.

Household water revenue was £0.6 million higher than 2021/22 with demand patterns now closer to the pre-Covid-19 position for 2019/20. The TUBS restrictions after the summer heatwave and the reduction in household demand partly offset higher demand due to last year's extreme summer heatwave and drought. Non-household revenue was £7.1 million more than 2021/22 reflecting the lifting of Covid-19 restrictions for businesses and price inflation. This increased revenue also includes historic settlement adjustments of £1.9 million relating to prior years.

Turnover resulting from non-water sales decreased by £1.5 million in the year to £10.2 million. This reduction related to reduced demand from developers in relation to New Connections and Infrastructure income due to the economic uncertainty in the housing market.

Other income has decreased by £4.9 million to £17.0 million during the year. Other income includes the final receipt of £4.6 million of insurance recoveries in respect of the damage to the reservoirs at Aylesford in 2020/21. £10.0 million was received in 2021/22. The balancing £0.5 million increase in other income relates to higher commission and laboratory income.

Operating expenditure

Our operating costs for the year, including charges for doubtful debts, have increased from £189.9 million to £234.0 million, an increase of £44.1 million in the year. This included the £17.0 million of exceptional costs relating to the extreme weather events. These costs have been categorised as atypical costs. Operating costs excluding the atypical costs have increased by £27.1 million.

Storm Eunice in February 2022 was the worst storm to hit our area for more than 30 years. This generated £1.6 million of atypical operating expenditure in 2021/22 and further atypical operating expenditure of £0.5 million in 2022/23 with the expenditure in 2022/23 largely in respect of generator hire and fuel.

The combined effect of the sustained drought and record-breaking temperatures of last summer generated £10.0 million of atypical operating expenditure, largely relating to leakage recovery following ground movements that caused burst pipes, bottled water, drought planning, customer compensation and additional bulk water supply and water tankering costs.

The sustained freeze-thaw which affected our area in December generated £6.5 million of atypical operating expenditure, largely in respect of compensation and bottled water.

As part of the costs of these incidents, we created the Community Chest fund to support charities, community groups and not for profit organisations in the affected areas. Customers were invited to vote as to how the fund should be shared. Funds were distributed during autumn 2022 and spring 2023.

Profit from Operations

Operating profit has decreased from £83.3 million to £40.5 million, decrease of £42.8 million, as detailed above.

Group strategic report

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. 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 was £132.1 million in the year compared with £75.9 million in the prior year. The increase of £56.2 million is made up of higher non-cash indexation charges on our index linked bonds of £44.5 million, due to inflation being very high throughout the financial year 2022/23 compared to 2021/22, together with an increase in cash interest on these loans of £7.6 million. The impact of higher interest rates on our variable rate loans accounted for £3.1 million of the increased finance costs with an extra £0.7 million being in respect of the first full year's interest on the Series 3 loan notes issued in 2021/22.

Profit before tax
The loss before tax for the year was £89.5 million compared to a profit of £8.1 million in the previous year. The result has been significantly impacted by the increases in finance costs and operating costs in the year.

Loss after tax
The group returned a loss after tax of £68.6 million in the year compared to a loss of £36.9 million in the prior year.

The tax credit in the year of £20.9 million (2022: £45.0 million charge) comprises:
- Current tax credit of £0.1 million (£0.9 million). The decrease in current tax reflects the decrease in taxable profit after allowing for appropriate tax deductions.
- Deferred tax credit of £20.8 million (£45.9 million charge). The deferred tax credit is due to losses from higher indexation and operating costs and deferral of capital allowance.

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 is set out in note 20 and details of our long-term loans are set out in note 19.

During the year, £30 million was drawn down against our revolving credit facility of £125 million.

Pensions
During the year the group paid contributions to the South East Water and Mid Kent Water defined benefit schemes, which both closed on 31 March 2015 to future accrual, in respect of the actuarial deficits on the schemes. An amount of £4.6 million (2022: £4.1 million) was paid to the South East Water scheme and £1.3 million (2022: £1.4 million) was paid to the Mid Kent Water scheme. In December 2022 the trustees of the Mid Kent Water scheme entered into an insurance transaction to fully insure the pension scheme. As a result of the "buy-in" transaction no further deficit contributions will be paid to the Mid Kent Water scheme and additional contributions will be paid to the South East Water scheme.

Further details on these schemes and also on the buy-in transaction are set out in note 24 of the financial statements.

In addition, the group operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year 1,095 (2022: 1,140) employees contributed to the scheme and the group made payments of £2.8 million by way of employer contributions to this scheme (2022: £2.5 million).

Group strategic report

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 £105.0 million (2022: £136.4 million). Net payments in respect of capital expenditure in the year totaled £92.9 million compared to £85.2 million in the prior year. Payments in respect of interest and other finance income and costs were £55.1 million in the year compared to £48.6 million in 2021/22.

The group statement of cash flows on page 64 shows a decrease in the cash balance of £12.9 million, from £29.0 million at the beginning of the financial year to £16.2 million at the end of the year. The reduction includes drawdowns of £30 million in the year from our revolving credit facility during the year and is largely as a result of the higher operating costs and higher interest payments in the year.

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 strategy

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

Climate related disclosures

The reporting on emission and climate related matters relates to SEWL 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 SEWL) carry out administrative functions. The group emissions are equivalent to those of SEWL.

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 SEWL’s annual report which is available on that company’s website.

Methodology

We measure and report our emissions under scope 1, 2 and 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 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.

Group strategic report

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 water 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) for Atkins.

In undertaking the verification exercise, REE has reviewed our carbon footprint data collection and calculation methodologies having regard to 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. The renewal of our ISO 14064 accreditation was confirmed on 13 July 2023.

Group strategic report

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

- The data held within our Carbon Accounting Workbook v17 (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 2022/23 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.

Streamlined energy and carbon reporting (SECR)

Location Based Greenhouse gas (GHG) emissions	**2020/21**	**2021/22**	**2022/23**	**Unit**
1 Annual quantity of GHG emissions for the purposes of transport	1,612	1,576	1,821	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)	33,921	30,530	28,790	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	153,127,128	151,516,643	156,239,208	kWh
4 GHG emission intensity metric	180	164	155	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	**2020/21**	**2021/22**	**2022/23**	**Unit**
1 Annual quantity of GHG emissions for the purposes of transport	1,612	1,576	1,821	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)	41,843	0	62,827	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	153,127,128	151,516,643	156,239,208	kWh
4 GHG emission intensity metric	219	8	327	kgCO2e /Ml
Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.				

Group strategic report

Engagement to deliver our purpose for the benefit of all

Section 172(1) statement

The directors of the group 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 SEWL, 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 group take into account all considerations relevant to the operations of the entire group and in particular those relevant to SEWL. 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 SEWL 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 SEWL as a regulated undertaker providing an essential service.

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

One of the board’s main responsibility is to set the group’s strategy and monitor its delivery in alignment with our purpose.

An important aspect of our governance has been the incorporation of our purpose into our 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 our directors to fulfil our 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 even more crucial since we adopted our new articles of association which reflect our role as provider of an essential public service.

In this context most decisions taken by the board need to balance the long-term and short-term interests of the group, the interests of 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. Most decisions of the board at a strategic and operational level require balancing all these considerations and we see the long-term success of the group as achieving a fair balance.

There are numerous examples throughout this strategic report of how the board has regard to each of the matters in section 172(1) of the Companies Act 2006. This is achieved within a general decision framework combining governance, internal systems of control and risk management, and engagement with stakeholders which is designed to ensure we consider all the matters in section 172(1) of the Companies Act 2006. Consideration of these matters 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 and are part of each decision the board considers.

Group strategic report

Matters for consideration in section 172(1)

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

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 group 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.

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 depagecision 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.

Group strategic report

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.

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.

During 2022/23, we updated our stakeholder map, adding more than 600 stakeholders to our database and worked with the Consultation Institute to establish our engagement commitments which align with the Ofwat principles, CCW recommendations and the Consultation Institute principles of quality engagement. During the year we held 45 meetings and events which enabled us to speak to more than 700 stakeholders receiving feedback on a broad range of topics including engineering schemes, PR24, WRMP24, vulnerable customers and the environment.

Our overarching ambition is to gather valuable insights by embedding best practice engagement methods throughout the business. This will create 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 water 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.

Group strategic report

We follow a process of define – plan – implement – respond. This ensures 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:

- 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 water 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 water 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.

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 long-term delivery strategy, business plan and main long-term plans such as WRMP and 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 their causes and take corrective actions.

Our independent Customer Challenge Group (CCG) 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.

Group strategic report

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 used the Digital Economy Act 2017 to implement data sharing with local authorities. This partnership enables us to put low income households automatically onto our social tariff making sure help is given where it is needed most Last year 57 per cent of our new recruits were women and, overall, we have increased the number of women at our entry grades by 12 per cent during the last two years. We are currently working on further agreements with other councils. We have been sharing the details of this approach with other water companies and with Ofwat, CCW and Defra. During the last year we have also signed similar sharing agreements with our local energy providers, ensuring that where our customers are registered as needing more support with one of their utilities, this information is shared.

We hold a ServiceMark Accreditation with Distinction from The Institute of Customer Service. We are one of 70 organisations, 20 with distinction, to receive this award. This is a national independently run standard that recognised our achievement in customer service and our commitment to upholding service standards.

As part of our Trusted Partnership Programme, we work closely with third party specialist organisations to provide additional support for customers. As part of this programme, we are one of only two water companies to hold the Inclusive Service Kitemark which replaces our previous accreditation under the BS18477 standard on inclusive services. The Inclusive Service Kitemark is a global standard that focuses on protecting vulnerable consumers including the identification of vulnerability, inclusive design of products and services adoption of AI as well as data collection, data protection and data sharing to ensure the organisation is creating an inclusive service for all.

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.

We introduced a number of changes to the communication plan to increase channels and ways to collaborate to get water saving messages across. We roll out extensive summer demand campaigns through multiple channels to alert customers on the need to use water wisely, especially limiting non-essential use to avoid affecting other customers' access to water for essential purposes.

Group strategic report

Our people

How we engage

Board engagement with our employees takes place through the Staff Council (our employee representative body) and Célia Pronto (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 teams as well as providing staff representation on business matters. It contributes to continuous improvement and a better working environment through sharing information about water company strategy, seeking informed views through consultation with the Staff Council 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 are provided with a monthly manager toolkit, health and safety briefings and core briefing slides to encourage dialogue.

We carry out 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 is a pillar of our people plan which sets out our actions for 2020 and 2025.

A wellbeing area is 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.

An action plan, based on the results of the 2022 staff survey, is being implemented with the direct participation of our employees to ensure that concrete actions are taken based on the survey results. Feedback and ideas for improvements are encouraged and shared.

Our Staff Council was refreshed last year with new representatives from across the business appointed to the liaison roles and new training delivered to them as well as 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.

Group strategic report

Our stakeholders and regulators

How we engage

We engage with our regulators (Ofwat, the Drinking Water Inspectorate, the Environment Agency, Natural England and CCW) 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.

Our independent Customer Challenge Group (CCG) 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.

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.

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 non-executive directors attend the annual engagement session held by Ofwat which is 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 that generates feedback.

We carry out customer satisfaction surveys as part of our day to day activities and analyse all our customer performance data to understand customer feedback and expectations and adapt our service accordingly.

Our insight teams manage our regular stakeholder engagement activities as well as specific engagement programmes with customers and a wide range of local authorities, charities, NGOs and regulators for all our key strategic and regulatory plans.

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.

Feedback we received and the actions we take

We have integrated Ofwat requirements relating to long-term delivery strategy and common reference scenarios in the development of our adaptive planning process for PR24, our water resources management plan and our TCFD scenarios and disclosures, as well as the insight from consultation by the WRSE.

We took account of the insight on future challenges for the water industry discussed with Water UK and through engagement with customers and stakeholders for the development of our strategic direction statement.

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 was co-created with a diverse range of stakeholders and we will publish the final plan later in 2023.

We provide funding through our capital grants scheme to farmers who implement cover crops, for example to encourage maize growers to sow grass in-between maize crops or alongside maize crops that holds the soil together preventing rain from washing sediment, nutrients and chemicals into local rivers and improving raw water quality. We also provide advice and financial support on rainwater harvesting.

Group strategic report

In February 2023, members of Ofwat's Board met with our CEO, Regulation and Strategy Director and Head of Environment at Arlington Reservoir. Resilience was the main topic of discussion, and the key concepts that will be set out for investment in the next business plan were presented.

Our suppliers and partners

How we engage

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.

We proactively engage with our suppliers to address potential supply chain disruptions. 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 received, actions and key decisions

We 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. Through Water UK we also worked with British Water to assess the supply chain capacity to deal with increasing investment requirements in 2025 to 2030 across the water industry.

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.

Group strategic report

Temporary use bans
We typically supply 542 million litres of water a day during summertime. However, during the drought and heatwave last year and more recently in mid- June 2023, demand reached peaks of 675 million litres a day and of 678 million litres a day respectively. This additional sudden demand is the equivalent of supplying a further four towns the size of Maidstone or Eastbourne. This resulted in storage of drinking water falling faster than it could be replenished in the most vulnerable parts of our supply system.

In both cases, we decided to impose temporary use bans within triggers set in our drought plan to limit non-essential use and protect the water supply for essential use to customers that were affected the most.

How stakeholders were considered
In respect of the drought in 2022, the environmental impact of the high demand in the context of stretched water resources was a key consideration, especially how a reduction in non-essential use may help avoid a drought permit.

Both in 2022 and 2023, we considered the overall impact of imposing restrictions in Kent and Sussex including their acceptability by customers and the reputational impact on the SEWL company but our priority had to be to protect the customers who were most affected by supply interruptions.

Before implementing the restrictions in June 2023, we had rolled out our summer campaign from May and had intensified our communication in anticipation of the peak and as the peak developed, asking customers to use water only for essential use. This did not however result in any noticeable reduction in demand and we therefore resolved to impose restrictions to provide a formal signal that it was critical to ensure access to water for essential purposes.

We considered the impact on customers and ensured that there were suitable exemptions in particular for vulnerable customers.

We prepared for a significant increase in contact and published an extensive Q&A on our website as well as regular updates on water demand to provide customers with the information they needed.

We communicated extensively with Defra, regulators, local authorities and local representatives about the measures we were taking and their rationale.

Outcomes and expected long-term impacts
Customers' reaction to the announcement was generally balanced, with many recognising the need to use the resource wisely in the interest of all.

As anticipated we received criticisms from some customers that more investment should be made in the system to prevent capacity issues and that more should be done on leakage.

Government, local representatives and regulators were generally supportive of taking steps early to avoid further deterioration of drinking water storage and to allow us to replenish reservoirs supplying the most affected areas.

Our frontline teams have also seen this action as a positive step, welcoming the decision aimed at resolving the supply issues in the interest of customers.

We had anticipated questions about investment and published more information on the action we had taken and the investment completed or planned in the short, medium and long-term to address system capacity and resilience.

Our WRMP will rely on significant reductions in demand over the next decades and this will require regular communication about the actions that we and our customers must take working together to secure the future of water.

In this context we believe that our actions and communications must be consistent with this priority and in particular that it is essential to encourage customers to use water wisely, both in terms of how much they use and what they use drinking water for.

Group strategic report

Community Funds
Customers in different parts of our supply areas were affected by supply interruptions as a result of the exceptional combination of weather events we experienced in 2022. In certain cases, 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 had on the communities we serve and decided to provide an alternative form of support, extending the approach that we had first used in relation to the impact of Storm Eunice.

How stakeholders were considered
We received feedback from CCW and other stakeholders who were keen that we provide a form of support.

We decided to set up community funds for the areas affected 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.

In making this decision we considered the need to act to restore trust from our customers. We made this decision aware that costs would be incurred in addition to the significant operational expenditure incurred to deal with the incidents and the ODI penalties incurred that were also the result of these same events.

Outcomes and expected long-term impacts
Working with local stakeholders, including local MPs and residents, a number of charities, community groups and not for profit organisations were selected as beneficiaries of the funds. Affected customers were given the opportunity to vote on how the funds were distributed. We have been making payments to the successful organisations based on customers' votes.

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. This also helped gain support for our investment in local resilience.

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 58 to 117. The loss after taxation for the company on ordinary activities for the year was £6.1 million (2022: £15,000) and the net assets of the company at 31 March 2023 were £255.7 million (2022: £261.9 million).

The primary reason for the increase in the loss in the year was the increase in the finance expenses on the company's SONIA based loans of £4.7 million. The reduction in dividends the company has received from its subsidiaries of £1.4 million has also contributed towards the loss.

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:

M McArdle
Director
20 December 2023

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, SEWL, as we recognise that strong environmental, social and governance performance protects its long term value and sustainable success and strengthens its licence to operate. SEWL reports on its compliance with the South East Water Limited Corporate Governance Code (“SEWL 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 the main operating subsidiary in its group, SEWL:

- 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 SEWL, in particular those set out in Condition P.

They fully support the adoption by SEWL of its own corporate governance code. This code incorporates 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 SEWL recognise the specific requirements applicable to SEWL 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 SEWL, the directors of the company have due regard to the requirements of condition P of SEWL’s instrument of appointment which requires that SEWL 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 SEWL’s instrument of appointment that SEWL must meet the objectives of the board leadership, transparency and governance principles published by Ofwat and in particular that SEWL 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 SEWL are reserved for shareholders or parent companies, SEWL board committees (including but not limited to audit and risk, remuneration and nomination committees) report into the board of SEWL, with final decisions made at the level of SEWL, and the board of SEWL is fully focused on the activities of SEWL and acts independently and establishes SEWL’s purpose, strategy and values.

As shareholder nominated directors of SEWL, the relevant directors of the company who are also directors of SEWL must satisfy themselves, as must all other directors of SEWL, and certify in accordance with the requirements of Condition P of SEWL’s instrument of appointment, that SEWL 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 SEWL 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 SEWL Code, the SEWL corporate governance framework and the SEWL 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 SEWL was embedded into the articles of association in November 2020 reinforcing the duties of directors to work to fulfil the company's purpose.

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

Managing risks within the group
The directors of the company are aware of and have due regard to the provisions of SEWL's instrument of appointment in particular those relating to ultimate controller undertakings and ring fencing and the provisions of the SEWL 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 SEWL and its activities relate only to the management and financing of this investment. This ensures that the regulated business of SEWL 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 SEWL. The directors of SEWL 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 SEWL and these provisions have received the required consent from Ofwat. The directors of SEWL 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 SEWL. The need of the directors of SEWL for information is met when necessary through updates provided by the shareholder nominated directors on the board of SEWL or communication of specific information.

Group structure
There are two intermediate holding companies between SEWL and the company: South East Water (Holdings) Limited and Hastings Water (UK) Limited. SEWL 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 SEWL's financing group and their liabilities are separate from the rest of the group including SEWL. 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 SEWL, and information on the directors of SEWL, including short biographies are available on SEWL's website. This information also includes whether these directors represent shareholders.

Group financing
Recent debt financing has been arranged through SEWL. Historical debt financing of SEWL 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. SEWL 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
20 December 2023

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 2023, 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.

Directors' confirmations

The directors consider that the group annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

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.

In the case of each director in office at the date 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.

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 SEWL. 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.

Group Directors' Report

The company acts as a holding company. At 31 March 2023, its principal subsidiaries included Hastings Water (UK) Limited ("HWUK"), South East Water (Holdings) Limited ("SEWH"), South East Water Limited ("SEWL"), 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 note 15. 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 2023 was £257.5 million (2022: £251.3 million) and group operating profit was £40.5 million for the year (2022: £83.3 million). Loss before taxation for the year was £89.5 million (2022: profit of £8.1 million). The financial position as at 31 March 2023 for the group and for the company is shown on pages 58 and 59 respectively.

The group was fully in compliance with its loan covenants at 31 March 2023.

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.

Dividends

There were no dividends declared or paid during the year (2022: £nil) and the directors recommended a final dividend of £nil (2022: £nil). The company's dividend policy is discussed on page 33 of the Strategic report.

Capital expenditure

During the year the group's capital expenditure totalled £102.0 million (2022: £105.0 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 SEWL. 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 14.9 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) (resigned 4 April 2023)
A N Le Gal (Non-Executive Director) (resigned 1 March 2023)
M McArdle (Non-Executive Director)
V Rosati (Non-Executive Director) (resigned 1 March 2023)
G Luschen (Non-Executive Director) (appointed 4 April 2023)
P Minguell Maria (Non-Executive Director) (appointed 1 March 2023)

V Rosati resigned as an alternate director for A N Le Gal on 1 March 2023 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.

Group Directors' Report

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 13.

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 46.

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.

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 36 of the strategic report and relate to the period from 1 April 2022 to 31 March 2023.

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 SEWL 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 SEWL shape our plans for the 2020 to 2025 AMP. There are a number of examples, as discussed on page 39 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 38.

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 13.

Group Directors' Report

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

Research and development activities
SEWL 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.

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.

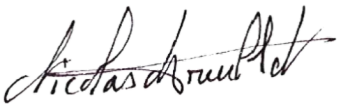
Further details are provided in Note 3 to the financial statements.

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.

Independent auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming meeting of the board.

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

Approved by the board on 31 August 2023 and signed on its behalf by:



Nicolas Truillet
Company Secretary
20 December 2023

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 2023 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 2023; 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.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

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

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

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 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.

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 Strategic report and Group Directors' Report for the year ended 31 March 2023 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 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 and UK tax legislation. 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;

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

- 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.

Andy Grimbly

Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
21 December 2023

Group income statement
for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Revenue	4	**257,482**	251,276
Bad debts	17	**(4,770)**	(5,010)
Net operating costs	5	**(229,214)**	(184,875)
Other income	4	**16,999**	21,928
Profit from operations		**40,497**	83,319
Finance expense	9	**(132,096)**	(75,905)
Finance income	8	**2,009**	735
Profit on disposal of investment properties		**49**	-
(Loss)/profit before taxation		**(89,541)**	8,149
Taxation	10	**20,944**	(45,024)
Loss for the year		**(68,597)**	(36,875)
Loss per share attributable to the ordinary equity holders of the group			
Basic and diluted	11	**(380.68p)**	(204.64p)

The group activities above are derived from continuing operations.

The notes on pages 64 to 115 form part of these financial statements.

Group statement of other comprehensive income
for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Loss for the year		**(68,597)**	(36,875)
Other comprehensive (loss)/income:			
Items that will not be reclassified to the income statement:			
Net actuarial (loss)/gain on pension schemes	24	**(39,449)**	17,408
Deferred tax credit/(charge) on net actuarial (loss)/gain	10	**9,862**	(4,352)
Impact of deferred tax rate change in respect of pension schemes	10	**-**	1,639
Other comprehensive (loss)/income for the year		**(29,587)**	14,695
Total comprehensive loss		**(98,184)**	(22,180)

The notes on pages 64 to 115 form part of these financial statements.

Company income statement
for the year ended 31 March 2023

	Note	**2023 £000**	2022 £000
Net operating costs	5	**(687)**	(449)
Income from shares in other group undertakings	7	**5,429**	6,798
Finance expense	9	**(11,027)**	(6,304)
Finance income	8	**97**	30
(Loss)/profit before taxation		**(6,188)**	75
Taxation	10	**78**	(90)
Loss for the year		**(6,110)**	(15)
Loss per share attributable to the ordinary equity holders of the company			
Basic and diluted	11	**(33.91p)**	(0.08p)

The company activities above are derived from continuing operations.

The notes on pages 64 to 115 form part of these financial statements.

Group statement of financial position

Registered number: 05462865
as at 31 March 2023

	Note	**2023 £000**	2022 £000
Non-current assets			
Intangible assets	12	**7,768**	8,294
Property, plant and equipment	13	**1,718,604**	1,678,147
Right of use assets	13	**11,153**	10,980
Investment property	14	**450**	900
Defined benefit pension surplus	24	**23,842**	57,346
		1,761,817	1,755,667
Current assets			
Inventories	16	**1,132**	851
Trade and other receivables	17	**92,434**	84,117
Cash and cash equivalents	18	**16,165**	29,031
		109,731	113,999
Total assets		**1,871,548**	1,869,666
Current liabilities			
Loans and borrowings	19	**(180,120)**	(339)
Trade and other payables	21	**(113,442)**	(90,048)
Deferred income	23	**(5,312)**	(5,740)
Provisions	22	**(7,285)**	(8,314)
		(306,159)	(104,441)
Non-current liabilities			
Loans and borrowings	19	**(1,291,013)**	(1,362,061)
Trade and other payables	21	**(4,104)**	(4,154)
Deferred tax liability	10	**(198,140)**	(228,868)
Defined benefit pension liabilities	24	**(2,482)**	(2,869)
Deferred income	23	**(4,876)**	(4,315)
		(1,500,615)	(1,602,267)
Total liabilities		**(1,806,774)**	(1,706,708)
Net assets		**64,774**	162,958
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Revaluation reserve		**213,273**	218,375
Accumulated losses		**(397,155)**	(304,073)
Total equity		**64,774**	162,958

The notes on pages 64 to 115 form part of these financial statements.

The financial statements on pages 56 to 115 were approved and authorised for issue by the board of directors on 20 December 2023 and were signed on its behalf by:

P Minguell Maria
Director
20 December 2023

M McArdle
Director
20 December 2023

Company statement of financial position

Registered number: 05462865
as at 31 March 2023

	Note	**2023 £000**	2022 £000
Non-current assets			
Investments	15	**412,950**	412,950
		412,950	412,950
Current assets			
Trade and other receivables	17	**4,533**	4,483
Cash and cash equivalents	18	**5,388**	10,467
		9,921	14,950
Total assets		**422,871**	427,900
Current liabilities			
Trade and other payables	21	**(2,688)**	(2,097)
Loans and borrowings	19	**399**	-
		(2,289)	(2,097)
Non-current liabilities			
Loans and borrowings	19	**(164,842)**	(163,875)
Deferred tax liability	10	**-**	(78)
		(164,842)	(163,953)
Total liabilities		**(167,131)**	(166,050)
Net assets		**255,740**	261,850
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Retained earnings		**7,084**	13,194
Total equity		**255,740**	261,850

The notes on pages 64 to 115 are an integral part of these financial statements.

The financial statements on pages 56 to 115 were approved and authorised for issue by the board of directors on 20 December 2023 and were signed on its behalf by:

P Minguell Maria
Director
20 December 2023

M McArdle
Director
20 December 2023

Group statement of changes in equity
for the year ended 31 March 2023

	Issued share capital £000	Share premium account £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
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	-	-	-	14,695	14,695
Total comprehensive income	-	-	-	(22,180)	(22,180)
Amortisation of revaluation reserve	-	-	(6,112)	6,112	-
Revaluation of infrastructure assets	-	-	283	-	283
Release revaluation reserve on disposals	-	-	(21)	21	-
Deferred tax on revaluation and retained earnings 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
At 1 April 2022	244,084	4,572	218,375	(304,073)	162,958
Loss for the year	-	-	-	(68,597)	(68,597)
Other comprehensive income	-	-	-	(29,587)	(29,587)
Total comprehensive income	-	-	-	(98,184)	(98,184)
Amortisation of revaluation reserve	-	-	(6,112)	6,112	-
Release revaluation reserve on disposals	-	-	(541)	541	-
Deferred tax on revaluation and retained earnings transfer[1]	-	-	1,551	(1,551)	-
At 31 March 2023	**244,084**	**4,572**	**213,273**	**(397,155)**	**64,774**

The notes on pages 64 to 115 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 2023

	Issued share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 April 2021	244,084	4,572	13,209	261,865
Total comprehensive loss for the year	-	-	(15)	(15)
At 31 March 2022	244,084	4,572	13,194	261,850
At 1 April 2022	244,084	4,572	13,194	261,850
Total comprehensive loss for the year	-	-	(6,110)	(6,110)
At 31 March 2023	**244,084**	**4,572**	**7,084**	**255,740**

The notes on pages 64 to 115 form part of these financial statements.

All transactions relate to the equity holders of the company.

Group statement of cash flows
for the year ended 31 March 2023

	Note	2023 £000	2022 £000
Cash flows from operating activities			
Loss for the year		**(68,597)**	(36,875)
Adjustments for			
Income tax (credit)/charge		**(20,944)**	45,024
Finance income		**(2,009)**	(735)
Finance expense		**132,096**	75,905
Depreciation and impairment of property, plant and equipment		**58,541**	55,666
Amortisation and impairment of intangible assets		**2,934**	3,013
Insurance proceeds from loss of property, plant and equipment		**-**	(6,000)
Loss on disposal of property, plant and equipment		**244**	884
Profit on disposal of investment properties		**(49)**	-
Difference between pension contributions paid and amounts recognised in the income statement		**(4,796)**	(5,181)
		97,420	131,701
Movements in working capital			
(Increase)/decrease in trade and other receivables		**(8,269)**	3,285
Increase in inventory		**(281)**	(178)
Increase in trade and other payables		**16,140**	1,580
Cash generated from operations		**105,010**	136,388
Interest received		**473**	42
Interest paid		**(54,957)**	(48,492)
Interest element of lease payments		**(153)**	(100)
UK income tax received		**82**	68
Foreign tax paid		**(4)**	(4)
Net cash generated from operating activities		**50,451**	87,902
Investing activities			
Proceeds from sale of property, plant and equipment		**201**	314
Proceeds from sale of investment properties		**499**	-
Purchase of property, plant and equipment		**(91,158)**	(89,016)
Purchase of intangible assets		**(2,431)**	(2,520)
Insurance proceeds from loss of property, plant and equipment		**-**	6,000
Net cash outflow from investing activities		**(92,889)**	(85,222)
Financing activities			
Loan notes issued		**-**	50,000
Issue costs of debt		**(48)**	(305)
Repayment of lease liabilities		**(376)**	(337)
Drawdown/(repayment) of borrowings		**30,000**	(80,000)
Repayment of debentures		**(4)**	(5)
Net cash inflow/(outflow) from financing activities		**29,572**	(30,647)
Decrease in cash and cash equivalents		**(12,866)**	(27,967)
Cash and cash equivalents at the beginning of the year		**29,031**	56,998
Cash and cash equivalents at the year end	18	**16,165**	29,031

Company statement of cash flows

for the year ended 31 March 2023

	Note	**2023** **£000**	2022 £000
Cash flows from operating activities			
Loss for the year		**(6,110)**	(15)
Adjustments for			
Income tax (credit)/charge		**(78)**	90
Finance income		**(97)**	(30)
Finance expense		**11,027**	6,304
		4,742	6,349
Movements in working capital			
Increase in trade and other receivables		**-**	(1)
Increase in trade and other payables		**240**	220
Cash generated from operations		**4,982**	6,568
Interest received		**97**	30
Interest paid		**(10,108)**	(9,349)
UK income tax received		**-**	43
Net cash outflow from operating activities		**(5,029)**	(2,708)
Investing activities			
Loan to Hastings Water (UK) Limited		**(50)**	-
Net cash outflow from investing activities		**(50)**	-
Financing activities			
Issue costs of new loan		**-**	(45)
Net cash outflow from financing activities		**-**	(45)
Decrease in cash and cash equivalents		**(5,079)**	(2,753)
Cash and cash equivalents at the beginning of the year		**10,467**	13,220
Cash and cash equivalents at the year end	18	**5,388**	10,467

Notes to the financial statements
for the year ended 31 March 2023

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 2023 were authorised for issue by the board of Directors on 20 December 2023 and the Statement of Financial Position was signed on the board’s behalf by O Schubert 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.

These consolidated and company only financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies using IFRS and UK adopted international financial reporting standards.

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 2022

The group has adopted all new accounting standards and interpretations with mandatory adoption date on or before 1 April 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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:

The following standards and interpretations to published standards are not yet effective:

New standard or interpretation		
IFRS 17	Insurance contracts (replaces IFRS 4)	1 April 2023
IFRS 7	Financial Instruments	1 April 2024
IFRS 16	Leases	1 April 2024
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
IAS 1 (amended)	Presentation of Financial Statements	1 April 2024
IAS 7	Statement of Cash Flows	1 April 2024

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.

Notes to the financial statements
for the year ended 31 March 2023

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.

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 £9.3 million of directly attributable employee costs (2022: £8.7 million) and £4.6 million of other attributable costs (2022: £4.5 million) have been capitalised. This represents 5.7 per cent of total operating costs before capitalisation (2022: 6.7 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 2023 were £1.8 million (2022: £2.2 million).

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 £1.9 million at 31 March 2023 (2022: £3.0 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 £19.8 million (2022: £26.2 million) and £4.0 million (2022: £31.2 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 33. 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.

Notes to the financial statements
for the year ended 31 March 2023

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

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 2023 is estimated to be £36.6 million (2022: £34.3 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.

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.

		Sensitivity			
Unbilled water income		**+1%**	**+2%**	**-1%**	**-2%**
31 March 2023	£36.6m	+£0.4m	+£0.7m	-£0.4m	-£0.7m
31 March 2022	£34.3m	+£0.3m	+£0.7m	-£0.3m	-£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 2023, the level of unbilled revenue was estimated to be £7.1 million (2022: £6.7 million).

		Sensitivity			
Unbilled water income		**+1%**	**+2%**	**-1%**	**-2%**
31 March 2023	£7.1m	+£0.07m	+£0.14m	-£0.07m	-£0.14m
31 March 2022	£6.7m	+£0.07m	+£0.13m	-£0.07m	-£0.13m

Our calculations are prepared at the year-end but based on consumption patterns over the last six months.

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.

Notes to the financial statements
for the year ended 31 March 2023

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

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 and boreholes of 60 years (included in Land, wells, reservoirs and buildings)
- Light, plant and machinery of 20 years (included in Plant, equipment and vehicles)
- Computer software of 5 years

		Sensitivity			
Wells & boreholes		**+5 years**	**+20 years**	**-5 years**	**-20 years**
31 March 2023	£3.3m	-£0.3m	-£0.8m	+£0.3m	+£1.7m
31 March 2022	£3.2m	-£0.2m	-£0.8m	+£0.3m	+£1.6m

		Sensitivity			
Light plant and machinery		**+5 years**	**+10 years**	**-5 years**	**-10 years**
31 March 2023	£23.0m	-£4.6m	-£7.7m	+£7.7m	+£23.0m
31 March 2022	£21.5m	-£4.3m	-£7.2m	+£7.2m	+£21.5m

		Sensitivity			
Computer software		**+1 year**	**+3 years**	**-1 year**	**-3 years**
31 March 2023	£2.8m	-£0.5m	-£1.1m	+£0.7m	+£4.2m
31 March 2022	£3.0m	-£0.5m	-£1.1m	+£0.8m	+£4.5m

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 2023 was £32.3 million (2022: £31.5 million).

Our methodology establishes the expected credit loss of our household debt at the year-end by identifying customer debt categories and projecting historical 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. The continuing economic factors including higher energy and fuel prices, high inflation and increases in taxation are already impacting household disposable income and are expected to continue to do so.

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 3.1 per cent. We consider that this adjustment fairly reflects the potential future impact of wider economic factors on cash collection rates.

Our cash collection history over the past three years has been used to determine future collection rates, in line with the approach for 2021/22. This is considered a reasonable approach in recognising the economic pressures brought about by Covid-19 and the recent pressures on household finances caused by the cost of living crisis.

The sensitivity of the bad debt provision is illustrated in the table below where the impact of using cash collection histories over the past two years and four years as the basis for determining the expected credit loss is shown.

Notes to the financial statements

for the year ended 31 March 2023

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

		Cash collection history	
Bad debt provision estimate		**-2 years**	**-4 years**
31 March 2023	£32.3m	+£1.2m	-£1.0m
31 March 2022	£31.5m	+£0.9m	-£1.0m

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.

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 2023 is £23.8 million (2022: asset of £57.3 million) and is recognised in full.

The sensitivity of the estimate of the surpluses 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 – 31 March 2023	**Decrease in schemes' surplus**	
0.1% decrease to the discount rate	£2.4m	1.3%
0.1% increase to inflation	£2.2m	1.2%
One year increase in life expectancy	£6.1m	3.3%

Sensitivities – 31 March 2022	**Decrease in schemes' surplus**	
0.1% decrease to the discount rate	£3.9m	1.5%
0.1% increase to inflation	£3.5m	1.4%
One year increase in life expectancy	£11.1m	4.4%

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 available version of the CMI projections model (CMI_2021) has been used in the calculations for the 2023 year end as the updated version (CMI_2022) was delayed in publication. We have therefore continued to adopt the CMI_2021 model which 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 2023 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, 2021 and 2022. Any changes in the CMI_2022 model will be reflected in subsequent years.

Notes to the financial statements

for the year ended 31 March 2023

3. Accounting policies

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

The consolidated financial statements for the year ended 31 March 2023 have been prepared on the going concern basis.

In preparing the financial statements the directors considered the group's ability to meet its debts as they fall due for a period of one year from the date of this report. 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.

The directors have considered the current economic uncertainty associated with various factors including high inflation, pressures on household finances, supply chain constraints and high-power prices caused by Russia's invasion of Ukraine.

The group finances its working capital requirements through cash generated from operations and committed facilities that can be called upon as required. The group's liquidity position and cashflow projections are closely monitored and are updated each month. When necessary, mitigating actions are identified and implemented. The group has significant headroom in its £125 million revolving credit facility, of which £30 million had been drawn as at 31 March 2023.

Given the current economic uncertainty referred to above, a severe but plausible downside has been considered where a number of risks are considered in combination. This scenario, the "sustained adverse conditions" scenario, assumes a combination of a recession during the next five years, higher operating costs, and lower operating cashflows, including from under-collection of revenue, under delivery of efficiencies, higher power and chemicals prices and adverse weather, and operational underperformance.

The results of our assessment revealed that under the severe but plausible downside scenario it is likely that certain of South East Water's financial covenant thresholds would be breached, constituting a Trigger Event. The Trigger Event activates initial creditor protections under the terms of the group's securitised financing arrangements, which are designed to maintain South East Water's creditworthiness without disrupting its ability to trade. The Trigger Event operates 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 parent and fellow subsidiary companies, providing a degree of protection to the ring-fenced group and specifically to the operation of the regulated business of South East Water. Even in the severe but plausible downside scenario there is no Event of Default in the ring-fenced group and the risk of such an event is therefore considered to be extremely low.

As at 31 March 2023, Hastings Luxembourg Water S.a r.l. (HLux) had third party debt of £150 million which was due for repayment on 18 December 2023. This debt was repaid on 26 September 2023 out of the proceeds of new loans from the group's ultimate shareholders. A Trigger Event and dividend-lock up for the ring-fenced group could result in HLux being unable to service the shareholder loans, but in this situation HLux is able to capitalise the interest payable to the shareholders and to add this to the principal outstanding on the loans. Following the repayment of the third party HLux debt, there are no external borrowings other than the shareholder loans outside of the ring-fence group and therefore no risk of an event of default at HDF following a Trigger Event in South East Water.

Notes to the financial statements

for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

Based on the above, the directors have a reasonable expectation that the company has sufficient resources to continue in operation for a period of at least one year from the date of approval of the financial statements and to meet its obligations as they fall due. For this reason, the board considers it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statement.

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.

Unmetered water income was invoiced in full for the financial year 2022/23 on 1 April 2022 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.

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

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.

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

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

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

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.

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

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.

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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).

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.

Notes to the financial statements
for the year ended 31 March 2023

3. Accounting policies *(continued)*

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.

4. Total Income

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

	2023	2022
	£000	£000
Revenue		
Unmetered water income	**20,480**	20,343
Metered water income	**226,812**	219,244
Other sales	**10,190**	11,689
Total revenue	**257,482**	251,276
Other income		
Rent receivable	**1,228**	1,134
Other income	**15,771**	20,794
Total other income	**16,999**	21,928
Total income	**274,481**	273,204

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 £4.1 million (2022: £5.2 million), infrastructure income of £1.6 million (2022: £2.7 million) and capital contributions of £2.2 million (2022: £2.3 million).

Other income includes charges for billing and cash collection services amounting to £7.1 million (2022: £6.9 million), final insurance proceeds in respect of an insurance claim relating to the Aylesford sinkholes of £4.6 million (2022: interim proceeds of £10.0 million) and laboratory income of £3.0 million (2022: £2.7 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 was received in respect of business interruption cover in March 2022. We also received insurance proceeds of £6.0 million in respect of the damage caused to the service reservoirs.

Notes to the financial statements
for the year ended 31 March 2023

4. Total Income *(continued)*

In 2022/23 final insurance payments were agreed of £3.4 million in respect of business interruption cover and £1.2 million in respect of damage to the reservoirs.

5. Net operating costs

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Employee benefits expense (See note 6)	**36,276**	32,528	**111**	112
Asset expense:				
Depreciation – owned assets	**57,361**	54,702	**-**	-
Depreciation – right-of-use-assets	**1,180**	964	**-**	-
Impairment of property, plant and equipment	**-**	-	**-**	-
Amortisation of intangible assets	**2,934**	2,994	**-**	-
Impairment of intangible assets	**-**	19	**-**	-
Loss on disposal of property, plant and equipment	**244**	884	**-**	-
	61,719	59,563	**-**	-
Other operating expenses/(income):				
Operating lease rentals:				
Vehicles and office equipment	**481**	364	**-**	-
Land and buildings	**(23)**	63	**-**	-
Fees payable to the Group's auditors (see below)	**600**	507	**125**	77
Other expenses (see below)	**134,737**	96,401	**451**	260
Other operating expenses charged to capital projects	**(4,576)**	(4,551)	**-**	-
	131,219	92,784	**576**	337
	229,214	184,875	**687**	449

Notes to the financial statements
for the year ended 31 March 2023

5. Net operating costs *(continued)*

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Fees payable to the Group's auditors in respect of:				
Audit of the Group and Company financial statements	**119**	71	**119**	71
Audit of subsidiaries	**394**	356	**6**	6
Total audit	**513**	427	**125**	77
Regulatory accounts	**71**	65	**-**	-
Other assurance services	**16**	15	**-**	-
Total non-audit services	**87**	80	**-**	-
Total fees charged to income statement	**600**	507	**125**	77

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Other expenses comprise:				
Energy costs	**29,300**	20,858	**-**	-
Rates	**18,467**	18,470	**-**	-
Contractors	**41,831**	26,894	**-**	-
Bulk water supplies and abstraction licences	**11,831**	8,326	**-**	-
Chemicals	**6,492**	4,037	**-**	-
Insurance	**4,163**	2,990	**155**	150
Other	**22,653**	14,826	**296**	110
	134,737	96,401	**451**	260

Notes to the financial statements
for the year ended 31 March 2023

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	
	2023 Number	2022 Number	**2023 Number**	2022 Number
Operations	**427**	429	**-**	-
Management and administration	**585**	573	**1**	1
	1,012	1,002	**1**	1
	£000	£000	**£000**	£000
The aggregate payroll costs of these persons are as follows:				
Wages and salaries	**37,541**	34,643	**93**	94
National insurance	**3,944**	3,476	**11**	11
Defined benefit scheme charge	**1,340**	586	**-**	-
Defined contribution pension costs	**2,756**	2,519	**7**	7
	45,581	41,224	**111**	112
Less: direct salary costs charged to capital projects and infrastructure renewals schemes	**(9,305)**	(8,696)	**-**	-
	36,276	32,528	**111**	112

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	**2023 £000**	2022 £000
Investment income from Hastings Water (UK) Limited	**3,350**	5,400
Investment income from Swan Group	**2,079**	1,398
	5,429	6,798

8. Finance income

	Group		Company	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Interest receivable on bank balances and short term deposits	**473**	43	**97**	30
Pension fund finance income (see note 24)	**1,536**	692	**-**	-
	2,009	735	**97**	30

Notes to the financial statements
for the year ended 31 March 2023

9. Finance expense

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Debenture interest	**42**	42	**-**	-
Effective interest on listed debt	**14,582**	13,997	**-**	-
Indexation on variable rate bonds	**25,107**	13,563	**-**	-
Interest rate swap charges	**(596)**	1,686	**-**	-
Fair value movements on interest rate swap	**312**	(3,148)	**312**	(3,148)
Interest payable on loan notes	**6,445**	5,760	**-**	-
Bank interest and other finance charges	**12,311**	6,724	**-**	-
Financing guarantee fees	**1,237**	1,291	**-**	-
Interest payable on index linked loans	**14,441**	13,114	**-**	-
Interest payable to shareholders	**7,498**	5,546	**-**	-
Interest payable on leases	**153**	100	**-**	-
Amortisation of the revaluation of liabilities	**(350)**	(350)	**-**	-
Indexation on index linked loans	**51,512**	18,601	**-**	-
Interest payable on group company loans	**-**	-	**10,147**	8,911
Amortisation of loan issue costs	**1,221**	1,165	**568**	541
Interest and related fees payable	**133,915**	78,091	**11,027**	6,304
Interest capitalised	**(1,819)**	(2,186)	**-**	-
	132,096	75,905	**11,027**	6,304

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 4.7 per cent (2022: 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 2023

10. Taxation

10.1 Income tax recognised in income statement

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Current tax				
Current tax on (losses)/ profits for the year	**-**	-	**-**	(527)
Adjustments in respect of prior years	**(82)**	(895)	**-**	-
Foreign tax	**4**	4	**-**	-
Total current tax (credit)	**(78)**	(891)	**-**	(527)
Deferred tax (credit)/charge				
Origination and reversal of timing differences	**(15,592)**	1,981	**(59)**	598
Adjustments in respect of prior years	**(5,274)**	3,091	**(19)**	-
Relating to impact of change in tax rate	**-**	40,843	**-**	19
Total deferred tax (credit)/charge	**(20,866)**	45,915	**(78)**	617
Tax (credit)/charge reported in the income statement	**(20,944)**	45,024	**(78)**	90

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		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
(Loss)/profit before taxation	**(89,541)**	8,149	**(6,188)**	75
Tax using the company's domestic rate of 19% (2022: 19%)	**(17,013)**	1,548	**(1,176)**	14
Expenses not deductible for tax purposes	**392**	357	**-**	-
Tax effect of income not taxable in determining taxable profit	**(496)**	(972)	**(1,032)**	(1,292)
Adjustments to current tax charge in respect of prior years	**(82)**	(895)	**-**	-
Adjustments to deferred tax charge in respect of prior years	**(5,274)**	3,091	**(19)**	-
Adjustments to deferred tax in respect of rate change	**-**	40,843	**-**	19
Other timing differences for which no deferred tax asset is recognised	**1,425**	1,052	**1,425**	1,052
Group relief losses surrendered at no cost	**-**	-	**405**	297
Unrelieved losses	**-**	-	**319**	-
Capital gain tax in respect of overage payment received in respect of prior year	**104**	-	**-**	-
Total tax (credit)/charge reported in the income statement	**(20,944)**	45,024	**(78)**	90

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 rate reported in the deferred tax liability for the year ended 31 March 2023 is NIL (2022: £52.7 million).

Notes to the financial statements
for the year ended 31 March 2023

10. Taxation *(continued)*

The deferred tax on temporary differences as at 31 March 2023 has been calculated using 25 per cent, the enacted future corporation tax 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 March 2023 Budget announcement to grant 100 per cent full expensing capital allowance for qualifying plant and machinery (and 50 per cent allowance for special rate assets) expenditures from 1 April 2023 to 31 March 2026, with the possibility of becoming permanent thereafter, provides greater incentive to boost capital allowance availability to mitigate future tax charges. The main rate of UK corporation tax increases from 19 per cent to 25 per cent, effective 1 April 2023.

There are losses of £54.9 million available within the group to mitigate future profits.

Capital investment is expected to remain at similar levels and the group expects to be able to claim capital allowances in excess of depreciation in future years.

10.2 Income tax recognised directly in equity

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Deferred tax				
Impact of deferred tax rate change	**-**	(13,551)	**-**	-

No impact of deferred tax rate change has been recognised directly in respect of fixed assets revaluation reserves at 31 March 2023 (2022: £13.6 million).

10.3 Income tax recognised in other comprehensive income

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Deferred tax				
Deferred tax credit/(charge) on net actuarial (loss)/gain	**9,862**	(4,352)	**-**	-
Impact of deferred tax rate change in respect of pension schemes	**-**	1,639	**-**	-
	9,862	(2,713)	**-**	-

The net tax credit recognised in other comprehensive income for the year ended 31 March 2023 is £9.9 million (2022: £2.7 million net charge). There is no impact of corporation tax rate change on pension schemes that goes to equity in the year ended 31 March 2023 (2022: £1.6 million credit).

Notes to the financial statements
for the year ended 31 March 2023

10. Taxation *(continued)*

10.4 Deferred tax

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

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Deferred tax liabilities/(assets)	**198,140**	228,868	**-**	**78**

Group	Opening balance £000	Recognised in Profit and loss £000	Recognised in OCI £000	Recognised directly in equity £000	Closing balance £000
2023					
Deferred tax liabilities/(assets) in relation to:					
Property, plant and equipment	164,306	(8,657)	-	-	155,649
Impact of rate change on property, plant and equipment	50,865	-	-	-	50,865
Fair value swap	59	(59)	-	-	-
Rate change impact on swap fair value	19	(19)	-	-	-
Remeasurement of defined benefit obligation	11,748	1,583	(9,862)	-	3,469
Impact of deferred tax rate change in respect of pension scheme	1,871	-	-	-	1,871
Losses carry forward	-	(13,714)	-	-	(13,714)
	228,868	**(20,866)**	**(9,862)**	**-**	**198,140**
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

Notes to the financial statements
for the year ended 31 March 2023

10. Taxation *(continued)*

10.4 Deferred tax *(continued)*

Company	Opening balance £000	Recognised in Profit and loss £000	Closing balance £000
2023			
Deferred tax liabilities in relation to:			
Fair value swap	**59**	**(59)**	**-**
Rate change impact on swap fair value	**19**	**(19)**	**-**
	78	**(78)**	**-**
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

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 2023 was £198.1 million (2022: £228.9 million).

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 2023 is £174,000 (2022: £169,000).

As of 31 March 2023, a cumulative £36.9 million group interest has been disallowed permanently. These amounts have been treated in the Group accounts as transfer pricing adjustments in respect of interest on related party debt. The disallowance relating to the year end 31 March 2023 was £7.6 million (all prior years: £29.3 million).

Notes to the financial statements
for the year ended 31 March 2023

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	
	2023 **£000**	2022 £000	**2023** **£000**	2022 £000
Loss for the year from continuing operations	**(68,597)**	(36,875)	**(6,110)**	(15)
	2023 **Number**	2022 Number	**2023** **Number**	2022 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 per share from continuing operations	**(380.68p)**	(204.64p)	**(33.91p)**	(0.08p)

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 2023

12. Intangible assets

Group	Computer software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 April 2022	**29,004**	**2,391**	**31,395**
Additions	**-**	**2,461**	**2,461**
Transfers between classes	**3,966**	**(3,966)**	**-**
Disposal	**(819)**	**-**	**(819)**
Reclassifications from/(to) Property, plant and equipment	**16**	**(46)**	**(30)**
At 31 March 2023	**32,167**	**840**	**33,007**
Accumulated amortisation and impairment			
At 1 April 2022	**(23,101)**	**-**	**(23,101)**
Charge for the year	**(2,934)**	**-**	**(2,934)**
Disposal	**796**	**-**	**796**
At 31 March 2023	**(25,239)**	**-**	**(25,239)**
Net book value cost 31 March 2023	**6,928**	**840**	**7,768**
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 from Property, plant and equipment	42	-	42
At 31 March 2022	29,004	2,391	31,395
Accumulated amortisation and impairment			
At 1 April 2022	(20,149)	-	(20,149)
Charge for the year	(2,994)	-	(2,994)
Disposal	82	-	82
Reclassifications from Property, plant and equipment	(21)	-	(21)
Impairment charges	(19)	-	(19)
At 31 March 2022	(23,101)	-	(23,101)
Net book value cost 31 March 2022	5,903	2,391	8,294

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 2023

13. Property, plant and equipment

Group	Land, wells, reservoirs and buildings £000	Plant, equipment and vehicles £000	Mains £000	Assets in the course of construction £000	Total £000
Deemed cost					
At 1 April 2022	265,167	471,632	1,216,882	105,293	2,058,974
Additions	1,167	199	-	98,197	99,563
Disposals	(460)	(3,823)	(49)	-	(4,332)
Reclassifications from intangible assets	-	-	-	30	30
Transfer between classes	7,531	57,674	31,023	(96,228)	-
At 31 March 2023	273,405	525,682	1,247,856	107,292	2,154,235
Accumulated depreciation and impairment					
At 1 April 2022	(35,109)	(187,776)	(146,962)	-	(369,847)
Charge for the year	(5,412)	(32,401)	(20,728)	-	(58,541)
Disposals	129	3,772	9	-	3,910
At 31 March 2023	(40,392)	(216,405)	(167,681)	-	(424,478)
Net book amount at 31 March 2023	**233,013**	**309,277**	**1,080,175**	**107,292**	**1,729,757**
Assets under construction relate to the following categories	**28,491**	**48,095**	**30,706**		**107,292**
Deemed cost					
At 1 April 2021	261,075	433,972	1,187,201	81,231	1,963,479
Additions	-	-	-	102,465	102,465
Transfers	7,698	40,846	29,859	(78,403)	-
Reclassifications to intangible assets	-	(42)	-	-	(42)
Disposals	(3,606)	(3,427)	(178)	-	(7,211)
Revaluations	-	283	-	-	283
At 31 March 2022	265,167	471,632	1,216,882	105,293	2,058,974
Accumulated depreciation and impairment					
At 1 April 2021	(32,594)	(161,054)	(126,567)	-	(320,215)
Charge for the year	(5,183)	(29,973)	(20,510)	-	(55,666)
Eliminated on disposals	2,487	3,411	115	-	6,013
Reclassifications to intangible assets	-	21	-	-	21
Transfer between classes	181	(181)	-	-	-
At 31 March 2022	(35,109)	(187,776)	(146,962)	-	(369,847)
Net book amount at 31 March 2022	230,058	283,856	1,069,920	105,293	1,689,127
Assets under construction relate to the following categories	13,582	65,413	26,298	-	105,293

Notes to the financial statements
for the year ended 31 March 2023

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

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	**2023**	2022
	£000	£000
Property, plant and equipment owned	**1,718,604**	1,678,147
Right-of-use assets, excluding investment property	**11,153**	10,980
	1,729,757	1,689,127

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

	2023	2022
	£000	£000
Net book value		
Property	**7,622**	7,200
Plant and machinery	**3,531**	3,780
	11,153	10,980

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

14. Investment property

	2023	2022
	£000	£000
Valuation		
At 1 April	**900**	900
Disposal of land at Oakapple lane, Maidstone	**(450)**	-
At 31 March	**450**	900

The valuation relates to two areas of land at Henwood in Ashford and Oakapple Lane in Maidstone.

Henwood has been assessed on 17 October 2023 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 2023 valuations were made by Dalcour Maclaren on an open market value for existing use basis.

The land at Oakapple Lane in Maidstone was sold in November 2022 for £550,000. We received £500,000 in November 2022 on completion of the sale of the land. A conditional sale agreement for the land was entered into in November 2018 and a £50,000 non-refundable deposit was received at that time.

Notes to the financial statements
for the year ended 31 March 2023

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 2023 were entitled to exemption from audit under s479A of the Companies Act 2006 as their outstanding liabilities as at 31 March 2023 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 Islands.

	£000
Cost and net book amount	
At 31 March 2022 and at 31 March 2023	**412,950**

16. Inventories

Group	**2023** **£000**	2022 £000
Consumables	**1,124**	677
Work in progress	**8**	174
	1,132	851

Notes to the financial statements
for the year ended 31 March 2023

17. Trade and other receivables

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Financial asset receivables				
Trade receivables	**34,974**	35,547	**-**	-
Accrued income	**49,309**	41,953	**-**	-
Sundry debtors	**2,754**	2,079	**1**	1
Amounts due from subsidiary undertakings	**-**	-	**4,454**	4,404
	87,037	79,579	**4,455**	4,405
Non-financial asset receivables				
Prepayments and accrued income	**5,397**	4,538	**78**	78
Total trade and other receivables	**92,434**	84,117	**4,533**	4,483

At 31 March 2023 amounts owed to HDF by subsidiary undertakings relate to group relief which is payable on demand.

All trade receivables at 31 March 2023 and 31 March 2022 are denominated in sterling.

Trade receivables are stated after provision for doubtful debts of £34.9 million (2022: £34.8 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:

	2023	2022
	£000	£000
Balance brought forward	**34,757**	30,898
Charge for the year	**4,770**	5,010
Amounts utilised	**(4,607)**	(1,151)
Provision carried forward	**34,920**	34,757

As at 31 March, the analysis of trade receivables 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
2023	**34,974**	**8,729**	**2,654**	**1,831**	**921**	**909**	**7,018**	**12,912**
2022	35,547	7,978	3,034	1,746	1,059	1,004	7,745	12,981

Notes to the financial statements
for the year ended 31 March 2023

18. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 March:

	Group		Company	
	2023	2022	**2023**	2022
	£000	£000	**£000**	£000
Cash at bank and in hand	**10,027**	20,031	**-**	1,467
Short term bank deposits	**6,138**	9,000	**5,388**	9,000
	16,165	29,031	**5,388**	10,467

Included in the group cash at bank and in hand balance at 31 March 2023 was £9.5 million (2022: £12.1 million) held on an on demand deposit account.

At 31 March 2023, £nil (2022: £0.1 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. Loans and borrowings

Group		**2023**	2022
		£000	£000
Non-current			
Loans and borrowings	(i)	**1,291,013**	1,362,373
Derivative financial instruments	(ii)	**-**	(312)
		1,291,013	1,362,061
Current			
Bank loan	(iii)	**149,601**	-
Drawdown facility	(iv)	**29,961**	-
Lease liabilities	(i)	**558**	339
		180,120	339
		1,471,133	1,362,400

The loan documentation for the group's long and short-term loans and borrowings contain a number of covenants that the group is required to meet to safeguard the interests of its lenders. The loans and borrowings 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's licence.

Notes to the financial statements

for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

		2023 £000	2022 £000
(i) Loans and borrowings			
Irredeemable debenture stock	(a)	**953**	950
Listed bonds	(b)	**382,606**	357,696
Index linked loans	(c)	**470,159**	418,475
Other term loans and creditors	(d)	**-**	149,033
Amounts due to shareholders	(e)	**90,395**	90,395
Variable rate loan	(f)	**119,149**	118,905
Fixed rate loan	(g)	**223,810**	223,744
Lease liability	(h)	**3,941**	3,175
		1,291,013	1,362,373

	2023 £000	2022 £000
(a) Irredeemable debenture stock		
3 % perpetual stock	**25**	25
3 ½ % perpetual stock	**370**	367
4 % perpetual stock	**175**	175
5 % perpetual stock	**345**	345
5 ½ % perpetual stock	**1**	1
6 % perpetual stock	**37**	37
	953	950

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 (2022: £296 million), with effective terms, as follows:

- £166 million (2022: £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 (2022: £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.

Notes to the financial statements
for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

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
2023			
Original loan consideration	**166,000**	**130,000**	**296,000**
Unamortised revaluations	**2,145**	**-**	**2,145**
	168,145	**130,000**	**298,145**
Indexation on bonds	**-**	**86,039**	**86,039**
Less: unamortised issue costs	**(665)**	**(913)**	**(1,578)**
Listed bonds	**167,480**	**215,126**	**382,606**
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

Notes to the financial statements
for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

(c) Index linked loans
The group holds index linked loans with an original value of £269 million (2022: £269 million) and with effective terms as follows:

- £135 million (2022: £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 (2022: £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 (2022: £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
2023				
Original loan amounts	**135,000**	**34,000**	**100,000**	**269,000**
Indexation on bonds	**129,994**	**27,903**	**45,308**	**203,205**
Less: unamortised issue costs	**(789)**	**(157)**	**(1,100)**	**(2,046)**
Loans due	**264,205**	**61,746**	**144,208**	**470,159**
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

Notes to the financial statements
for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

(d) Other term loans and creditors
The group's other loans and creditors comprise of a loan facility of Nil (2022: £150 million) with effective terms, having taken account of a related interest rate swap as follows:

- £nil (2022: £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;
- £nil (2022: £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.

As the loan has less than 12 months to maturity as at 31 March 2023, it has been reclassified as a short term borrowing (see iii below).

	Loan due 2023 £000	Loan due 2023 £000	Total £000
2023			
Original loan consideration	-	-	-
Unamortised revaluations	-	-	-
Other long term loans and creditors	-	-	-
2022			
Original loan consideration	96,000	54,000	150,000
Unamortised revaluations	(619)	(348)	(967)
Listed bonds	**95,381**	**53,652**	**149,033**

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 took 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 2023 were Nil (2022: £1.0 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 (2022: £45.2 million) from UTA International Holdings 1 Pty Limited;
- unsecured loan notes of £22.6 million (2022: £22.6 million) from NatWest Pension Trustees Limited as Trustee for the NatWest Group Pension Fund – Group Fund Section;
- unsecured loan notes of £11.3 million (2022: £11.3 million) from Régime de Rentes du Mouvement Desjardins;
- unsecured loan notes of £5.6 million (2022: £5.6 million) from Desjardins Financial Security Life Assurance Company;
- unsecured loan notes of £5.6 million (2022: £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).

Notes to the financial statements
for the year ended 31 March 2023

19. Loan and borrowings *(continued)*

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 took effect from 1 April 2022, after UK LIBOR has ceased in December 2021.

(f) Variable rate loan

	2023 £000	2022 £000
Original loan amount	**120,000**	120,000
Less: unamortised issue costs	**(851)**	(1,095)
	119,149	118,905

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 took effect from 28 December 2021, after UK LIBOR has ceased.

(g) Fixed rate loan notes

	2023 £000	2022 £000
Loan note series 1	**75,000**	75,000
Loan note series 2	**100,000**	100,000
Loan note series 3	**50,000**	50,000
Less: unamortised issue costs	**(1,190)**	(1,256)
	223,810	223,744

On 16 September 2019 the group 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% falling due for repayment on 16 September 2031
- £100 million at an interest rate of 3.22% falling due for repayment on 16 September 2042

On 1 December 2021 the group 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

	2023 £000	2022 £000
Balance as at 1 April	**3,514**	3,910
New Lease	**1,361**	-
Lease revaluation	**-**	(59)
Less: capital repayment	**(376)**	(337)
Balance as at 31 March	**4,499**	3,514

Notes to the financial statements
for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

The total cash outflow in the year in respect of the group's leasing activities was £0.4 million (2022: £0.4 million).

	2023	2022
	£000	£000
Non-current lease liability	**3,941**	3,175
Current lease liability	**558**	339
	4,499	3,514

(ii) Derivative financial instruments

	2023	2022
	£000	£000
Derivative financial instruments	**-**	(312)

(iii) Bank loan

The bank loan comprises of a loan facility of £150 million (2022: Nil) with effective terms, having taken account of a related interest rate swap as follows:

- £96 million (2022: £nil) 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 (2022: £nil) 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.

This loan was reclassified from long-term to current as at 31 March 2023 as the loan has less than 12 months to maturity (see d above).

	Loan due 2023 £000	Loan due 2023 £000	Total £000
2023			
Original loan consideration	**96,000**	**54,000**	**150,000**
Unamortised revaluations	**(255)**	**(144)**	**(399)**
Other long term loans and creditors	**95,745**	**53,856**	**149,601**
2022			
Original loan consideration	-	-	-
Unamortised revaluations	-	-	-
Listed bonds	**-**	**-**	**-**

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 took 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 2023 were £0.4 million (2022: Nil).

Notes to the financial statements
for the year ended 31 March 2023

19. Loans and borrowings *(continued)*

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.

(iv) Drawdown facility

	2023 £000	2022 £000
Original loan amount	**30,000**	-
Less: unamortised issue costs	**(39)**	-
	29,961	-

Company	2023 £000	2022 £000
Loans and borrowings (Non-current)		
Amounts due to group undertakings	**164,842**	163,875
Loans and borrowings (Current)		
Issue costs on loans due to shareholders	**(399)**	-

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.

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 2023 there was a net inflow of £30 million (2022: net outflow of £80 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. The sensitivity analysis excludes all fixed rate financial instruments carried at amortised cost.

Notes to the financial statements
for the year ended 31 March 2023

20. Group financial instruments *(continued)*

	Increase/ decrease in basis points	Effect on profit before tax £000	Effect on shareholders' equity £000
2023			
Sterling	+300	(11,712)	(9,487)
Sterling	-100	3,904	3,162
2022			
Sterling	+300	(10,812)*	(8,758)*
Sterling	-100	3,604*	2,919*

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. Further details are given below. Cash is also put on deposit with variable maturity dates so as to mitigate liquidity 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.

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.

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 2023.

Notes to the financial statements
for the year ended 31 March 2023

20. Group financial instruments *(continued)*

	Book Value 2023 £000	**Fair Value 2023 £000**	Book Value 2022 £000	Fair Value 2022 £000
Loans and receivables				
Trade and other receivables	**87,037**	**87,037**	79,579*	79,579*
Cash	**16,165**	**16,165**	29,031	29,031
	103,202	**103,202**	108,610	108,610
Financial liabilities at amortised cost				
Trade and other payables	**64,183**	**63,862**	47,720	47,481
Irredeemable debentures	**953**	**807**	950	681
Listed bonds	**382,606**	**388,995**	357,696	501,184
Index linked loans	**470,159**	**475,527**	418,475	628,059
Variable rate loan	**119,149**	**119,790**	118,905	125,073
Fixed rate loan notes	**223,810**	**163,228**	223,744	214,687
Lease liability	**4,499**	**4,500**	3,514	3,325
Drawdown facility	**29,961**	**30,031**	-	-
Other long-term loans	**239,996**	**255,878**	239,428	269,704
Trade and other payables over one year	**4,104**	**4,083**	4,154	4,133
	1,539,420	**1,506,701**	1,414,586	1,794,327
Financial liabilities at fair value through income statement				
Interest rate swaps	**-**	**-**	(312)	(312)

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 2023

20. Group financial instruments *(continued)*

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

31 March 2023	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial assets at fair value through income statement				
Interest rate swap	-	-	-	-
31 March 2022				
Financial liabilities at fair value through income statement				
Interest rate swap	(312)	-	(312)	-

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

31 March 2023	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	63,862	-	63,862	-
Irredeemable debentures	807	-	807	-
Listed bonds	388,995	-	388,995	-
Index linked loans	475,527	-	475,527	-
Drawdown facility	30,031	-	30,031	-
Fixed rate loan notes	163,228	-	163,228	-
Variable rate loan	119,790	-	119,790	-
Lease liability	4,500	-	4,500	-
Other long term loans	255,878	-	255,878	-
Trade and other payables over one year	4,083	-	4,083	-
Total fair value of financial liabilities at amortised cost	**1,506,701**	**-**	**1,506,701**	**-**

During the reporting year ended 31 March 2023 a transfer between level 1 and level 2 fair value measurements was made as there was no current market valuation available for one of the group's listed bonds.

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	-

Notes to the financial statements
for the year ended 31 March 2023

20. Group financial instruments *(continued)*

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 available for one of the group's index linked listed bonds.

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:

31 March 2023	Within 1 year £000	1 – 2 Years £000	2 – 5 years £000	Over 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	280,572	312,797
Other short-term financial liabilities	155,594	-	-	-	155,594
Total fixed rate financial liabilities	**171,349**	**15,755**	**47,265**	**466,191**	**700,560**
Floating rate					
Floating rate financial assets:					
Cash	16,165	-	-	-	16,165
Short-term financial assets	87,037	-	-	-	87,037
Total floating rate financial assets	**103,202**	**-**	**-**	**-**	**103,202**
Floating rate financial liabilities:					
Short-term financial liabilities	64,183	-	-	-	64,183
Listed bond	5,377	5,483	17,081	367,998	395,939
Index linked loans	15,477	15,744	48,837	362,851	442,909
Variable rate bank loan	32,350	121,434	-	-	153,784
Lease liability	723	563	1,600	2,327	5,213
Other long-term financial liabilities	6,137	6,137	102,668	-	114,942
Trade and other payables over 1 year	-	4,104	-	-	4,104
Total floating rate financial liabilities	**124,247**	**153,465**	**170,186**	**733,176**	**1,181,074**

Notes to the financial statements
for the year ended 31 March 2023

20. Group financial instruments *(continued)*

31 March 2022	Within 1 year £000	1 – 2 Years £000	2 – 5 years £000	Over 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	79,579*	-	-	-	79,579*
Total floating rate financial assets	108,610	-	-	-	108,610
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

Borrowing facilities
The group has committed borrowing facilities of £196.0 million (2022: £183.0 million), of which £30 million (2022: £Nil) was drawn down. Any drawdowns under these facilities are repayable in less than one year. The capital and working capital facility of £125 million (2022: £125 million) expires in September 2026. The DSR Liquidity Facility of £47 million (2022: £38 million) and the O&M Reserve Facility of £24 million (2022: £20 million) expires in June 2024.

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

	2023 £000	2022 £000
Financial assets at amortised cost (see note 8)	**2,009**	735
Financial liabilities at amortised cost (see note 9)	**(131,784)**	(79,053)
Financial liabilities at fair value through profit or loss (see note 9)	**(312)**	3,148
Financial assets due to impairment (see note 17)	**(4,770)**	(5,010)

*Following a review, the Directors have restated the 2022 balance

Notes to the financial statements
for the year ended 31 March 2023

21. Trade and other payables

Group **Current liabilities**	**2023** **£000**	2022 £000
Financial liabilities payables		
Trade payables	**13,111**	10,975
Other payables	**4,951**	2,364
Accruals	**46,121**	34,381
	64,183	47,720
Non-financial liabilities payables		
Other taxes and social security	**1,172**	1,121
Payments received in advance	**48,087**	41,207
	49,259	42,328
Total trade and other payables	**113,442**	90,048

Non-current liabilities	**2023** **£000**	2022 £000
Financial liability payables		
Deposits payable to developers	**4,104**	4,154

Company	**2023** **£000**	2022 £000
Financial liability payables		
Amounts due to group undertakings	**2,330**	1,978
Accruals	**358**	119
	2,688	2,097

As at 31 March 2023 and 2022, 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.

22. Provisions

Group	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2022	1,615	3,668	3,031	8,314
Additional amounts provided	1,327	3,401	2,239	6,967
Unused amounts reversed	-	-	(1,459)	(1,459)
Amounts utilised	(915)	(3,755)	(1,867)	(6,537)
As at 31 March 2023	**2,027**	**3,314**	**1,944**	**7,285**
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**

Notes to the financial statements
for the year ended 31 March 2023

22. Provisions *(continued)*

Other provisions are recognised when it is probable that the group has an obligation for which a reliable estimate can be made of the amount. This includes amounts that may become payable under Ofwat's Innovation Fund and estimates of debt collection fees that may become payable. It also includes capital infrastructure provisions to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The amounts recorded represent Management's best estimate of the value of settlement and any associated costs.

The timing of settlement for these obligations 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 settlement of these obligations, 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	**2023 £000**	2022 £000
As at 1 April	**10,055**	8,961
Received in the year	**7,363**	9,215
Released during the year	**(7,230)**	(8,121)
As at 31 March	**10,188**	10,055
Non-current	**4,876**	4,315
Current	**5,312**	5,740
	10,188	10,055

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 2023

24. Retirement benefit schemes

Group and Company (hereafter referred to as “group” in this note)
The South East Water pension scheme “SEWPS” provides benefits to current and former group employees. From 17 June 2011 onwards, benefits from the SEWPS 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.

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

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.

On 5 December 2022 the trustees of the MKGPS entered into an insurance transaction to fully insure the pension scheme. The “buy-in” transaction involved the payment of a one-off premium by the pension scheme to an insurance company. In return the insurance company will make regular payments to the scheme exactly matching the insured benefit payments. There is no transfer of the retirement benefit obligation which remains with the pension scheme. The insurance policy is an asset of the pension scheme in place of cash and other investments previously held.

Following the buy-in a revised Schedule of Contributions has been agreed between the company and the trustees. No further deficit contributions are to be paid to MKGPS, although if additional funding is required in a future period in respect of pension scheme expenses the trustees can request that the company pays these. Deficit contributions that would previously have been paid to MKGPS will be diverted to SEWPS.

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

The group contribution rate for the SEWPS defined benefit pension scheme during the year was £nil (2022: £nil) of pensionable remuneration plus an annual contribution of £4.6 million (2022: £4.1 million) in respect of the deficit as at 31 March 2020. The group’s future annual contribution is expected to be £4.4 million, uplifted for RPI on 1 April each year. In addition, an amount equivalent to the deficit payments that would previously have been paid to MKGPS is, following the buy-in transaction, being paid to SEWPS as additional deficit payments. This amounted to £0.3 million in the year ended 31 March 2023 and the future additional payments are expected to be £1.5 million per annum, uplifted for RPI on 1 April each year.

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

Notes to the financial statements
for the year ended 31 March 2023

24. Retirement benefit schemes *(continued)*

The group contribution towards the MKGPS defined benefit pension scheme during the year was nil (2022: nil) of pensionable remuneration plus an annual contribution of £1.3 million (2022: £1.4 million) in respect of the deficit as at 31 March 2020. The group's future annual contribution is expected to be £nil as the buy-in transaction has ensured that the scheme's liabilities are fully insured.

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 are equal to the benefits paid. The value of future obligations has been calculated on an actuarial basis and the liability of £2.5 million (2022: £2.9 million) is recognised on the statement of financial position.

Defined contribution scheme

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

	2023 £000	2022 £000
Defined contribution scheme	**2,749**	2,512

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2023 %	SEW Pensions 2022 %	**MKW Pensions 2023 %**	MKW Pensions 2022 %
Main assumptions:				
Rate of increase in pensions in payment	**2.60**	2.95	**2.60**	2.95
Rate of increase in deferred pensions	**2.60**	2.95	**2.60**	2.95
Discount rate	**4.85**	2.70	**4.85**	2.70
RPI assumption	**3.25**	3.65	**3.25**	3.65
CPI assumption	**2.70**	3.00	**2.70**	3.00

	SEW Pensions 2023 Years	SEW Pensions 2022 Years	**MKW Pensions 2023 Years**	MKW Pensions 2022 Years
Life expectancies from age 65				
Currently aged 65 – male	**21.0**	21.0	**21.0**	21.0
Currently aged 65 – female	**23.6**	23.6	**23.6**	23.6
Currently aged 45 – male	**23.3**	23.3	**23.3**	23.3
Currently aged 45 – female	**25.9**	25.8	**25.9**	25.8

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 2023 £000	**(Decrease)/ increase 2023 %**	(Decrease)/ increase in liabilities 2022 £000	(Decrease)/ increase 2022 %
0.1% decrease to the discount rate	**2,358**	**1.3**	3,900	1.5
0.1% increase to inflation	**2,205**	**1.2**	3,500	1.4
One year increase in life expectancy	**6,065**	**3.3**	11,100	4.4

Notes to the financial statements
for the year ended 31 March 2023

24. Retirement benefit schemes *(continued)*

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
2023			
Fair value of scheme assets	132,503	72,202	204,705
Present value of defined benefit obligations	(112,692)	(68,171)	(180,863)
Surplus in the schemes	**19,811**	**4,031**	**23,842**

	£000
Unfunded obligation 2023	
Present value of unfunded obligations	**(2,482)**

	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 Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2023				
Equities	12,240	102	12,342	10%
Corporate bonds	30,625	29,394	60,019	45%
Government bonds	42,389	-	42,389	32%
Cash	13,076	501	13,577	10%
Insured persons	-	4,176	4,176	3%
Total fair value of assets	**98,330**	**34,173**	**132,503**	**100%**

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%

Notes to the financial statements
for the year ended 31 March 2023

24. Retirement benefit schemes *(continued)*

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

MKW Pension Scheme	Quoted £000	Unquoted £000	Total £000	%
2023				
Cash	3,610	421	4,031	6%
Insured persons	-	68,171	68,171	94%
Total fair value of assets	3,610	68,592	72,202	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%**

Notes to the financial statements
for the year ended 31 March 2023

24. Retirement benefit schemes *(continued)*

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

	SEW Pensions £000	MKW Pensions £000	Unfunded £000	Total £000
2023				
Net interest on defined benefit asset	(762)	(847)	73	(1,536)
Administrative expenses	559	781	-	1,340
Total amount charged/(credited) to income statement	(203)	(66)	73	(196)
2022				
Net interest on defined benefit asset	(258)	(496)	62	(692)
Administrative expenses	305	281	-	586
Total amount charged/(credited) to income statement	47	(215)	62	(106)

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2023				
Return on schemes' assets excluding interest income	(49,844)	(52,552)	-	(102,396)
Actuarial gain due to changes in financial assumptions	47,501	29,460	393	77,354
Actuarial gain due to changes in demographic assumptions	1,144	706	-	1,850
Experience loss on obligation	(9,974)	(6,055)	(228)	(16,257)
Actuarial (loss)/gain recognised in the statement of comprehensive income	**(11,173)**	**(28,441)**	**165**	**(39,449)**
Cumulative actuarial losses	**(13,317)**	**(38,165)**	**(3,350)**	**(54,832)**
2022				
Return on schemes' assets excluding interest income	3,599	280	-	3,879
Actuarial gain due to changes in financial assumptions	6,400	3,969	42	10,411
Actuarial gain due to changes in demographic assumptions	2,321	2,163	36	4,520
Experience loss on obligation	(865)	(537)	-	(1,402)
Actuarial gain 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)

Notes to the financial statements
for the year ended 31 March 2023

24. Retirement benefit schemes *(continued)*

Reconciliation of defined benefit obligations:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2023				
Opening defined benefit obligations	154,400	94,736	2,869	252,005
Interest cost	4,073	2,492	73	6,638
Actuarial gains	(38,671)	(24,111)	(165)	(62,947)
Benefits paid	(7,110)	(4,946)	(295)	(12,351)
Closing defined benefit obligations	**112,692**	**68,171**	**2,482**	**183,345**
2022				
Opening defined benefit obligations	166,991	102,858	3,172	273,021
Interest cost	3,341	2,062	62	5,465
Actuarial gains	(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**

Reconciliation of fair value of plans' assets:

	SEW Pensions £000	MKW Pensions £000	Total £000
2023			
Opening fair values of schemes' assets	180,591	125,891	306,482
Interest income on assets	4,835	3,339	8,174
Return on scheme assets excluding interest income	(49,844)	(52,552)	(102,396)
Contributions by employer	4,590	1,251	5,841
Administrative expenses	(559)	(781)	(1,340)
Benefits paid	(7,110)	(4,946)	(12,056)
Closing fair values of schemes' assets	**132,503**	**72,202**	**204,705**
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

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
for the year ended 31 March 2023

25. Issued Share Capital

	2023	2022
	£000	£000
Called up, allotted and fully paid		
13,514,844 A class ordinary shares of £0.125 (2022: 13,514,844)	**1,688**	1,688
2,252,474 B class ordinary shares of £0.125 (2022: 2,252,474)	**282**	282
2,252,474 C class ordinary shares of £0.125 (2022: 2,252,474)	**282**	282
241,831,558 non-voting redeemable preference shares of £1 (2022: 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 2023

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 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	7	-	-	(357)	-	-	(350)
Balance at 31 March 2022	950	3,175	90,395	357,696	491,682	418,475	1,362,373
Balance 1 April 2022	**950**	**3,175**	**90,395**	**357,696**	**491,682**	**418,475**	**1,362,373**
Changes from cash flow activities:							
Debentures redeemed	**(4)**	**-**	**-**	**-**	**-**	**-**	**(4)**
Changes from other financing activities:							
Indexation on index linked instruments	**-**	**-**	**-**	**25,107**	**-**	**51,512**	**76,619**
Lease liability reclassified to current liabilities	**-**	**(595)**	**-**	**-**	**-**	**-**	**(595)**
Bank loan reclassified to current liabilities	**-**	**-**	**-**	**-**	**(149,033)**	**-**	**(149,033)**
New lease	**-**	**1,361**	**-**	**-**	**-**	**-**	**1,361**
Amortisation of issue costs	**-**	**-**	**-**	**160**	**310**	**172**	**642**
Amortisation of revaluation	**7**	**-**	**-**	**(357)**	**-**	**-**	**(350)**
Balance at 31 March 2023	**953**	**3,941**	**90,395**	**382,606**	**342,959**	**470,159**	**1,291,013**

Notes to the financial statements
for the year ended 31 March 2023

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

Group current loans and borrowings	**2023 £000**	2022 £000
Balance 1 April	**339**	80,317
Changes from financing cash flows:		
New loans received during the period	**30,000**	50,000
Lease capital payments	**(376)**	(130,000)
Loan fees incurred	**(48)**	(337)
Changes from other financing activities:		
Amortisation of issue cost	**577**	-
Lease liability reclassified	**595**	359
Bank loan reclassified	**149,033**	-
Balance 31 March	**180,120**	339

Group derivative financial instruments	**2023 £000**	2022 £000
Balance 1 April	**(312)**	2,835
Changes from financing cash flows:		
Payment of loan on maturity	**-**	-
Changes from other financing activities:		
Movement in fair value of interest rate swap	**312**	(3,147)
Balance 31 March	**-**	(312)

27. Capital commitments

Group and company	**2023 £000**	2022 £000
Contracts placed for future capital expenditure not provided in the financial statements	**60,559**	28,227

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

The significant increase from 2021/22 is due primarily to commitments of £32.0 million associated with the new Butler water treatment works, which has now entered into contract and is under construction with a planned scheme completion in March 2025.

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	**2023 £000**	2022 £000
Minimum lease payments under operating leases recognised as an expense in the year (see note 5)	**458**	427

Notes to the financial statements
for the year ended 31 March 2023

29. Events after the reporting date

The group has refinanced its third-party debt of £150 million which was due for repayment on 18 December 2023. This debt was repaid on 26 September 2023 out of the proceeds of new loans from the group's ultimate shareholders.

In November, Ofwat launched an investigation into our supply resilience. We acknowledge the decision by Ofwat to open this investigation and will cooperate with them on this matter. Resilience forms a major focus for us, and is a significant part of our PR24 business plan, which was submitted to Ofwat in October.

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 subsidiaries, which are related parties 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 parties are disclosed below.

30.1 Transactions with Shareholders

	2023	2022
	£000	£000
Shareholder loans		
Opening balance as at 1 April	**90,529**	90,515
Interest charged	**7,498**	5,546
Interest paid	**(7,428)**	(5,532)
Closing balance as at 31 March	**90,599**	90,529

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.