HDF (UK) Holdings Limited

Annual Report and Group Financial Statements

31 March 2021

Registered number 05462865

Contents

Officers and professional advisers

Directors

O Schubert (Non-Executive Director)
R Drew (Non-Executive Director)
R Khakhar (Non-Executive Director)
A N Le Gal (Non-Executive Director) (appointed 18 June 2021)
M Szczepaniak (resigned 18 June 2021)

Company Secretary

N Truillet

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Registered No. 05462865

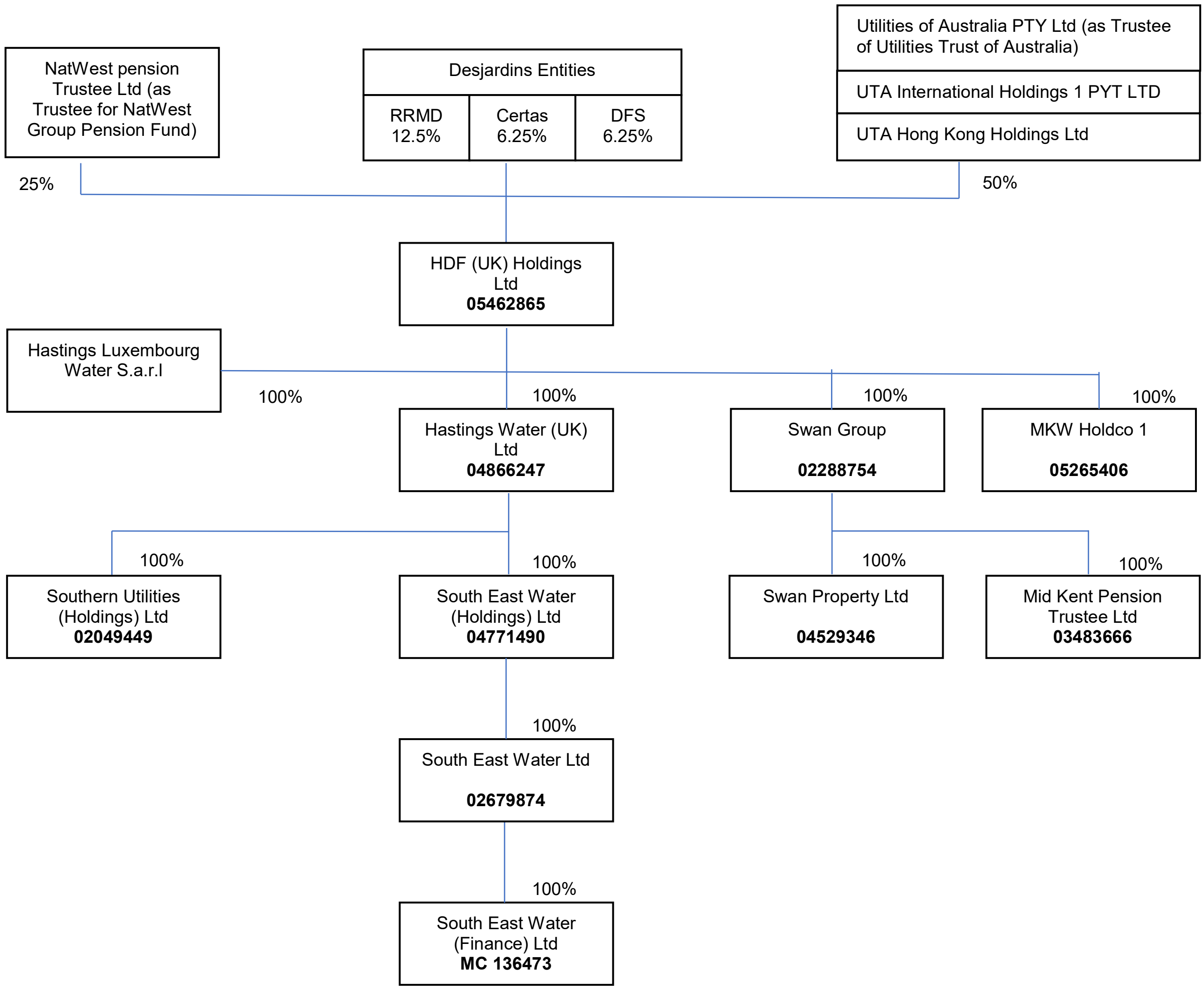
Country of domicile and registration: England and Wales

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 2021.

HDF (UK) Holdings Limited ("HDF") is the ultimate UK holding company of the group of companies which are owned by Utilities of Australia Pty Ltd (as Trustee of Utilities Trust of Australia), NatWest Pension Trustee Ltd 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 as at the balance sheet date is presented below. The principal operating company in the group was South East Water Limited ("SEW").



This strategic report has been prepared to provide an understanding of the operations of these companies and the environment in which they operate, together with an insight into the activities of the group as a whole. This report details the business performance of each of the group's operating companies in turn and the financial performance of the group during the 2020/21 financial year. The risks and opportunities that our businesses face and how we manage them are also discussed in this report.

Group strategic report

South East Water Limited

SEW is a private company limited by shares. SEW has been appointed as a water undertaker under the Water Industry Act 1991 and the duties and the obligations of the appointee are set out in that Act, in regulations created under that Act, and in its instrument of appointment. It is the main operating company in the group and the results of the group are predominantly a reflection of those of SEW.

Business

The year has been the first year of a new Asset Management Period ("AMP"). The year has also taken place against a background of the Covid-19 pandemic and, for most of the year, in some degree of lockdown. It has been a foundational year to put SEW in a strong position to deliver continued improvements across the commitments it has made in its five year business plan, which runs until 31 March 2025, including our Responsible Business strategy.

Covid-19 necessitated a significant shift in the way SEW works, with more than 600 office based employees moving to home working within three weeks of the first lockdown and operational employees developing new working practices to keep themselves and customers safe.

Not only did SEW have to change the way it works and supports customers, but the pandemic meant it experienced significant operational challenges. The lockdown measures saw the domestic water use in SEW's commuter-belt supply region change dramatically. The vast majority of customers spent the year staying at home and using considerably more water (15.9 per cent more compared to 2019/20).

This was compounded by the summer heatwaves in May and August 2020 which led to unprecedented levels of water demand, far exceeding levels SEW had ever experienced previously, or indeed that its system had been designed to meet. Many other water companies were more fortunate in that their total water demand fell due to a reduction in industrial and business demand but SEW's net water demand increased overall as its supply region has relatively low industrial and business demand.

Recognising that there is also likely to be significantly higher demand this summer, the team has been putting in place operational improvements, including completing schemes that can provide additional treated water, and it has made changes to the network to enable SEW to move water around more easily.

Some of SEW's customers are experiencing both emotional and financial hardship due to the pandemic and it has been supporting them through its priority services register and providing payment support options, which it will continue to prioritise.

This was the first year of the company's 2020 to 2025 investment period and while SEW's capital programme was to a degree impacted by Covid-19, with a number of schemes being disrupted or activity reduced to facilitate safe working, £34.4 million of infrastructure improvements have been completed.

In the field of ESG performance, we reviewed our GRESB benchmark submission for 2020, which achieved a score of 90 and the top position in our peer group, and are preparing our submission for 2021.

This year SEW has prepared its draft dry weather plan (previously its drought plan), the operational plan for managing periods of dry weather, and is working with partners in the Water Resources in the South East (WRSE) to create a regional plan which looks forward to the year 2100. This will form the basis of SEW's own water resources management plan designed to secure long term future water resources for the community it serves.

Climate change remains SEW's highest risk and it is preparing its next climate change adaptation report to be published later this year. As a business SEW has committed to achieve net zero for operational emissions by 2030, which is an important part of its environmental leadership - but SEW believes it must go further. SEW has started to work with stakeholders to develop an ambitious 25 year environment plan. It believes this approach to be an industry first. The plan will ensure it supports both Government and global ambitions through the UN Sustainable Development Goals and we are looking forward to seeing this take shape.

Group strategic report

Building a sustainable future where society and the environment can thrive will be a cornerstone of SEW's preparations for the next price review, PR24, and it will work closely with customers, communities and stakeholders to ensure a collaborative approach in order to realise its purpose and create value with and for others.

Business strategy
SEW has a well-defined purpose - To provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive.

Planning for water requires a long-term focus, which is why it is important to set out the opportunities and challenges SEW will face in the future. There are considerable challenges for companies such as SEW, which operate in a region which has been designated as being in serious water stress.

The most significant of these is the need to meet the demand for water, from customers today and tomorrow. It is vital SEW looks a long way ahead to anticipate the changes and challenges that could impact its work in the future.

The challenges SEW face include:
- Customers' expectations
- Environmental protection
- Climate change
- Social contract and licence to operate
- Markets development
- Regulatory and political changes

2020 to 2025 business plan - customer satisfaction responsibly delivered
SEW has put customer satisfaction, responsibly delivered, as the central theme of its business plan for 2020 to 2025. The plan ensures it takes account of all other legal and financial obligations, which has meant it has a clear direction of travel; one which SEW believes is better signposted as a result of its innovative and holistic approach to measuring future performance through outcomes.

To develop its 2020 to 2025 plan SEW consulted with more than 10,000 people with an interest in its business, from customers and employees, through to community leaders and investors, to ensure it had developed a strategy that met their expectations and where possible went further.

Their feedback helped SEW to develop its five-year business plan and its corporate plan.

> SEW has developed a wide range of responsible business measures and targets. It believes its plan is the right one for customers and society, now and in the future. SEW is driven by the same values of trust as its customers. SEW is 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 they collectively do.

SEW is immensely proud of being a local water company with a passion for sharing its 'Pure know $h_2$ow' – and has used its customers' desire to know more about their water supply service to develop a 'resilient customer' concept. The priorities SEW has developed aim to exceed customers' expectations for SEW 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 SEW is supporting all 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 to meet the expectations of all customers – whatever their needs or circumstances
- strengthens the link between satisfaction and resilience by making customers part of the solution by giving them targeted information, and as such, greater control over their water use. SEW has used recent supply challenges in 2018 – such as the freeze/thaw and heatwave events – to develop this further through its resilient customer concept

Group strategic report

- has a focused innovation strategy which targets customers' and stakeholders' priorities; and where SEW can make the most difference to lead the industry, not least using its toolboxes to deliver greater customer satisfaction
- has 10 new 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 SEW to deliver performance levels well beyond anything it has delivered before and new ones too, such as our performance commitments relating to vulnerable customers, the environment and customer satisfaction
- The plan commits to all this at a price that is lower than today (before inflation), the challenge of doing more for less should not be underestimated. SEW has included 38 new performance commitments in its plan.

SEW's ambition to do more for less is what this plan is built upon and is what drives SEW to set a new tone of trust and transparency in the water sector.

Read more online at southeastwater.co.uk/businessplan2020**.**

Water resources for the future
Every five years SEW updates its water resources management plan (WRMP) which looks at how it 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, as detailed on page 6, in the latest plan, published in August 2019 SEW has looked forward 60 years to 2080. By doing this SEW can make sure the work it does now lays the best foundations for future generations.

Over the next 60 years the population in SEW's 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 SEW needs to increase the amount of water available by an extra 221 million litres a day by 2080.

SEW's latest plan makes the water already available go further – by reducing leaks on pipes and developing water efficiency programmes. Although this will help, these measures alone won't be enough to meet the predicted shortfall in water.

SEW's proposals for 2020 to 2080 include:
- encouraging greater water efficiency amongst our customers, working with 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 the 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 SEW's water supply network system to meet demand and manage extreme events

By planning so far in advance SEW can find the most sustainable long term options to meet the demands of both existing and anticipated new customers. SEW's planning supports a 'twin track' approach to ensure that it adopts the best options to manage both customer demand for water and the development of the most sustainable sources of supply.

Group strategic report

SEW asked for customers' views while developing its plans and thanks everyone who took part in the consultation process. In particular SEW is grateful to the members of its Environmental Scrutiny Group who challenged its approach and helped ensure it developed an acceptable, resilient and innovative plan.

Collaborative regional water resources planning is a long established and integral part of how SEW's own water resources management plans are prepared. Since 1997 SEW, 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.

SEW continues to play an active and vocal role in the work of the WRSE group and national work, to ensure its own company water resources management plan remains coherent with those plans. The regional plan will be published in 2022 and you can find out more at **wrse.uk.engagementhq.com**

25 year environmental plan
SEW is the first water company to develop a dedicated 25 year environment plan.

Due to be published to coincide with the COP26 climate change conference in November 2021, SEW's 25 year environment plan is being co-created with a range of stakeholders.

SEW knows that making lasting change to the environment takes time and that no one organisation can do this alone. SEW needs a long-term environmental strategy to provide a framework for the entire company, to protect and enhance the environmental resilience of its supply area, in the short and long term.

This will exceed its statutory obligations and planning cycles, such as the Water Industry National Environment Programme, water resources management plan and dry weather plan. SEW recognises an important part of this is making sure that it considers wider environmental impacts from its own operations. To do this, it needs to do all it can to create and maintain a resilient environment.

In early June, more than 30 individuals representing different interested groups took part in two 'sprint' sessions to inform what they feel are SEW's biggest challenges and external influences on the environment, as well as outlining the key strategic themes which must feature in its strategy.

Industries represented included:

- environmental non-governmental organisations
- local and national government representatives (including a National Park and highways authority)
- large land owners, housing developers and industrial water users
- universities and other independent expert groups
- representatives for other groups such as farmers and growers and recreational water users

Workshops with employees and customers will follow, in order to create a roadmap which delivers the very best outcomes for the environment as a whole.
For more information through the year and to sign up for SEW's environment newsletter visit
corporate.southeastwater.co.uk/25yp

Objectives
SEW uses performance commitments to measure its progress towards achieving its strategy. You can find out more on the following web pages, but also within SEW's annual performance report. Read more online at **performance.southeastwater.co.uk**

Group strategic report

Business model

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

SEW operates across the full water value chain:

- It carries out all wholesale activities, managing water resources, treatment works and the distribution network to bring safe drinking water to all premises
- It provides 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 its geographic area.
- It provides new connection services to developers, self-lay providers and new appointees to connect new premises to its network. It carries out related works to ensure there is sufficient capacity in its water network to meet the demand from these new premises and maintain water pressure for existing customers
- It provides all retail services to end-user customers in household premises in its 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 its area of supply are provided by separate water retail companies
- It also provides non-regulated commercial laboratory services, billing and other retail services and plumbing services where it is able to achieve synergy and optimise the resources and know-how of the business

Key resources

Assets and networks built over generations
The performance, condition and operation of the water resources assets, water treatment assets and the network built over generations, supported by information technology, are the essential elements of SEW's business. Investment in current and future assets is also crucial to current performance and the long term ability to deliver the public water service and to fulfil its purpose. SEW must maintain a resilient service through asset management, investment and the effectiveness of its operations which also significantly influences customer satisfaction. This is essential to achieve good regulatory outcomes which in turn determine its ability to invest for the long term.

Fresh water and the environment
SEW's business model is intrinsically linked to natural capital and to the availability, sustainability and quality of fresh water resources. It relies on the environment and ecological services of the catchment; filtering, storage and transportation of fresh water resources to provide its service.

Human and intellectual capital
SEW relies on the collective skills and expertise within the business in the management of the public water service and the knowledge of the water supply system which has an intrinsic value that it would be difficult to reproduce elsewhere. Relationships with key suppliers and partners are also essential to its success.

Financial capital
The performance and sustainability of SEW's operations in the long term require continuous investment in assets and it needs access to competitive financing to succeed.

Key relationships

Customers and communities
Consumers of the product SEW supplies, the customers and communities it serves, influence the decisions SEW makes and their water use behaviours impact SEW's operational plans on a daily basis. It is vital SEW builds collaborative relationships for mutual benefit and to minimise negative impacts as it plans future investment in the region.

Group strategic report

People and culture
Everything SEW achieves as a business is through its people and the culture they collectively develop — there are 986 members of staff directly employed by SEW and hundreds more through its supply chain (see below). Many employees are long-serving and their knowledge and experience is important in helping SEW plan for the future as well as delivering excellent service today.

Suppliers and partners
The supply chain is vital to the smooth running of SEW's business, whether that be delivery of products for water treatment, infrastructure materials, or expertise to support the delivery of its investment programmes. SEW works with more than a hundred suppliers and partners both locally and internationally. SEW's key suppliers provide engineering and technical skills that complement those of its employees. SEW also receives bulk supplies of water from some neighbouring water supply companies and it works closely with them to plan for long term water resources on a regional basis.

Regulators
As a regulated business, SEW benefits from open and constructive working relationships with its regulators: Ofwat, the Environment Agency, the Drinking Water Inspectorate (DWI) and Natural England.

How SEW creates economic value

SEW generates 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
- 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)
- SEW also provides new water mains and connections to its water network that are needed to supply new premises or similar new connection services to developers, self-lay providers or new appointees. The payments it receives for providing these new connection services are limited to a proportion of the costs incurred as determined in accordance with regulatory charging rules.

How SEW creates value for others

Value to society
A reliable water supply
The 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. SEW ensures that they can all benefit from the value that water itself brings to them. SEW also plans and invests to ensure that its service will continue to be available to them in the future.

Public trust
The quality of SEW's service determines the trust and satisfaction of customers and those who rely on its service, and the strength of its "licence to operate". Public trust in the safety of water is another essential value it generates with its regulator the Drinking Water Inspectorate and is also its main responsibility.

SEW provides priority services to customers whose circumstances make them more vulnerable and provides assistance to those who have difficulties affording its services.

How responsibly SEW carries out its business, how it manages its impact on others and the environment, and how it engages with customers and stakeholders are also key drivers of its legitimacy as a provider of an essential service.

Supporting the economy
SEW's service is a key input for many organisations, including public services and businesses and SEW also supports housing growth. It continuously invests in its assets, generating economic activity for its supply chain, and the taxes it pays contribute to the wider economy.

Group strategic report

Responsible impact on the environment
SEW manages the impact of its operations and works on the environment, working to minimise its negative impact and improve its positive impact. SEW needs to balance the impact of its 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 its planning and the long term sustainability of its business model.

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

SEW promotes ways of saving water with its customers working with other water companies and stakeholders and has been reducing leakage year on year.

SEW manages more than 30 protected sites and invests to improve their environmental condition and biodiversity. SEW invests to reduce its emissions and support the transition to a low carbon economy.

Job opportunities and development
SEW provides training and career development opportunities and seeks to promote the wellbeing of its employees. Due to the nature of its business which must operate without interruption SEW provides stable employment that offers financial security to its workforce during the Covid-19 pandemic. SEW provides learning and development opportunities in a wide range of disciplines.

Supporting our communities
SEW provides jobs to more than 980 direct employees and 680 employees of its direct contractors who work specifically to support its business. SEW's business also supports the wider community through the creation of jobs that contribute to activities in the wider supply chain, either indirectly or in part.

SEW also support communities through volunteering of employees, community sponsorship activities and recreational facilities on its 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 SEW seeks to provide a reasonable return to shareholders and increase the value of the business.

For its investors the value SEW creates is more than just about a financial return. SEW's principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to strong environmental, social and governance performance as they recognise this protects the long term value and sustainable success of the company and strengthens its licence to operate.

Business environment

Natural environment
SEW relies on a secure supply of water. It must protect both the quantity and quality of this 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.

SEW must be prepared for the impacts of environmental change and adapt to these. It plays a role in mitigating climate change through its own actions to minimise emissions and environmental impact – and supporting the community to do the same.

SEW is a significant landowner in the south east and with this has tremendous responsibility in looking after 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.

Group strategic report

Society
Water is at the heart of our society, without it the community SEW serves cannot thrive. But society also has a huge influence on SEW's work. Changing consumer behaviours can have significant impacts on its business, both positive (where more environmental awareness leads to water saving) or negative (if the changes lead to increased water use). This year the "stay home" rules to protect against Covid-19 saw changing water use patterns that are expected to continue in 2021/22.

Society provides SEW's workforce, therefore the opportunities for learning skills and encouraging interest in careers in water across a diverse community is important.

To manage its infrastructure SEW is often working in close proximity to customers and therefore it is vital it coordinates works with others and engages closely with those who will be impacted by its activities. The region SEW operates 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.

Innovation and technology
Technology is always progressing and it is important as a business to keep up with these ever-changing innovations. The opportunities they present enable SEW to work more safely and efficiently, but also to ensure it keeps up with consumer and stakeholder expectations as these evolve in other digital and technological experiences.

SEW looks to incorporate the latest technologies to support colleagues in their work, particularly important this year to facilitate home working. SEW aims to connect with experts through many stakeholder forums such as UKWIR and CIWEM and looks for opportunities to collaborate to take opportunities such as the Ofwat Innovation Fund or other funding streams that are available. SEW recognises that technology also holds significant risks, in particular cyber security and data protection must be a key focus.

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

Market rate movements, such as interest rates and inflation, impact SEW, but SEW reduces risk as far as practical through prudent financial management and five year planning.

Political and regulatory environment
The political and regulatory environment changes significantly over time and SEW must be able to respond to these changes and where appropriate influence future policy through participation in consultations and as active members of the water industry trade body, Water UK. For example SEW has worked carefully to prepare for Brexit and will continue to ensure it understands and influences changing policy that may come from leaving Europe. The aim is to ensure any changes that affect the outcomes for customers, shareholders and other stakeholders are positive.

SEW operates within a strict regulatory environment and works closely with regulators to deliver a great service for customers both now and in the future.

- The Water Services Regulation Authority (Ofwat) regulates 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
- The Department for Environment, Food and Rural Affairs (Defra) deals with all aspects of policy relating to the water industry
- The Centre for the Protection of National Infrastructure (CPNI) is the government authority for protective security advice to the UK national infrastructure

Group strategic report

Operational performance

The water regulator, Ofwat, has set out a group of ‘common’ performance measures that it wants all water companies to report against. In addition to these performance measures, SEW has developed an additional group of performance indicators through asking customers what they feel it 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 SEW provides. If SEW can perform well against these targets, it will be providing a good service to all customers. As well as being providers of an essential service, SEW are also the custodians of a public asset (the water infrastructure).

These targets are referred to as ‘performance commitments’ (PCs). The following table shows all of the performance commitments, the targets for 2020/21 and the incentives or penalties earned. Overall, there is a net penalty of £5.8 million (total of Outcome Delivery Incentives (“ODI”) net penalty), which will mostly be returned to customers in the form of bill reductions in the 2022/23 year.

The exception to this is the PCC penalty of £1.2 million, which will be reviewed at the next price review by Ofwat. The Covid-19 crisis has led to increased domestic consumption as people have tended to work from home rather than their offices, and therefore increased the consumption of water in their homes. Ofwat may review whether or not it is right to impose all or part of this penalty on SEW. SEW has proposed to Ofwat that the ‘non-household voids’ (i.e. the number of empty business properties) should also be deferred for consideration at PR24 as it has also been significantly affected by Covid-19 and lockdowns.

Group strategic report

Performance Commitment	Unit	Target in 2020/21	Actual performance in 2020/21	Penalty or Reward (£m)
Leakage	% reduction	0.2	1.2	0.303
Mains repairs	Per 1,000 km of main	173.9	185.3	(0.798)
CRI	Score	0	2.26	(0.135)
Unplanned outage	%	4.23	3.09	0.000
PCC	% reduction	1.1	-5.1	(1.224)
Supply interruptions	Min : Sec	06:30	31:27	(3.088)
C-MeX	Score out of 100	N/A	80.70	TBC
D-MeX	Score out of 100	N/A	TBC	TBC
AIM	Ml/d	0	-39	0.000
Appearance of water	Per 10,000 population	1.09	1.00	0.085
Taste and odour of water	Per 10,000 population	0.42	0.34	0.064
Properties at risk of low pressure	Per 10,000 connections	0.5	0.4	0.008
Household voids	%	2.1	2.33	(0.196)
Non-household voids	%	8.1	10.60	(0.838)
WINEP	Schemes	0	9	0.000
Engaging and working with land owners	Hectares	2,843	2,858	N/A
Protecting wildlife and increasing biodiversity	Hectares	1,166	1,172	N/A
Sites protected from flooding	Number of sites	0	4	N/A
Customer satisfaction by segment) - ‘mindful optimists’	Score out of 5	4.2	4.1	N/A
Customer satisfaction by segment) - ‘global advocates’	Score out of 5	4.4	4.2	N/A
Customer satisfaction by segment) - ‘Just me and mine’	Score out of 5	4.3	4.1	N/A
Customer satisfaction by segment) - ‘careful neighbours’	Score out of 5	4.3	4.3	N/A
Customer satisfaction by segment) - ‘busy juggler’	Score out of 5	4.4	4.3	N/
Customer satisfaction by segment) - ‘living for today’	Score out of 5	4.3	4.0	N/A
Value for money	Score out of 5	3.7	3.7	N/A
Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.2	4.3	N/A
Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.1	4.3	N/A
Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	3.7	3.7	N/A
Household customers receiving financial support	Number	47,000	42,628	N/A
Customer satisfaction by segment) - ‘living for today’	Score out of 5	4.3	4.0	N/A
Value for money	Score out of 5	3.7	3.7	N/A
Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.2	4.3	N/A
Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.1	4.3	N/A
Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	3.7	3.7	N/A
ERI (Event Risk Index)	Score	0	67.4	N/A

Group strategic report

Performance Commitment	Unit	Target in 2020/21	Actual performance in 2020/21	Penalty or Reward (£m)
Delivery of water industry environment programme requirements	Met / Not Met	Met	Met	N/A
Greenhouse gas emissions	kgCO2e/Ml	152.3	192	-
Engaging and working with abstractors to improve catchment resilience to low flows	%	0	0	N/A

For further information on all of SEW's outcomes and targets please refer to the performance, people and planet report at performance.southeastwater.co.uk

Resilience and risk management

How SEW manages risks

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

The company monitoring framework includes an analysis of the strengths, risks and weaknesses in relation to data and information provision which is used to ensure the information SEW publishes is accurate and reliable. SEW provides more details on the assurance of its performance and other regulatory data in its annual performance report.

SEW maintains a formal risk register and risk management system for the identification, evaluation and mitigation of risks. The board of SEW defines SEW's risk management framework and reviews the risks on the register and the effectiveness of the relevant mitigation measures at least once a year.

The board of SEW 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 accounts.

Principal risks and uncertainties

Principal risks are those which due to their likelihood or magnitude can significantly impact on the long term success of the company. SEW considers their impact on its business model, future performance, solvency and liquidity. SEW also reviews the adequacy of the mitigations in place as recorded in the risk register.

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

SEW's principal risks, their potential impact and how they are managed are described on the following pages. These principal risks have been considered in the context of the business model and strategy. The impact of Covid-19 has been reflected as it affects a number of principal risks based on the experience in 2020/21.

Group strategic report

Some of the risks described in this section also bring business opportunities which SEW is preparing for. SEW also takes advantage of the potential for business improvement that arises from risk management and the implementation of mitigations.

The principal risks described represent an aggregation of individual underlying risks in the risk register.

Category	Risks description	Mitigation
Climate change	Climate change will lead to long-term shifts in climate patterns (such as hot and dry summers, changes in rainfall and sea level rises) 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 SEW's operations and those of third parties it relies on, such as energy suppliers. The effect of climate change will increase the likelihood and impact of the main operational risks. Failure to adapt SEW's infrastructure, to improve its resilience and to manage demand would mean that it would not be able to meet its statutory duties and demand in the future. It would also lead to additional costs that could affect the financial resilience of the company in the long term. A failure to adapt to climate change and to deliver its own net zero carbon commitments could lead to significant reputational damage. SEW's ability to invest in the adaptations needed to be able to meet its future obligations also depends on external factors such as the outcome of successive price determinations and how effectively climate adaptation is addressed in the political and regulatory environment. The adaptation of other sectors on which SEW relies for its operations will also have an impact on its own resilience.	*Investment in adaptation* • The Water Resources Management Plan and Dry Weather Plan incorporate climate projections to determine the most appropriate solutions and investments to develop water resources, improve the resilience of the supply system and manage demand. • Investment in flood protection with improvement to 92 operational sites in 2020 to 2025 and to improve resilience to power outages. • A significant programme of environmental schemes including for managing the impact of water abstraction. *Managing climate risks* • The third adaptation report to be published at the end of 2021. • Progressive adoption of the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD) to ascertain and quantify the financial impact of climate change on the company. *Reducing SEW's emissions* • A target to reduce greenhouse gas emissions by 80 per cent by 2025 (when compared to 2017/18). • A commitment to achieve net carbon zero by 2030 as part of the water industry's Public Interest Commitment and independently under its net zero route map. • Procurement of power purchase agreement relating to new renewable energy assets and planned investment in private solar generation.
Covid-19 pandemic	The Covid-19 pandemic has affected most aspects of SEW's operations in 2020/21 and will continue to have effect in 2021/22. Failure to adapt quickly to new ways of operating and to the effects of the pandemic and restrictions on customers and supply chain could significantly disrupt its operations and potentially cause interruption or a significant loss of quality of service. The Covid-19 pandemic has amplified other principal risks.	*Health safety and wellbeing of its workforce* • Implemented new ways of working for field roles and in the laboratory to avoid contamination at work. • Generalised home working whenever possible. • Consulted widely and regularly on health and safety and wellbeing and how to adapt to new ways of working and provided guidance. • Rolled out software and hardware to enable remote working.

Group strategic report

Category	Risks description	Mitigation
Covid-19 pandemic *(continued)*		*Impact on performance commitments* • Tested and adapted emergency response and business continuity plans. • Continued the implementation of action plans for the delivery of ODIs. *Managing concurrent events* • Reduced planned outages to the minimum level possible and well under the level considered acceptable by Ofwat. • Activated specific preparation for high summer demand and pre-emptive steps of emergency response plans. • Early communication with customers to alert them of the pressure on the water system and the need to limit their non-essential use of water. • Mobilised the workforce to support incident response. *Increased bad debt and deterioration of cash collection* • Maintained the call centre fully operational putting in place the systems required to continue to operate remotely at normal capacity. • Provided help with payment terms and extended the social tariff. • Adapted debt recovery activities that were suspended temporarily and resumed taking care of providing support to customers struggling to pay. • Implemented emergency support for retailers following successive amendments to market codes. *Efficient delivery of its capital programme* • Reviewed the investment programme to take account of the impact of the lockdown. *Supply chain and delivery partners* • Coordination with the main contracting partners to organise the continuation of activities whilst applying safety measures for the joint workforce. • Worked with the supply chain to anticipate and address supply issues that could affect operations and ensure appropriate stocks were maintained. *Liquidity and financial resilience* • Additional utilisation of the credit facility to ensure an appropriate level of liquidity. • Agreed amendments to finance documents that enable further borrowing under certain trigger event scenarios. • Close monitoring of ratios and credit ratings throughout the year with updated forecasting presented at board meetings.

Group strategic report

Category	Risks description	Mitigation
Strategic asset failure and major operational incident	Strategic asset failures and major operational incidents may affect SEW's ability to deliver a safe and uninterrupted water supply to a large number of customers or cause damage to third parties. Disruption to the 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 SEW's own water infrastructure or those of other water companies that provide SEW with a bulk supply of treated water. SEW also relies on other utilities especially electricity providers to operate its facilities and prolonged energy outages may have an impact on its operations. Incidents lead to additional production and distribution costs (such as additional treatment, repairs, incident management, emergency supplies of water etc.) and compensation payments to customers whose supply was affected. They may lead to ODI penalties for exceeding targets on supply interruption. They generally affect customers' complaints, satisfaction and the perception of the company by customers and other stakeholders and may lead to ODI underperformance or penalties under the C-MeX regulatory metric for customer experience. They may also lead to liabilities to third parties due to damage to their property. SEW must ensure that its response to incidents always puts the safety of its workforce first.	*Operational management* • Trained and competent operational and asset management staff. • Cross-skilling programme to improve the resilience of operational teams and facilitate collaboration. • Developing a systems approach to operational management that takes account of all aspects of regional management from the water source through to customers' taps. • Emergency plans and procedures (including under the Security and Emergency Measures Directions) which are regularly tested and independently audited. • Wholesale steering group for Operations and Assets coordination to implement continuous improvement. • Incident preparation teams for the pre-emptive management of weather related operational challenges and early customer engagement. • Scheduling of planned maintenance to achieve minimum outages during the periods of the year with higher operational risks. • Developing a calm network strategy to help achieve the leakage target and reduce mains bursts including valve operations and reduction of pump surges. • Standby power generation at operational sites. *Asset management* • Implementation of an asset management system that is compliant with ISO 55000 by 2025, building on the existing PASS 55 asset management system. • 24 hours network modelling for rezoning to minimise the number of customers impacted and restore supplies as soon as possible. • New incentives for innovation and improving resilience within the engineering consultancy framework. • New investment decision support tool. Risk based prioritisation of maintenance with customer impact as a primary consideration. • Asset management strategy implementing new asset health metrics.

Group strategic report

Category	Risks description	Mitigation
Strategic asset failure and major operational incident *(continued)*		*Resilience framework* • Resilience maturity assessment for a system based approach to resilience and improved horizon scanning and adaptation to climate change. Resilience training of staff. Classification of criticality for all assets allowing for prioritisation of investment to reduce exposure to risks. • Schemes to improve interconnectivity, facilitate reconfiguration of the network and remove single points of supply. • Developing approach for mitigating certain key low likelihood but high impact risks and development of strategic options for mitigation. • Area plans for each Resource Zone published annually and identifying key risks for each zone. *Lessons learnt and improvement* • Formal lessons learnt process followed after each significant incident with implementation of action plans. • Testing and adaptation of operational plans in response to the Covid-19 outbreak to be able to protect the supply to critical facilities, to ensure the safety of the workforce and the public and to maintain social distancing when responding to incidents and especially supply interruptions due to bursts. • Following the freeze/thaw in 2018, SEW used its reports on lessons learnt to prepare and deliver a comprehensive action plan to improve readiness, resilience and response capabilities in case of severe weather events. • Bringing the Aylesford reservoir back in service and delivering a fast track resilience scheme on the site of the future Butler WTW for the summer of 2021.
Failure to meet the peak demand for water	SEW relies on water in the environment to provide the public water supply. Its supply area is designated as an area of serious water stress and is densely populated. Weather events such as droughts put pressure on already stressed raw water resources. Dry and hot weather may lead to peaks in demand that could exceed SEW's ability to produce and distribute enough water. 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 its network.	*Long term planning* • The water resources management plan developed in collaboration with regulators and other water companies in the south east of England 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 process. • The dry weather plan which includes clear steps for managing demand and securing resources.

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Category	Risks description	Mitigation
Failure to meet the peak demand for water *(continued)*	In the long term, restrictions on water abstraction to protect the environment and the effects of climate change will result in additional stress on the water resources needed to meet an increasing demand linked to population and housing growth. This may also lead to increased risks of over abstraction and related prosecution and fines.	*Reducing demand* • The performance commitment to reduce per capita consumption by 7.6 per cent together with an ambitious programme to drive behavioural changes from customers for 2020 to 2025. • The metering programme which was completed by 2020. *Operation performance* • Consistently meeting its leakage targets and commitment to significant additional leakage reductions in 2020 to 2025. • Implementation of changes to the monitoring and management of its water supply system to be able to limit the risk of outages in the face of unprecedented water demand due to changes in demand linked to Covid-19. • Mobilisation and preparation to meet summer demand and communication plan to alert customers on the need to use water responsibly during peak periods. • Specific investment to address abstraction reduction such as the Fleet to Greywell main and to improve the resilience of operations.
Failure to deliver business plan and meet regulatory outcomes	There are financial and reputational risks associated with a failure to deliver business plan commitments. SEW's 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 SEW's revenue during 2020 to 2025. Its ODI performance could also be affected by incidents affecting other companies that provide it with a bulk supply of treated water.	*Management of delivery* • Detailed processes to ensure that SEW operates within the assumptions of the price determination (including ODIs and investment). • Early implementation of business improvement initiatives to deliver ODIs and ensure customer and employee engagement. • Dedicated steering groups monitoring key measures such as interruption, water quality, customer services, customer perception and leakage. • Implementation of resilience and innovation action plans. • Processes involving the asset, engineering and operations functions to ensure that projects are planned and delivered on time and budget. • Projects reviewed by an investment committee and a programme management office. Project scopes and planned efficiencies reviewed with the engineering partner and the early involvement of framework contractors to identify risks and opportunities for innovation and savings.

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Category	Risks description	Mitigation
Failure to deliver business plan and meet regulatory outcomes *(continued)*	SEW must ensure that it efficiently delivers the investment necessary to maintain and improve its services to customers and to meet its long-term future obligations. The risks affecting the delivery of its investment are internal, relating to the management of the delivery of the programme, and external such as extreme weather conditions, incidents affecting works, supply chain risks or significant events affecting the economy such as the Covid-19 pandemic.	*Monitoring and reporting* • Processes to continuously monitor and report regularly on compliance with regulatory obligations at senior management and board levels and take corrective actions. • Continuously assess the deliverability and financeability of the final determination and any risk it may create for the company for the next regulatory period. • Executive remuneration targets aligned with regulatory outcomes.
Security of assets, systems and data	The physical security of assets and the resilience of the information technology infrastructure is essential to maintaining SEW's service to the public and implement its business continuity plans. SEW must protect its sites and water supply against accidental or deliberate security threats. It must protect itself from loss of systems, data and cyber-attacks and keep customers' data up-to-date and safe. SEW's reliance on IT systems to manage the activities of front line staff and to maintain normal activities through home working has meant that the security and resilience of its 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. SEW 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.	*Investment in adaptation* • The corporate security steering group continuously monitors physical and data security and data protection matters to identify new risks and monitor the effectiveness of security processes and the implementation of action plans. • Department champions are trained on these issues and SEW continuously promotes awareness of risks, highlighting how unsafe behaviour could be exploited by external threats. • Disaster recovery systems and facilities which are regularly tested. • Investment in security measures against unauthorised access to systems and in software to help monitor activity on the network • Recognised cyber security certifications. • Work with relevant external organisations to test the effectiveness of the resilience and security measures and review the maturity of security systems and procedures. • SEW has updated its risk management process and practices to recognise the change in risk profile in this area due to the additional reliance on IT systems during the Covid-19 pandemic.
Macroeconomic risks	SEW's financial performance and resilience are influenced by external macroeconomic factors. A significant rise in inflation and related increases in interest rates may also adversely affect the company's financial performance. The actual increase in input costs may be greater than the increase in wholesale revenue which is indexed on November CPIH eroding profitability. Rising interest rates could lead to poorly performing equity markets that may result in a deficit of the pension schemes SEW operates. Movement in interest rates can also result in an increase in the cost of debt.	• SEW manages the interest rate risk through a mix of long term financing arrangements, including fixed, variable and index linked interest rates. See note 21 for further details. • Monitoring the impact of macroeconomic factors on the business and on credit ratings including the long-term impact of Covid-19 on the UK economy. • Engagement with rating agencies to understand how they will interpret the position of water companies in the context of Covid-19. • Robust and challenging budgeting process to ensure costs are clearly identified and controlled during the financial year.

Group strategic report

Category	Risks description	Mitigation
Macroeconomic risks *(continued)*	The UK and global economy have been significantly affected by the Covid-19 pandemic. This resulted in (i) increased levels of bad debt for both domestic and business customers and additional costs of supporting vulnerable domestic customers (e.g. significant increase in the social tariff take up during Covid-19), (ii) reduced liquidity and additional borrowing; (iii) increased ODI penalties due to external factors affecting operations and performance, (iv) reduction in revenue from non-regulated business activities, new connections and contributions from development activities and (v) increase in contractors' costs. Inflation is increasing as the economy moves out of the downturn.	• Effective debt collection processes and support to the most vulnerable customers with the social tariff, other financial assistance and a range of payment options. • Interest rates and inflation, which both have a significant impact on finance costs, have remained low throughout the year. This together with the refinancing effected in the 2019/20 financial year has seen a fall in finance costs of £11.9 million. See note 10 for further details. • Effective processes for the collection of debt and steps to encourage payments through direct debits. SEW has maintained a good performance on collection of bad debt but keeps the effectiveness of its recovery process under constant review. • Social tariff and other similar tariffs to assist customers who may struggle to pay. New approach to customer engagement and new initiatives on affordability and vulnerability led by a dedicated team. • Long-term pension strategy which SEW is developing in consultation with the Pension Trustees to move towards insuring / securing a buy-out of the schemes.
Water quality incident	SEW's 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. SEW 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 its own treatment process. Water quality risks relate to SEW's own water supplies and to bulk supplies of treated water it receives from other water companies. Water quality events may lead to significant costs being incurred impacting 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.	*Operational management* • World Health Organization (WHO) water safety plan approach including risk assessments and management of all aspects of the water supply chain from catchment to customers' taps. • Round the clock monitoring of treatment works and distribution network and automated alert and shutdown systems at treatment works. • Extensive sampling of water every day; analysed at SEW's specialised laboratory audited and accredited by the UK's national accreditation body UKAS. • Emergency plans and procedures (including under the Security and Emergency Measures Directions) to manage incidents, provide supplies to critical facilities and deploy alternative supplies where necessary which are regularly tested and independently audited. • Active management of catchments and partnerships to reduce the discharge of chemicals by third parties. • Programme of flushing, network management and investment in treatment works to meet targets on taste, odour and appearance of water. • Risk-based prioritisation process for the maintenance and replacement of assets and investment in treatment works.

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Category	Risks description	Mitigation
Water quality incident *(continued)*		*Audits and lessons learnt* • Regular internal review of processes and facilities and external audits by the Drinking Water Inspectorate. • Sharing of lessons learnt with other companies which SEW uses to update and improve its own practices and procedures.
Adverse policies or political and social environment	SEW operates 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 its ability to fulfil its purpose in the long-term. Such changes may also reduce investors' confidence and could affect its credit ratings. There will be increasing pressure on fresh water resources and additional requirements to ensure the sustainability of water abstraction. Successive price reviews determine SEW's 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 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 long-term challenges. The focus on keeping water bills low in recent price determinations could, if continued, result in a situation where future generations are required to pay higher bills to allow for a higher level of investment over a shorter period of time, and possibly, a situation where the investment required to face an acceleration in climate change is not sustainable for future customers. 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 the business model and operations. There are implementation costs and risks in establishing new methods of working and processes. They could also create new business opportunities. SEW is also exposed to risks arising from the general social and political environment such as the challenges to the ownership model of water companies and the scrutiny of the water and sewerage sector as a whole. Potential nationalisation would cause disruptions to operations and affect SEW's ability to maintain the investment required to meet its long-term service obligations.	*Stakeholders engagement* • Work with the industry and stakeholders to anticipate the potential effects of policy proposals and to contribute actively to ensure that risks are identified and taken into account. • Engagement with customers and stakeholders to understand their expectations and perception of the company to align the culture, governance and strategy to the political and social environment in which SEW operates. • Responding critically and constructively to consultations on proposals from Ofwat and Government *Monitoring* • Keeping the commercial strategy and the structure of the business under review to be able to adapt to changes and to take advantage of new opportunities. • Monitoring the impact of new trade rules under the Brexit Trade and Cooperation Agreement on the supply chain and of any restrictions on access to the labour market. • Monitor the appeals to the Competition and Markets Authority by four companies in the sector against their final determinations and similar appeals in other sectors. • Reviewing and anticipating the potential impact of regulatory changes on SEW's ability to secure finance at no less favourable terms.

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Category	Risks description	Mitigation
Adverse policies or political and social environment *(continued)*	Wider political changes such as Brexit bring changes to the legislative environment, supply chain and the general economy to which SEW must adapt. With the approval of the Trade and Cooperation Agreement by the European Parliament on 1 May 2021 the risks relating to Brexit have receded.	
Regulatory, environmental and legal compliance	SEW's business operates within a specific legislative and regulatory framework and many of its activities have an impact on the environment. The three main regulators Ofwat, the Drinking Water Inspectorate and the Environment Agency set standards and monitor compliance. Failure to ensure compliance with environmental, regulatory and other legal requirements may lead to criminal and civil liability, regulatory enforcement actions, disruption to the business and loss of management time. SEW needs to keep pace with changes to these obligations as failure to do so could also lead to non-compliance. Material failure to comply with 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 the appointment or special administration. SEW could face enforcement action if it does not demonstrate compliance with the new market arrangements and must also ensure continued compliance with competition law as the environment in which it operates evolves. Failure to comply with obligations would also affect the perception of SEW by customers, regulators and other stakeholders and affect the trust they have placed in SEW as a provider of an essential public service.	• Policies, processes and controls to ensure that SEW meets its duties and obligations. • Subject matter experts available to advise colleagues and inform them of changes in requirements and recommend improvements to processes. • Register of obligations as a water undertaker and monitoring of compliance including an annual review of compliance performance and processes with the relevant department. • 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. • Monitoring of performance against market metrics and implementation of improvement action plans. • 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. • Externally assured reporting processes and internal process for mitigating risks of incorrect reporting (company monitoring framework).
Financial resilience	SEW has a significant ongoing funding requirement relating to its operational costs, capital programme and to refinance maturing debt. Maintaining the financial resilience of the business is required to ensure that SEW meets relevant conditions in its finance documents and licence and is able to access financing. SEW must maintain key ratios to comply with covenants in its 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 credit rating that would affect liquidity.	• Continuous monitoring and regular reporting to the board of SEW on compliance with financial covenants and on credit rating. • Completed a refinancing of a significant part of the debt in 2019 which allowed SEW to reduce gearing. • Maintained investment grade ratings of BBB/ Baa2 in 2020/2021. • Maintained compliance with financial covenants. • Regular engagement with credit rating agencies to understand their approach, including to Covid-19, when assessing water companies' credit ratings. • Available borrowing facilities totalling £148 million, renewable in June 2022, allowing additional drawdowns for the prudent management of liquidity in the context of Covid-19.

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Category	Risks description	Mitigation
Financial resilience *(continued)*	SEW must also maintain an investment grade credit rating. Failure to do this would result in cash lock up under our licence restricting the ability to pay dividends or in an event of default under the finance documents. It would also impact SEW's ability to raise funds on favourable terms. The PR19 final determination has created significant financeability challenges due to a very low cost of capital and the risk of significant in-period ODI penalties.	• Adoption of a STID proposal addressing the potential consequences of Covid-19 on compliance with financial covenants to improve financial resilience, in particular preserving the ability to draw down additional debt even under certain trigger event scenarios. • Monitoring markets and the impact of Covid-19 as SEW plans and prepares for further refinancing in 2025 and 2029. • The sustainability finance framework helping to secure access to long term financing. • Robust and comprehensive financeability testing for the business plan, corporate plan and annual budget and corporate plan updates, and for SEW's long-term viability statement.
Health, safety and wellbeing	SEW's activities and assets present risks to the health and safety of employees, contractors and the public. SEW must maintain the safety of its workforce during normal operations and when dealing with emergencies. Failure to prevent accidents could have tragic implications for individuals and their families. There are severe criminal sanctions and civil sanctions for failing to have appropriate safety measures and failure to meet health and safety standards.	• Comprehensive processes including policies, standard operating procedures, risk assessments and toolbox talks involving employees, partners and contractors to identify risks to employees and the public and adopt safe practices. • Continuous actions on training and awareness to ensure that employees and those of contractors always adopt safe practices. • The Thrive 365! safety strategy designed to support the company's vision and provide clear direction and a road map for continuous improvement of health, safety and wellbeing performance. • The mental health strategy. • Significant changes to the way the business operates during the Covid-19 pandemic and lockdown to protect the workforce and the public. • Continuously reviewing and adapting working practices to ensure SEW maintains the safety and wellbeing of its workforce as required by the evolution of the Covid-19 pandemic and in line with Government recommendations. • Directors review health and safety performance at each board meeting and regular review at executive meeting. • Health & Safety committee monitoring the effectiveness of health and safety practices, policies, procedures, training and communication.

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Category	Risks description	Mitigation
People and culture	SEW's business operates across the entire value chain within a highly regulated and technical environment. SEW needs employees with a wide range of skills and disciplines and it relies on their technical and business knowledge. SEW needs to attract and develop employees and manage performance and talent to achieve its business objectives. A shortage of skills in some technical disciplines may make it more difficult to recruit and meet requirements. SEW must also retain its business know-how which presents a challenge in operational areas where the workforce is more mature and business knowledge was sometimes acquired over many years in the field. SEW also relies on key individuals who have acquired a detailed technical and company knowledge and must manage succession planning to avoid disruption to the business. As the expectations of customers, stakeholders and employees change SEW needs to promote a culture that meets those aspirations.	• Successful apprenticeship scheme in operations and the "Steps to Leadership" programme developing managers over four levels. • Extensively communicated values and objectives with employees to ensure their support and their involvement in cultural changes required to deliver the next step of performance improvements. • The people plan which sets out SEW's strategy for the next five years including strategy on diversity, talent management, succession planning and gender pay gap. • Embedding the purpose and values into the day to day activities throughout the next five years. • Regular engagement through the Staff Council, pulse survey and bi-annual staff surveys followed by action plans shared and implemented with the support of staff. • The Speak Up (whistleblowing) Policy allowing colleagues to raise concerns to be investigated as appropriate. • The response to Covid-19 guided by two priorities: the need to maintain the water supply and the need to protect and support employees. The workforce has allowed SEW to adapt and to continue to provide its service and it has been consulting with them about the lessons it can learn from this and how ways of working may evolve in the future.

South East Water (Finance) Limited

South East Water (Finance) Limited is a private company limited by shares and registered in the Cayman Islands, although resident in the UK for tax purposes. This company's principal activity has been the raising of external finance on behalf of the group of companies headed by HDF and subsequently lending monies to companies within that group. The company currently has three loans which have been lent on to its immediate parent company, SEW. During the year South East Water (Finance) Limited received interest on loans made to SEW and paid interest on loans raised from external sources.

South East Water (Finance) Limited's financial instruments comprise fixed and variable rate external borrowings, fixed and variable rate loans to its immediate parent company, SEW and other amounts owed to and owed by group undertakings.

Derivative activity is undertaken by South East Water (Finance) Limited on behalf of the group headed by HDF, as determined by its board. The board considers the overall risk profile of the group and enters into derivatives to mitigate or hedge any risks identified as appropriate. No derivatives are undertaken for trading purposes or to benefit for speculative purposes.

Hastings Water (UK) Limited

Hastings Water (UK) Limited is a private company limited by shares. The principal activity of Hastings Water (UK) Limited during the year and for the foreseeable future is that of an intermediate holding company. Its principal subsidiaries include South East Water (Holdings) Limited, South East Water Limited and South East Water (Finance) Limited.

Group strategic report

South East Water (Holdings) Limited

South East Water (Holdings) Limited is a private company limited by shares. The principal activity of South East Water (Holdings) Limited during the year and for the foreseeable future is that of an intermediate holding company. Its principal subsidiaries include South East Water Limited and South East Water (Finance) Limited.

Hastings (Luxembourg) Water S.à.r.l.

Hastings (Luxembourg) Water S.à.r.l. is a Luxembourg holding company incorporated as a Société à Responsabilité Limitée for an unlimited period of time subject to general company law. The registered office of Hastings (Luxembourg) Water S.à.r.l. is established at 5, rue Guillaume Kroll, L-1882 Luxembourg.

The principal activity of Hastings (Luxembourg) Water S.à.r.l. during the year and for the foreseeable future is raising of external finance on behalf of the group of companies headed by HDF and subsequently lending monies to companies within that group. During the year Hastings (Luxembourg) Water S.à.r.l. received interest on loans made to other group undertakings and paid interest on loans raised from external sources.

Swan Group

Swan Group's principal activity during the year and for the foreseeable future is that of an intermediate holding company. Swan Group's main investments during the 2020/21 financial year were 100 per cent of the share capital of Swan Property Limited ("SPL"), a property management and investment company. Swan Group is a private company with an unlimited liability.

Swan Property Limited

Swan Property Limited ("SPL") is a private company limited by shares. The principal activity of SPL during the year and for the foreseeable future is buying land and properties from other members of the HDF group as investments and developing and/or refurbishing them with a view to increasing their long term investment potential and selling them at some time in the future.

In March 2015 the company sold land at Hermitage Lane, Maidstone, Kent. The contract of sale contained an "overage payment" clause, entitling the company to additional proceeds in the event of certain criteria being met. The asset was recognised in the balance sheet at 31 March 2020 as a revaluation of investment properties and the profit was recognised in the income statement and transferred to the revaluation reserve. In June 2020 the transaction was completed with the company receiving £0.9 million in further sale proceeds. The profit on disposal has been taken to the p&l reserve as a reserve transfer from the revaluation reserve.

Other Group Companies

Southern Utilities (Holdings) Limited and MKW Holdco 1 have not traded during either the current or preceding years.

Group financial performance

Revenue
The group revenue is solely generated by SEW, which is the main trading company within the group. The turnover for the year was £248.2 million compared to the previous year of £243.5 million. Under the regulatory price control mechanism, our revenue is allowed to increase each year. In 2020/21 our tariffs increase was 1.8 per cent which generated an additional £4.4 million in water revenue.

The impact of Covid-19 in the year saw a change in demand patterns resulting in household usage increasing by 11 per cent and a reduction in non-household usage of 26 per cent. The total consumption increased by 4 per cent over and above the previous year and improved water revenue by £8.4 million. This appears to be primarily due to the reduction of commuter travel by customers living in our catchment area but normally working in other areas, increased water consumption for families affected by the furlough scheme and the exceptional summer weather in 2020.

Group strategic report

Factors offsetting the above turnover increases included additional social tariff allowances given to customers of £2.7 million as a result of more households facing economic hardship due to the Covid-19 restrictions and lower developer activity that included a full shutdown during the first lockdown period which amounted to a reduction in revenue of £5.4 million.

Other income has shown a small reduction of £0.8 million due to the change in commission rates for the Southern Water One Bill contract (£0.6 million) and lower laboratory income as a result of the Covid-19 restrictions (£0.2 million).

As the south east of England is classed as an area of water stress, one of our strategic objectives is to improve water efficiency by increasing the number of customers on metered supply. This is part of our longer term strategy to monitor and improve water efficiency. Approximately 92 per cent of our water revenue is from measured supply in the year. This has increased from 90 per cent in the previous year.

Operating expenditure
Our operating costs for the year, including charges for doubtful debts, have increased from £175.2 million to £182.9 million, an increase in costs of £7.7 million. The most significant impacts on costs in the year were additional expenditure on contractors which increased by £2.5 million, including £1.5 million as a direct result of Covid-19, and energy costs, which increased by £1.5 million due to price increases, the impact of Covid-19 on fixed third party charges and higher usage due to increased water demand. Depreciation and other asset related costs increased by £4.9 million as new assets were introduced and disposals of old assets were made during the year. The increased asset related costs also included £2.3 million for the write-off of parts of the Aylesford reservoir following the sinkhole incident that occurred during the year. Insurance costs increased by £0.7 million and bulk supplies of water from other water companies increased by £0.6 million, reflecting the higher demand during the year.

Offsetting the increases in costs are savings in staff costs due to a credit of £7.8 million in respect of past service costs on one of the group's defined benefit pension schemes, which is a result of the change from RPI to CPI in measuring the liabilities of the scheme. This change has taken place in the Mid Kent Group Pension Scheme and was agreed with the trustees following a review of the pension scheme rules. This has been offset by increases in salary costs of £3.7 million.

Also, the charge for bad debts in the year was £3.8 million compared to £4.2 million in the prior year. The provision this year is based on our cash collection history for the past three years. This is a change from the prior year, where four years history was used. This change places greater emphasis on our cash collection history over the last year to reflect the circumstances resulting from Covid-19. In view of this change, no specific additional provision for Covid-19 has been made in the year (2020: £0.7 million).

Operating profit
Operating profit has decreased from £80.5 million to £76.7 million, the reduction of £3.8 million is due to the net impact of increased revenue of £4.7 million and operating costs of £7.7 million as detailed above.

Finance costs
Finance costs are incurred on our borrowings which include fixed rate and index linked and variable rate loans. The maturity dates on our borrowings range from 2022 to 2042. The finance costs incurred in the year were £53.7 million compared to £65.7 million in the previous year. The reduction in costs are largely due to the lower finance costs of the new loans replacing the bonds that matured in September 2019 and lower indexation charges in the year on the remaining index linked loans due to the very low inflation rate over most of the financial year.

Finance income was £0.9 million in the year, a decrease of £0.1 million compared to the previous year.

Profit before tax
Profit before tax for the year was £23.9 million compared to £16.6 million in the previous year. This increase in profit reflects the operating performance and the reduction in net finance costs described above.

Group strategic report

Profit after tax

Profit after tax has increased from £2.1 million in the prior year to £19.3 million. Tax of £4.6 million has been charged in the year compared to a charge in the prior year of £14.5 million. The decrease in the tax charge is mainly due a large charge for deferred tax in the prior year as a result of the corporation tax rate change reported in that year. Further details on current and deferred tax are set out in note 11 to the accounts.

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.

During the year, drawdowns totalling £50 million were made on our revolving credit facility, bringing the total outstanding to £80 million (2020: £30 million). Drawdowns of £10 million were planned as a result of our forecasting processes and a further drawdown of £40 million was made to safeguard against any potential liquidity risk as a result of Covid-19. The £40 million was unspent at the balance sheet date.

Our current revolving credit facility expires in June 2022. Discussions are currently being held to replace this facility with a new facility with an increased limit of £125 million. The new facility has been credit approved. This is expected to be completed in 2021.

The interest rate benchmark LIBOR will lose representativeness at the end of 2021. The group's floating rate debt will instead be benchmarked to the Sterling Overnight Index Average (SONIA) administered by the Bank of England.

The group has commenced transitioning its floating rate debt. In June 2021 South East Water (Finance) Limited refinanced its liquidity facilities using SONIA as its reference rate.

The group is in dialogue with its lenders to agree amendments to the fall back provisions to move from GBP LIBOR to SONIA on its other floating rate facilities, which comprise the revolving credit facility and the £120 million floating rate loan.

Pensions

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

These contributions are broadly in line with the prior year. Further details on these schemes are set out in note 29 to the accounts. In addition the group operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year nearly 1,000 employees contributed to the scheme and the group made payments of £2.5 million by way of employer contributions to this scheme (2020: £2.4 million).

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 net operating cash generated was £121.6 million compared to £133.7 million in the prior year. Net payments in respect of capital expenditure in the year totalled £93.7 million compared to £98.2 million in the prior year. Net payments in respect of interest and other finance costs were £50.8 million in the year. This is lower than the previous year's net payment of £53.80 million due to lower interest rates on the company's variable rate loans.

The group statement of cash flows on page 56 shows the cash balance has increased from £30.1 million at the beginning of the financial year to £57.0 million at the end of the year.

Group strategic report

Dividend
The group dividend policy is to ensure that a suitable return is paid to our shareholders, while ensuring that the group is able to finance the business and meet the requirements of our instrument of appointment, both as at the date of the proposed dividend and prospectively. When assessing the appropriate level of dividend, considerations will include the group's actual and forecast level of gearing, the need to maintain the group's credit rating, the allowed cost of capital, and the performance of the group. Dividends paid in the year were £nil (2020: £nil).

Taxation and tax policy
Our taxation strategy is discussed in the directors' report and SEWL's regulatory annual performance report. A detailed explanation of our tax policy is available on our website.

Energy, carbon and climate related reporting

The reporting on emission and climate related matters relates primarily to SEW which is the only operating company in the group. HDF (UK) Holdings operates only as a holding company and the other trading companies in the group (excluding SEW) carry out administrative functions. The group emissions are equivalent to those of SEW and the rest of this section relates therefore to the emissions of SEW and its actions in relation to climate change.

Emissions are measured and reported under scope 1, 2 or 3 using the methodology described below and climate change risks are integrated by SEW into long-term plans and business plans.

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 as well as voluntary emission reporting and information on the strategy to manage climate change risks and reduce emissions and impact on the environment.

Streamlined energy and carbon reporting (SECR)

	GHG Emissions	2019/20	2020/21	Unit
1	Annual quantity of GHG emissions for the purposes of transport	1,785	1,610	tCO_2e
	No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, group cars.			
2	Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport)	36,255	34,200	tCO_2e
	Electricity was not used for the purpose of transport in the reporting year. The electricity usage is divided into three categories: pumping, treatment and administration.			
3	Aggregate equivalent kWh for emissions under 1 and 2 above	149,143,179	146,818,118	kWh
4	GHG emission intensity metric	198	180	$kgCO_2e$ /Ml
	Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.			

Further details on the methodology and assurance process for the data used for our streamlined energy and carbon reporting (SECR) and voluntary reporting on scope 1, 2 and 3 emissions and on the principal measures taken in 2020/21 for increasing the company's energy efficiency are set out below.

Group strategic report

Scope 1, 2 and 3 energy and carbon reporting
The company measures and reports on all its scope 1, 2 and 3 emissions annually and a summary is provided below.

Scope 1 (direct) emissions are emissions from activities owned or controlled by the company that release emissions into the atmosphere.

Scope 2 (energy indirect) emissions are emissions associated with our consumption of purchased electricity, heat, steam and cooling.

Scope 3 (other indirect) emissions are emissions that are a consequence of our actions and that occur at sources that we do not own or control, and that are not classed as Scope 2 emissions (for example, emissions from business travel by means not owned or controlled by us or emissions associated with our supply chain).

			2019/20	2020/21	Unit
Scope 1	1	Direct emissions* from burning of fossil fuels (including natural gas CHP** generated onsite)	484	508	tCO_2e
	2	Process and fugitive emissions***	1,106	1,250	tCO_2e
	3	Transport: Group owned or leased vehicles	1,785	1,610	tCO_2e
Scope 2	4	Total grid electricity used by Group (including CHP** electricity purchased)	36,255	34,200	tCO_2e
Scope 3	5	Business travel on public transport and private vehicles used for Group business	41	40	tCO_2e
	6	Outsourced activities (if not included in Scope 1 or 2) Energy and other	3,935	3,560	tCO_2e
	7	Total grid electricity used by company (including CHP electricity purchased) – Transmission and Distribution***	3,078	2,940	tCO_2e
Gross emissions	8	Gross operational emissions	46,684	44,108	tCO_2e
Intensity metric	9	Operational GHG emissions per Mega litre of treated water	209	192	$kgCO_2e$ /Ml
		This metric includes all scope 1, 2 and 3 emissions for energy for pumping and treatment except energy emissions relating to administration. (This metric includes emissions from diesel generators used at sites and from ozonation at sites.)			

*Direct emissions from burning of fossil fuels were higher in 2020/21 than in 2019/20 due to an increase in generator use by two per cent to provide electricity to the National Grid during Triads or for our own emergency use and an increase in natural gas consumption for space heating at some of our water treatment works.
**CHP - Combined Heat and Power – a process that captures and utilises the heat that is a by-product of the electricity generation process.
***Process emissions are a consequence of physical or chemical processes (for example in our water treatment). Fugitive emissions include intentional and unintentional releases (for example refrigerant in air conditioning units).
†Electricity which is lost in the transport and distribution system used for delivering purchased electricity.

Extending our reporting in line with the TCFD recommendations

We are building on our existing work in relation to energy and carbon reporting and climate adaptation to develop our strategy and reporting following the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD).

Our aim is to develop a comprehensive and integrated approach to the management of climate change risks that is at the core of our long-term planning and our related disclosures.

Our focus in 2020/21 has been on identifying climate related risks specific to the business which form the basis of both our adaptation report and our future TCFD reporting.

These climate related risks and their assessment in the adaptation report will be the starting point for developing scenarios for the purpose of TCFD that will support a consistent approach for our long-term strategic planning and our future financial disclosures under TCFD.

Group strategic report

We summarise below our current approach to climate related risks and opportunities following the four thematic areas set out in the TCFD recommendations: governance, strategy, risk management, and metrics and targets.

Governance
The board of SEW has effective oversight of climate-related risks and opportunities. Climate-related risks are included within its corporate risk register which is regularly reviewed by the executive team and annually by the SEW board. The SEW corporate risk register includes details of any appropriate controls and mitigating actions.

Any relevant targets related to climate change are agreed by the board of SEW and included within SEW's published performance commitments each year, most notably those to target reductions in carbon emissions.

Strategy
SEW's core responsibilities include planning for future water resources and for events such as droughts while investing efficiently and protecting the environment. To fulfil these responsibilities SEW prepares strategic statutory plans and in particular a water resources management plan (WRMP) and a dry weather plan. SEW has a statutory requirement through the WRMP to be resilient to climate change.

The impact of climate change is a central consideration in the development of these plans both to calibrate scenarios and assumptions and to select the most appropriate solutions and investments to develop water resources, improve the resilience of the supply system and manage demand.

SEW is in the process of updating its next water resources management plan (WRMP24) and as part of that process it will be reviewing and adopting the relevant information from the UKCP18 projections. This work, feeding into WRMP24, will be completed within the next year and ensures climate change impact assumptions remain up to date, and that strategies and plans to maintain future supply demand plans are resilient and adaptable to climate change.

SEW also maintains a resilience action plan which helps it ensure the resilience of assets and services, not only to face incidents and weather events but also to face the long-term change to climate patterns caused by global warming.

SEW has already prepared two climate change adaptation reports which provide strategic direction and context to its long-term planning activities and it will be updating its climate change adaptation report ready for publishing in advance of December 2021.

Included in the business plan for 2020 to 2025 is a target to reduce emissions to 58 kgCO2e/Ml by 2025, including all scope 1, 2, and 3 emissions. This represents a reduction of emissions of 80 per cent by 2025 (when compared to 2017/18).

Building on that commitment, SEW is publishing a net-zero roadmap in July 2021 on its website. It will outline its strategy to both secure the 2025 price review period performance commitments and the 2030 target as part of the industry public interest commitment (PIC). SEW's net zero commitment seeks to achieve an estimated 98 per cent reduction in operational direct carbon emissions through direct interventions with the remaining two per cent requiring insetting (e.g. carbon sequestration on company land) and offsetting regionally and in the UK. This reduction is being measured by reference to a 2018/19 operational emission baseline. The net zero emission commitment by 2030 does not relate to emissions by SEW's supply chain or embedded carbon but work is underway to be able to first report on embedded carbon in respect of 2022/23.

SEW continually reviews how it can minimise carbon emissions which includes assessing potential renewable options, an in-depth energy management review, extended metering, and its capital maintenance programme replacing older assets such as pumps with newer more efficient pumps which will reduce energy consumption and carbon emissions.

SEW is also exploring more advanced analytics surrounding energy, identifying sites that are inefficient based on energy trends and would therefore benefit from a revised process or improved assets.

Group strategic report

Risk management
SEW has comprehensive systems of internal control and risk management and monitors their effectiveness regularly in compliance with the principles of its corporate governance code.

SEW's risk management framework is closely linked to the way it monitors and measures its performance and compliance with statutory obligations and commitments which is subject to external assurance by third parties. The adoption in its business plan of a performance commitment for the reduction of its emissions by 2025 ensures that its systems of controls and external assurance relating to regulatory reporting will be applied equally to emissions reporting.

SEW's climate change adaptation report has identified priority risks from climate change and how these impact its functions and activities across the business. It has also identified mitigations and monitoring plans to adapt to climate change impacts.

SEW maintains a formal risk register and risk management system for the identification, evaluation and mitigation of risks. Significant risks from climate change, and their impacts on functions and activities across the business, have been incorporated into its corporate risk register and it is able to report specifically on these risks – providing additional focus and scrutiny of risks, controls and mitigating actions.

Read more on our risk management systems and principal risks on page 15.

Metrics and targets for the year 2020/21
SEW uses 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 and wastewater companies, including water treatment and distribution, wastewater collection and treatment, and sludge management. Estimates are made following guidance published by Defra and BEIS, as well as international guidance where required.

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 to report SECR requirements.

The data is compiled from various sources across the business and placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO_2e figures for the company to be compiled which are then externally audited. This data is then used to calculate the total associated kWh for purchased energy and transport using recent year emission factors.

External assurance of the processes and data for our GHG emissions has been carried out by Ricardo Energy & Environment (REE).

In undertaking the verification exercise, REE has reviewed SEW's carbon footprint data collection and calculation methodologies against the requirements of ISO 14064-1 (Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals) and the GHG Protocol Corporate Standard.

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

- the data held within our Carbon Accounting Workbook v15 (CAW) which is used to manage SEW's 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 SEW used for its carbon management and reporting processes

Group strategic report

Based on the process and procedures they carried out REE concluded that there is no evidence that the 2020/21 GHG assertion by SEW (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.

For the current period up to 2021 SEW's target has been to reduce carbon emissions to 152 kgCO2e per customer. SEW is reporting 192 kgCO2e/Ml, and has therefore not met its target for the year. The reasons for not meeting this performance commitment target include: i) the targets over 2020 to 2025 have been set broadly linearly and 2020/21 has been a year of preparation rather than implementation of direct interventions to reduce the carbon footprint which will start showing their effect in 2021/22 and ii) to a lesser extent, the fact that SEW uses BEIS energy conversion rates for the UK to determine our carbon emissions based on its kW/h electricity consumption, and that actual rates for 2020/21 reflected a lower level of decarbonisation of the energy from the grid than had been indicated in BEIS' forecasts available at the time of the preparation of the business plan.

SEW is still expecting to meet its target over 2020 to 2025 based on the actions engaged to date. It has secured renewable energy guarantee of origin (REGO) backed energy arrangements covering its entire operational electricity needs (representing 84 per cent of operational emissions) from 1 April 2021. This will ensure it outperforms its target of 120 kgCO_2e/Ml for the 2021/22 period. Procurement is also underway to replace REGO arrangements with medium-term commercial green power purchase agreements (PPAs) linked to identified additional renewable energy schemes that will start operating over the next two to three years. These agreements ensure not only that SEW, and stakeholders, can have confidence in the source of renewable electricity, but also that, through the PPAs, SEW is supporting the expansion of additional renewable energy generation capacity, and enabling further decarbonisation at a UK level.

Going concern

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. In assessing the Going Concern of the group the directors have focused on the Going Concern status of SEW since this is the primary source of cash flow for the group as a whole and is the entity that generates the cash that, either directly or indirectly, satisfies the group's liabilities.

The risks associated with the possible ongoing impact of the Covid-19 pandemic, as set out in the strategic report have been considered and factored into the baseline financial projections.

The baseline plan is then subject to stress scenarios that take into account the potential impact of the Company's principal risks.

Our key sensitivities included the following:
- Interest rate increase
- Inflation reduction
- ODI penalties
- Totex overspend
- Increased bad debts

The results of our assessment revealed that none of the stress-testing scenarios would lead to an Event of Default in servicing the Group's debt, nor would they lead to adverse impacts on customer service or the Group's ability to carry out normal operational activities.

Our securitised financing arrangements within SEW include covenants with trigger thresholds which are reported bi-annually. The baseline plan, incorporating the expected impacts of Covid-19, shows sufficient liquidity and clear headroom for debt covenants when considering trigger thresholds.

The covenants also had headroom under all sensitivity scenarios.

Having considered the SEW position, the directors have then given consideration to the financial position of the group as a whole and to that of HDF as a company.

Group strategic report

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The group finances its working capital requirements through cash generated from SEW's operations and committed facilities that can be called upon as required.

The group has prepared the annual budget, which incorporates the latest forecasts of SEW which take account of the changed circumstances brought on by Covid-19. The revised forecasts, together with SEW's five year plan and longer resources planning, all indicate that SEW and thus the group and the company should be able to continue operating for the forthcoming twelve months. In coming to this decision they have considered the implications of the on-going Covid-19 pandemic and the impact this may have on the business as well as the planned refinancing of the revolving credit facility which is ongoing and expected to be completed by the end of 2021.

Therefore, the directors believe that the group is well placed to manage their business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Section 172 statement

Statement on how the directors had regarded to the matters in section 172(1) and on engagement with employees and suppliers, customers and others in business relationship with the group

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

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

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

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

The main responsibility of the Board of SEW is to set the company's strategy and monitor its delivery in alignment with the company's purpose. The two main aspects of its core purpose are to provide today's public water service and to create tomorrow's water supply solutions. Its purpose is also to help society and the environment to thrive. In this context most decisions taken by its board need to balance the long-term and short-term interests of the company, its customers, employees, the environment, the interest of maintaining key relationships with other stakeholders and partners, as well as current and future regulatory requirements. This is achieved within a general decision framework combining governance, internal systems of control and risk management, and engagement with stakeholders. The company's decision framework is designed to ensure all the matters in section 172(1) CA06 are considered.

Group strategic report

Relevant aspect of the decision framework	
The 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 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.
Vision and strategy	• A vision and strategy focused on customers, people and the protection of the environment
Long-term planning	• Long-term water resources planning is a second key core function to ensure SEW can meet future demand for water and also encourage our customers to save water
Stakeholders' participation	• An engagement which ensures that stakeholders are directly involved in the decision process: including the Customer Challenge Group, the Environmental Scrutiny Group and partnerships for the delivery of the environmental programme, the employee and stakeholder engagement programme. • Extensive engagement and consultation for all key plans
Business model and external environment	• A business model focused on value creation through responsible business • a long-term focus, engagement with stakeholders and collaboration

Consideration of the matters in section 172(1) also determine the regular activities of the board of SEW such as the monitoring of the performance against commitments to ensure that the targeted outcomes for customers, the environment and the investment in the infrastructure needed to support communities are delivered. When setting out charges, customers' preferences are taken into account, for example for bill stability, by seeking to control increases in bills and the impact on customers or where appropriate putting in place mitigation measures. There is consultation with retailers and developers when defining charges.

Engagement with consumers and communities by SEW:

Key issues for this group

- A safe, wholesome supply of water
- Customer service and performance
- Reliability of supply and minimising disruption during our work
- Affordability and value for money and bill stability
- Assistance in times of need
- Responsible investment and protecting the local environment
- Local employment

How SEW engages

Although 2020/21 has been a difficult year due to Covid-19 SEW was able to use new technologies and ways of working for the business to engage with a wide community of stakeholders.
The independent Customer Challenge Group (CCG) provided challenge to the company in a range of areas including vulnerability, engagement, leaks, customer interruptions and our responsible business commitments. Zoe Macleod, the Chair of the CCG, met with the board in September to update on progress and recommendations for continued improvement and board members attended several CCG meetings during the year.
A two-day online conference was held with more than 60 vulnerable customer stakeholder groups represented and two non-executive directors attended the events.
SEW worked closely with non-household groups, attending events including developer stakeholder events, retailer workshops and drought management sprints to help develop its dry weather plan. Non-executive directors attended all these events to contribute and hear directly from stakeholders.
For all capital programme schemes SEW assesses the impact on customers and communities near the work and develops appropriate engagement.
SEW issued customer surveys and held workshops during the year, with satisfaction surveys carried out throughout the year and 39 per cent of customers surveyed.

Group strategic report

Actions taken by SEW based on the feedback received

- Developed stakeholder engagement strategy and implementing stakeholder mapping approach across the organisation for key engagement activities.
- Agreed 17 point action plan following summer demand experiences.
- Refreshed the dry weather plan to become a “dry weather plan” and created customer friendly magazine versions to accompany the main plan.
- Introduced a number of changes to the communication plan to increase channels and ways to collaborate to get water saving messages across.
- Introduced new stakeholder contact email to give community stakeholders an easier route into the business.

Engagement with employees by SEW:

Key issues for this group

- Purposeful jobs that make a difference
- Health, safety and wellbeing
- Diverse and inclusive workplace
- Opportunities to reach full potential
- Open and honest environment
- Fair pay and reward
- Flexible working and work life balance

How SEW engages

Board engagement with employees is mainly through the Staff Council with an independent non-executive director appointed as the main point of contact.
A board engagement programme was developed to engage with different parts of the business and different levels of management.
The CEO, David Hinton, delivered monthly virtual presentations with Q&A sessions for employees.

The employee intranet promotes all news articles and key events. Managers and employees regularly blog via this platform about important issues and anyone can comment freely on all articles.
Managers are provided with a monthly Manager toolkit, health and safety briefings and core brief slides to encourage dialogue.
Regular staff surveys and pulse surveys

Actions taken by SEW based on the feedback received

- Diversity and inclusion included as a pillar of the new people plan
- Agile working group to plan for new ways of working to continue post-pandemic
- Set up a WhatsApp broadcast to communicate key messages to staff especially those in the field
- Blogs and social media promoted to raise the profile of the work our operations teams carry out
- Improved the wellbeing area on the intranet highlighting where to go for support
- Provided exposure to senior leaders through regular Q&A sessions
- Training for managers to connect with teams remotely
- Reviewing induction process for new starters

Engagement with suppliers and partners and other stakeholders by SEW:

Key issues for this group

- Outcomes for customers, the environment and long-term resilience
- Performance against regulatory targets
- Trust and transparency
- Governance and compliance
- Environmental impact
- Fair engagement and payment terms
- Collaboration
- Responsible supply chain

How SEW engages

The Regulation Directorate manages engagement with regulators to ensure SEW understands key issues, talks about our response to these and collaborates on finding solutions.
A weekly stakeholder report was developed for the early stages of the pandemic to keep all updated on progress and offer feedback on actions. This was increased to daily during the August heatwave incident.
The Regulations and Strategy Director provides updates on regulatory engagement to the board.

During the year the focus for suppliers and partners has been on managing impacts of the pandemic and procurement changes associated with Brexit.
Key contracts were presented to the board including a new five year engineering partnership with Atkins and a new delivery partnership with Clancy.

Group strategic report

Actions taken by SEW based on the feedback received

- In response to Ofwat expectations set out at PR19, a new dividend policy was adopted and reporting on dividends and executive remuneration was expanded.
- Monthly update to regulators on our activities to protect customers and employees during the pandemic.
- Revised dry weather plan including creating clear customer and stakeholder friendly versions to be consulted on during summer 2021.
- A 25 year environment plan to align with Government ambitions co-created with a diverse range of stakeholders.
- Key contractors were involved in the planning of Covid-19 safe methods of working and in the ongoing crisis management and operational issues.
- Engagement with the local Kent Resilience Forum to support them and the local community during any issues caused by Brexit or the pandemic on key transport routes for the supply chain through the county from Dover.
- Reduced payment terms were reviewed on a case by case basis to assist suppliers during this difficult time.

Approved by the board and signed on its behalf by:

R Drew
Director
6 August 2021

Corporate Governance statement

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

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

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

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

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

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

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

Operation of the regulated business of South East Water

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

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

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

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

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

Corporate Governance statement

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

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

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

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

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

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

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

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

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

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

Corporate Governance statement

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

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

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

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

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

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

Approved by the board and signed on its behalf by:

R Drew
Director
6 August 2021

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 2021, together with the audited financial statements.

Principal activities and future developments

The principal activities of the group comprise the supply of water to a population of 2.2 million in an area of 5,700 kms and the provision of certain ancillary services for customers, developers and other bodies within the constraints of the relevant legislation as performed by SEW. The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future.

The company acts as a holding company. At 31 March 2021, its principal subsidiaries included Hastings Water (UK) Limited ("HWUK"), South East Water (Holdings) Limited ("SEWH"), South East Water Limited ("SEW"), South East Water (Finance) Limited ("SEWF"), Swan Group ("SG"), Swan Property Limited ("SPL") and Hastings Luxembourg Water S.a.r.l. ("HLW"). Further details are given in note 16. 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 2021 was £248.2 million (2020: £243.5 million) and group operating profit was £76.7 million for the year (2020: £80.5 million). Profit before taxation for the year was £23.9 million (2020: £16.6 million). The financial position at 31 March 2021 for the group and for the company is shown on pages 52 and 53 respectively.

The group was fully in compliance with its loan covenants at 31 March 2021.

Accounting framework

The financial information presented in these audited financial statements has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom. The financial statements are presented in Sterling.

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

Dividends

There were no dividends paid during the year (2020: £nil).

The company's dividend policy is discussed on page 30 of the Strategic report.

Capital expenditure

During the year the group's capital expenditure totalled £93.3 million (2020: £104.5 million). Further details are given in notes 13 and 14 of the financial statements.

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

Taxation

The Group's profits are typically sheltered with a combination of tax losses from other HDF Group entities and the application of capital allowances from the extensive investment programme currently being undertaken by SEW. In practice we prioritise the purchase of group relief in sheltering tax charges and the payment of group relief is made at the statutory rate for corporation tax so does not impact the effective tax rate. The effective rate after making allowance for the future rate change and prior year adjustments is 19.2 per cent. Additional information on taxation is provided in note 11.

Group Directors' Report

Directors and their interests

The directors who at any time during the financial year and at the date of this report were directors of the company are set out on page 3.

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

Directors' indemnities

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

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 30 of the strategic report.

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

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

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

The group has developed a comprehensive engagement program to ensure that we capture the differing views of our customers, suppliers and other stakeholders in the wider community. This program has helped SEW shape our plans for the 2020 to 2025 AMP. There are a number of examples, as discussed on page 36, 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 36.

Financial instruments

Information about the use of financial instruments by the company and its subsidiaries is given in note 21 of the financial statements. The group financial risks have been reported under our principal risks section in our strategic report on page 15.

Group Directors’ Report

Political Donations

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

Research and development activities

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

Going concern

The group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. 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 annual budget and forecasts, together with its five year plan and longer resources planning, all indicate that the group should be able to continue operating. The results post balance sheet have been consistent with these indications. In coming to this decision the directors have considered the implications of the on-going Covid-19 pandemic and the impact this may have on the business. Further details of the group’s response to the Covid-19 pandemic are provided on page 16.

Therefore, the directors believe that the group and its subsidiaries are well placed to manage their business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the annual report and 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 30.

Directors’ statement on audit information

Due to the completion of ten years by Deloitte LLP as the statutory auditor for the Company and the rest of the HDF Group, it was intended, as required by UK law, that a tender process for the appointment of statutory auditor be undertaken during 2020. However, due to the Covid-19 pandemic, the HDF Group sought and obtained permission from the Financial Reporting Council to extend the appointment of Deloitte LLP as statutory auditor for a further year.

Deloitte LLP agreed to act in the capacity of auditor for the group for a further year.

The process for the new appointment of statutory auditor for the HDF Group has now begun with the appointment planned to be made in the middle of the financial year ending 31 March 2022.

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

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

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

Approved by the board on 6 August 2021 and signed on its behalf by:

Nicolas Truillet
Company Secretary
6 August 2021

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the 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 company and of the profit or loss of the company for that period.

In preparing the group and company financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS's are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

A N Le Gal
Director
6 August 2021

R Drew
Director
6 August 2021

Registered number 05462865

Independent Auditor's Report

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of HDF (UK) Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's profit and of the company's loss for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group and company income statements;
- the group statement of comprehensive income;
- the group and company statement of financial position;
- the group and company statements of changes in equity;
- the group and company statement of cash flows; and
- the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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 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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
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.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included compliance with terms of the Group's operating licence as imposed by The Water Services Regulation Authority (OFWAT) and the regulatory solvency requirements which are fundamental to the Group's ability to continue as a going concern.

We discussed among the audit engagement team including relevant internal specialists such as tax, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Household bad debt provisioning:
    - obtained an understanding of the relevant controls including management review controls and controls relating to the data integrity in the bad debt model;

Independent Auditor's Report

- verified the accuracy of information within the cash collection model;
- verified that the final provision has been calculated in line with the policy of the Group and IFRS 9 methodology, including consideration of Covid-19, through testing the mechanical accuracy of the provision;
- analysed management's bad debt policy, and challenged whether it reflects the lifetime expected credit outcomes for receivables, specifically assessing whether the recoverability assumptions are reflective of current cash collection rates and other market and macroeconomic indicators, including sensitivity analysis on the provision model to assess if changes to assumptions used by management would materially alter the provision;
- performed trend analysis and model assessment by involving our modelling and analytics specialists to validate the data inputs, calculations and outputs in the cash collection model; and
- assessed the appropriateness of the disclosures provided in the financial statements.

- Revenue recognition – estimating unbilled household customer income:
  - obtained an understanding of, and tested, the relevant controls around the estimation techniques used with regard to consumption and other key data inputs into the model;
  - challenged the appropriateness of management's consumption assumptions including in relation to the seasonality and social tariff adjustment by benchmarking against other water companies and performing sensitivity analysis on manual adjustments to assess if changes to assumptions used by management would materially alter the adjustment;
  - performed retrospective analysis of bills raised during 2020/21 relating to the FY20 accrual to determine the accuracy of management's forecasting; and
  - involved our IT specialists to test the accuracy and completeness of the billed consumption report utilised by management in determining the accrual required.

- Classification of costs between operating and capital expenditure:
  - obtained an understanding and tested relevant controls within the capex and opex process;
  - assessed the Group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the capital programme;
  - for a sample of capital projects, assessed the application of the capitalisation policy to the costs incurred by agreement to third party invoices and obtained explanations and further support for the appropriateness of classification of projects as capital;
  - challenged the assumptions and judgements made in allocating labour overheads to capital projects, through understanding the nature of activities performed; and
  - for a sample of capital projects tested the actual labour overheads capitalised in the year, assessed the application of the capitalisation policy to the costs incurred by reviewing the business cases as progress and supporting evidence or the costs incurred.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.
In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC and Ofwat.

Independent Auditor's Report

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Helen Burridge
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Helen Burridge (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
06 August 2021

Group income statement
for the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Revenue	4	**248,156**	243,481
Bad debt	18	**(3,788)**	(4,198)
Net operating costs	6	**(179,083)**	(170,961)
Other income	4	**11,439**	12,199
Group operating profit		**76,724**	80,521
Revaluation of property	15	**-**	718
Finance expenses	10	**(53,746)**	(65,671)
Finance income	9	**889**	989
Profit before taxation		**23,867**	16,557
Taxation	11	**(4,593)**	(14,477)
Profit for the year		**19,274**	2,080
Earnings per share			
Basic and diluted from continuing operations	12	**106.96p**	11.54p

Group statement of comprehensive income
for the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Profit for the year		**19,274**	2,080
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial (loss)/gain on pension schemes	29	**(14,967)**	4,879
Deferred tax credit/(charge) on net actuarial (loss)/gain	11	**2,844**	(927)
Impact of deferred tax rate change in respect of pension schemes	11	**-**	(124)
		(12,123)	3,828
Total comprehensive income for the year attributable to owners of the company		**7,151**	5,908

Company income statement
for the year ended 31 March 2021

	Notes	**2021 £000**	2020 £000
Company net operating costs	6	**(741)**	(359)
Income from shares in other group undertakings	8	**7,964**	3,819
Finance expenses	10	**(8,804)**	(11,792)
Finance income	9	**70**	153
Loss before taxation		**(1,511)**	(8,179)
Taxation	11	**376**	626
Loss for the year		**(1,135)**	(7,553)
Earnings per share			
Basic and diluted from continuing operations	12	**(6.30p)**	(41.92p)

Group statement of financial position
as at 31 March 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Intangible assets	13	**8,787**	9,568
Property, plant and equipment	14	**1,631,312**	1,595,916
Right of use assets	14	**11,952**	12,929
Investment property	15	**900**	1,818
Defined benefit pension surplus	29	**34,368**	35,912
		1,687,319	1,656,143
Current assets			
Inventories	17	**673**	689
Trade and other receivables	18	**86,738**	84,465
Cash and cash equivalents	19	**56,998**	30,135
		144,409	115,289
Total assets		**1,831,728**	1,771,432
Current liabilities			
Loans and borrowings	22	**(80,317)**	(30,329)
Trade and other payables	22	**(78,619)**	(88,673)
Deferred income	24	**(5,336)**	(5,418)
Provisions	23	**(7,984)**	(4,457)
		(172,256)	(128,877)
Non-current liabilities			
Loans and borrowings	20	**(1,280,122)**	(1,270,559)
Derivative financial instruments	20	**(2,835)**	(3,505)
Trade and other payables	20	**(4,623)**	(4,997)
Deferred tax liabilities	11	**(166,689)**	(165,686)
Defined benefit pension liabilities	29	**(3,172)**	(3,115)
Deferred income	24	**(3,625)**	(3,438)
		(1,461,066)	(1,451,300)
Total liabilities		**(1,633,322)**	(1,580,177)
Net assets		**198,406**	191,255
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Revaluation reserve		**236,243**	242,773
Retained earnings		**(286,493)**	(300,174)
Total equity		**198,406**	191,255

The accompanying notes are an integral part of these statements. The consolidated financial statements on pages 50 to 103 were approved and authorised for issue by the board of directors and were signed on its behalf by:

A N Le Gal
Director
6 August 2021

R Drew
Director
6 August 2021

Registered number 05462865

Company statement of financial position

as at 31 March 2021

	Notes	2021 £000	2020 £000
Non-current assets			
Investments	16	**412,950**	412,950
Deferred tax assets	11	**539**	666
		413,489	413,616
Current assets			
Trade and other receivables	18	**3,997**	3,397
Cash and cash equivalents	19	**13,220**	14,687
		17,217	18,084
Total assets		**430,706**	431,700
Current liabilities			
Trade and other payables	22	**(5,462)**	(5,858)
Non-current liabilities			
Loans and borrowings	20	**(163,379)**	(162,842)
Total liabilities		**(168,841)**	(168,700)
Net assets		**261,865**	263,000
Equity			
Ordinary share capital	25	**244,084**	244,084
Share premium account		**4,572**	4,572
Retained earnings		**13,209**	14,344
Total equity		**261,865**	263,000

The notes on pages 58 to 103 are an integral part of these financial statements.

The financial statements of HDF (UK) Holdings Limited (company number 05462865) on pages 50 to 103 were approved by the board of directors and authorised for issue on 6 August 2021 and were signed on its behalf by:

A N Le Gal
Director
6 August 2021

R Drew
Director
6 August 2021

Group statement of changes in equity

for the year ended 31 March 2021

	Issued share capital £000	Share premium account £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2019	244,084	4,572	251,928	(310,348)	190,236
Profit for the year	-	-	-	2,080	2,080
Other comprehensive income:					
Net actuarial gain on pension schemes	-	-	-	4,879	4,879
Deferred tax charge on net actuarial gain	-	-	-	(927)	(927)
Impact of deferred tax rate change in respect of pension schemes	-	-	-	(124)	(124)
Total other comprehensive income	-	-	-	3,828	3,828
Total comprehensive income	-	-	-	5,908	5,908
Amortise revaluation reserve	-	-	(6,129)	6,129	-
Revaluation of investment property	-	-	718	(718)	-
Release revaluation reserve on disposals	-	-	(19)	19	-
Deferred tax on reserve releases	-	-	1,164	(1,164)	-
Impact of the deferred tax rate change	-	-	(4,889)	-	(4,889)
Balance at 31 March 2020	244,084	4,572	242,773	(300,174)	191,255
At 1 April 2020	244,084	4,572	242,773	(300,174)	191,255
Profit for the year	-	-	-	19,274	19,274
Other comprehensive income:					
Net actuarial loss on pension scheme	-	-	-	(14,967)	(14,967)
Deferred tax credit on net actuarial loss	-	-	-	2,844	2,844
Total other comprehensive expenses	-	-	-	(12,123)	(12,123)
Total comprehensive income	-	-	-	7,151	7,151
Amortisation of revaluation reserve	-	-	(6,127)	6,127	-
Disposal of investment property	-	-	(918)	918	-
Revaluation of infrastructure asset	-	-	(783)	783	-
Release revaluation reserve on disposals	-	-	(15)	15	-
Deferred tax on revaluation and retained earning transfer	-	-	1,313	(1,313)	-
Balance at 31 March 2021	**244,084**	**4,572**	**236,243**	**(286,493)**	**198,406**

Company statement of changes in equity
for the year ended 31 March 2021

	Issued share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 April 2019	244,084	4,572	21,897	270,553
Loss for the year	-	-	(7,553)	(7,553)
Balance at 31 March 2020	244,084	4,572	14,344	263,000
At 1 April 2020	244,084	4,572	14,344	263,000
Loss for the year	-	-	(1,135)	(1,135)
Balance at 31 March 2021	**244,084**	**4,572**	**13,209**	**261,865**

Group statement of cash flows
for the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Operating activities			
Net cash flow from operating activities		**121,641**	133,726
Interest received		**277**	300
Interest paid		**(50,967)**	(53,972)
Interest element of lease payments		**(128)**	(110)
UK corporation tax paid		**84**	56
Foreign tax paid		**(4)**	(4)
Net cash flow before investing and financing activities		**70,903**	79,996
Investing activities			
Proceeds from sale of property, plant and equipment		**215**	94
Proceeds from sale of investment properties		**918**	-
Purchase of property, plant and equipment		**(92,128)**	(96,153)
Purchase of intangible assets		**(2,716)**	(2,116)
Net cash flow used in investing activities		**(93,711)**	(98,175)
Financing activities			
Proceeds of new loan		**50,000**	349,000
Issue costs of new loans		**-**	(168)
Repayment of lease liabilities		**(329)**	(222)
Repayment of borrowings		**-**	(333,837)
Net cash flow from financing activities		**49,671**	14,773
Increase/(decrease) in cash and cash equivalents		**26,863**	(3,406)
Cash and cash equivalents at the beginning of the year		**30,135**	33,541
Cash and cash equivalents at the year end	19	**56,998**	30,135

	2021 £000	2020 £000
Profit for the year	**19,274**	2,080
Adjustments for:		
Tax charge	**4,593**	14,477
Finance income	**(889)**	(989)
Finance costs	**53,968**	66,489
Interest element of lease payments	**128**	110
Depreciation and impairment of property, plant and equipment	**55,259**	51,615
Amortisation and impairment of intangible assets	**3,497**	3,049
Profit on disposal of property, plant and equipment	**723**	(50)
Increase in value of investment property	**-**	(718)
Amortisation of revaluations of liabilities	**(350)**	(928)
Difference between pension contributions paid and amounts recognised in the income statement	**(12,605)**	(4,859)
Changes in working capital:		
Increase in trade and other receivables	**(2,573)**	(1,068)
Decrease/(increase) in inventory	**16**	(97)
Increase in trade and other payables	**600**	4,615
Net cash generated from operations	**121,641**	133,726

Company statement of cash flows
for the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Operating activities			
Net cash flow from operating activities		**6,994**	3,341
Interest received		**74**	179
Interest paid		**(8,492)**	(8,483)
UK tax paid		**(43)**	-
Net cash flow before financing activities		**(1,467)**	(4,963)
Financing activities			
Issue cost of new loan		**-**	(176)
Net cash flow used in financing activities		**-**	(176)
Decrease in cash and cash equivalents		**(1,467)**	(5,139)
Cash and cash equivalents at the beginning of the year		**14,687**	19,826
Cash and cash equivalents at the year end	19	**13,220**	14,687

Company	2021 £000	2020 £000
(Loss)/profit for the year	**(1,135)**	(7,553)
Adjustments for:		
Tax (credit)/charge	**(376)**	(626)
Finance income	**(70)**	(153)
Financing costs	**8,804**	11,792
Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(58)**	(4)
(Decrease)/increase in trade and other payables	**(171)**	(115)
Net cash generated from operations	**6,994**	3,341

Notes to the financial statements
as at 31 March 2021

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 2021 were authorised for issue by the board of Directors on 6 August 2021 and the Statement of Financial Position was signed on the board's behalf by A N Le Gal and R Drew. HDF UK (Holdings) Limited is a limited liability company incorporated in the United Kingdom and domiciled in England and Wales.

The group's consolidated and the company's individual financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 2020

The group has adopted all new accounting standards and interpretations with mandatory adoption date on or before 1 April 2020. 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:

New standard or interpretation

IFRS 7 (amended)	Financial Instruments: Disclosures	1 April 2021
IFRS 8 (amended)	Operating Segments	Date not released by IASB
IFRS 9 (amended)	Financial Instruments	1 April 2022
IFRS 16 (amended)	Leases	1 April 2021
IFRS 17	Insurance contracts (replaces IFRS 4)	1 April 2023
IAS 1 (amended)	Presentation of Financial Statements	1 April 2023
IAS 8 (amended)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2023
IAS 12 (amended)	Income taxes	1 April 2023
IAS 16 (amended)	Property, Plant and Equipment	1 April 2022
IAS 37 (amended)	Provisions, Contingent Liabilities and Contingent Assets	1 April 2022
IFRS 41 (amended)	Agriculture	1 April 2022

Notes to the financial statements
as at 31 March 2021

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

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

2. Key judgements and sources of estimation uncertainty

2.1 Key judgements

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

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

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

The group determines employee costs directly attributable to capital projects based on the time spent on the projects. Other directly attributable costs are then assessed. The costs relating to capital projects are then capitalised into individual projects. During the year £12.7 million of employee and other directly attributable costs have been capitalised (2020: £11.8 million). 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 2021 were £2.7 million (2020: £2.8 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 23, total £3.5 million at 31 March 2021 (2020: £nil).

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 £10.7 million (2020: £15.1 million) and £23.7 million (2020: £20.8 million) respectively in full.

Notes to the financial statements
as at 31 March 2021

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 2021 is estimated to be £36.6 million (2020: £34.2 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 methodology adopted is consistent with prior years but higher household water consumption over the year, largely a result of the Covid-19 restrictions, has resulted in the value of unbilled water at the end of the current year being higher than that for the prior year.

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, in previous years, our annual assessment of unbilled revenue has been between 1 per cent and 2 per cent of actual billed revenue.

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

Unbilled water income at the year-end (Wholesale customers): Water revenue chargeable to wholesale customers is governed by the Market Settlement Process and information provided by the Central Market Operating System. System data is used to estimate the amount of unbilled revenue in respect of wholesale customers. As at 31 March 2021, the level of unbilled revenue was estimated to be £3.3 million (2020: £3.8 million).

The methodology adopted is consistent with prior years but significantly lower non-household water consumption over the year, largely a result of the Covid-19 restrictions on businesses, has resulted in the value of unbilled water at the end of the current year being lower than that for the prior year.

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

Notes to the financial statements
as at 31 March 2021

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

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 recoverable amount.

The sensitivity on the annual depreciation charge due to the estimates of asset lives is illustrated in the tables below using examples of the lives attributed to:

- Wells & boreholes of 60 years
- Light plant and machinery of 20 years
- Computer software of 5 years

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

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

	31 March 2021	Sensitivity			
		+1 year	+3 years	-1 year	-3 years
Computer software	£1.7m	-£0.3m	-£0.6m	+£0.4m	+£2.6m

Provision for doubtful trade receivables

Household Debt
Our Household customer base includes customers who cannot or will not pay their bills and, therefore, we need to make a provision for the level of doubtful debt. The value of the provision for doubtful debts as at 31 March 2021 was £27.5 million (2020: £24.6 million).

Our methodology establishes the expected credit loss of our household debt at the year-end by identifying customer debt categories and projecting historic cash collections across these customer groups to determine an estimate of irrecoverable debt. The estimated cash collection percentages take into account historical performance. Our cash collection history over the past three years has been used to determine future collection rates. This marks a change in methodology from the prior year where cash collection history over the past four years has been used. This change in approach is as a result of Covid-19 and the impact that the pandemic has had on household finances, and places a greater weight on cash collection history over the last year when Covid-19 has been a factor.

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

Notes to the financial statements
as at 31 March 2021

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

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

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

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

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

The costs of defined benefit pension schemes are determined using actuarial valuations. The actuarial valuations are determined by using certain assumptions for discount rates, mortality rates, expected return on assets and corporate bond performance projections as set out in note 29. Pension increases are based on expected future inflation rates. The net defined benefit pension scheme asset at 31 March 2021 is £34.4 million (2020: asset of £35.9 million) and is recognised in full.

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

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

Our assumptions have been set with a long-term view of the key factors and therefore the impact of the Covid-19 outbreak and prevailing economic factors in the short to medium term are not considered to have an impact on this key estimate. In particular, no allowance has been made for deaths over 2020 due to the uncertainty over the long term impact of Covid-19. If an allowance was made for 2020 excess deaths, this would reduce liabilities.

3. Accounting policies

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

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

Notes to the financial statements
as at 31 March 2021

3. Accounting policies *(continued)*

3.1 Going Concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. In coming to this decision they have considered the implications of the on-going Covid-19 pandemic and the impact this may have on the business. The directors have also considered the discussions that are on-going for the replacement of the revolving credit facility which has received credit approval and will be completed in 2021. The directors have concluded that it is correct to continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are provided in the strategic report on page 34.

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 is recognised to the extent that it is probable that the economic benefits will flow to the group, there has been a transfer of risk and control and the revenue can be reliably measured. All revenue arises within the United Kingdom and is recorded net of VAT. The group only recognises revenue in respect of “named” customers that is the group 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 2020/21 on 1 April 2020 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.

Grants and contributions
Grants and 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 obligations 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
as at 31 March 2021

3. Accounting policies *(continued)*

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

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

The performance obligations for the remaining other income is for the supply of services as detailed in the specific contracts with customers and 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
as at 31 March 2021

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
Intangible assets externally acquired 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.

(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.

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
Operational structures: 50-80 years
Fixed plant and machinery: 10-35 years
Meters, vehicles, mobile plant, computers, furniture and office equipment: 3-10 years

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.

Notes to the financial statements
as at 31 March 2021

3. Accounting policies *(continued)*

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 10 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.

3.12 Short term trade and other receivables

Short-term trade 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. An estimate for the expected credit loss 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.

Notes to the financial statements
as at 31 March 2021

3. Accounting policies *(continued)*

3.14 Trade payables

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

3.15 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.

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

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

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

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

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

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

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

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

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

Notes to the financial statements

as at 31 March 2021

3. Accounting policies *(continued)*

3.16 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.

3.17 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.

3.18 Defined contribution schemes

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

3.19 Defined benefit schemes

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

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

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

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

Notes to the financial statements
as at 31 March 2021

4. Total Income

	2021 £000	2020 £000
Revenue		
Unmetered water income	**19,983**	20,800
Metered water income	**219,168**	208,405
Other sales	**9,005**	14,276
Total revenue	**248,156**	243,481
Other income		
Rent receivable	**1,174**	1,284
Other income	**10,265**	10,915
Total other income	**11,439**	12,199
Total income	**259,595**	255,680

All revenue is from customers within the United Kingdom.

Other sales includes new connections income of £5.3 million (2020: £5.8 million), infrastructure income of £1.8 million (2020: £5.8 million) and capital contributions of £1.8 million (2020: £1.4 million).

Other income includes charges for billing and cash collection services amounting to £8.0 million (2020: £7.6 million), and laboratory income of £2.3 million (2020: £2.5 million).

Notes to the financial statements
as at 31 March 2021

5. Segmental analysis

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

Year ended 31 March 2021	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Total income	226,711	28,952	3,932	259,595
Operating profit	44,643	28,952	3,129	76,724
Revaluation of investment property				-
Finance costs				(53,746)
Finance income				889
Profit before taxation				23,867
Taxation				(4,593)
Profit for the year				**19,274**

Year ended 31 March 2020	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Total income	221,820	21,749	12,111	255,680
Operating profit	72,803	3,568	4,150	80,521
Revaluation of investment property				718
Finance costs				(65,671)
Finance income				989
Profit before taxation				16,557
Taxation				(14,477)
Profit for the year				2,080

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

Notes to the financial statements
as at 31 March 2021

6. Operating costs

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Employee benefits expense (See note 7)	**27,034**	30,301	**116**	135
Asset expense/(income):				
Depreciation – owned assets	**51,922**	50,537	**-**	-
Depreciation – right-of-use-assets	**985**	885	**-**	-
Impairment of property, plant and equipment	**2,353**	193	**-**	-
Amortisation of intangible assets	**3,497**	3,049	**-**	-
Loss/(gain) on disposal of property, plant and equipment	**723**	(50)	**-**	-
	59,480	54,614	**-**	-
Other operating expenses:				
Operating lease rentals:				
vehicles and office equipment	**255**	242	**-**	-
land and buildings	**16**	14	**-**	-
Fees payable to the Group's auditor (see below)	**536**	368	**79**	47
Other expenses (see below)	**97,404**	90,581	**546**	177
Other operating expenses charged to capital projects	**(5,642)**	(5,159)	**-**	-
	92,569	86,046	**625**	224
	179,083	170,961	**741**	359
Fees payable to the Group's auditor in respect of:				
Audit of the Group and Company financial statements	**63**	58	**69**	37
Audit of subsidiaries	**365**	219	**10**	10
Total audit	**428**	277	**79**	47
Regulatory accounts	**84**	49	**-**	-
Other assurance services	**22**	37	**-**	-
Services relating to iXBRL account coding	**2**	5		
Total non-audit services	**108**	91	**-**	-
Total fees charged to income statement	**536**	368	**79**	47
Other expenses comprise:				
Energy costs	**19,795**	18,346	**-**	-
Rates	**18,403**	18,186	**-**	-
Contractors	**28,727**	26,218	**-**	-
Bulk water supplies and abstraction licences	**9,251**	8,619	**-**	-
Chemicals	**3,797**	3,524	**-**	-
Insurance	**3,442**	2,680	**92**	34
Other	**13,989**	13,008	**454**	143
	97,404	90,581	**546**	177

Notes to the financial statements
as at 31 March 2021

7. Directors and employees

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

	Group		Company	
	2021 Number	2020 Number	**2021 Number**	2020 Number
Operations	**416**	434	**-**	-
Management and administration	**571**	526	**1**	1
	987	960	**1**	1
	£000	£000	**£000**	£000
The aggregate payroll costs of these persons are as follows:				
Wages and salaries	**34,938**	31,235	**97**	111
National insurance	**3,512**	2,565	**11**	15
Defined benefit scheme (credit)/costs	**(6,895)**	710	**-**	-
Defined contribution scheme costs	**2,489**	2,394	**8**	9
	34,044	36,904	**116**	135
Less: direct salary costs charged to capital projects and infrastructure renewals schemes	**(7,010)**	(6,603)	**-**	-
	27,034	30,301	**116**	135

8. Investment Income

Company	**2021 £000**	2020 £000
Investment income from Hastings Water (UK) Limited	**5,600**	2,150
Investment income from Swan Group	**2,364**	1,669
	7,964	3,819

9. Finance income

	Group		Company	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Interest receivable on bank balances and short term deposits	**128**	356	**70**	153
Pension fund finance income (see note 29)	**761**	633	**-**	-
	889	989	**70**	153

Notes to the financial statements
as at 31 March 2021

10. Finance costs

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Debenture interest	**30**	42	**-**	-
Effective interest on listed debt	**13,755**	18,411	**-**	-
Indexation on variable rate bonds	**2,383**	4,378	**-**	-
Interest rate swap charges	**1,568**	562	**-**	-
Fair value movements on interest rate swap	**(669)**	2,713	**(669)**	2,459
Interest payable on loan notes	**5,425**	2,943	**-**	-
Bank interest and other finance charges	**6,791**	8,835	**-**	-
Financing guarantee fees	**949**	1,429	**-**	-
Interest payable on index linked loans	**12,745**	12,500	**-**	-
Interest payable to shareholders	**5,598**	6,149	**-**	-
Interest payable on leases	**128**	110	**-**	-
Amortisation of the revaluation of liabilities	**(350)**	(928)	**-**	-
Indexation on index linked loans	**6,694**	10,444	**-**	-
Interest payable on group company loans	**-**	-	**8,936**	8,918
Other interest payable and similar charges	**241**	(92)	**-**	-
Amortisation of loan issue costs	**1,152**	1,003	**537**	415
Interest and related fees payable	**56,440**	68,499	**8,804**	11,792
Interest capitalised	**(2,694)**	(2,828)	**-**	-
	53,746	65,671	**8,804**	11,792

11. Taxation

11.1 Income tax recognised in income statement

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Current tax				
Current tax on profits for the year	**827**	-	**(641)**	(138)
Adjustments in respect of prior years	**(85)**	(56)	**138**	-
Foreign tax	**4**	4	**-**	-
Total current tax charge/(credit)	**746**	(52)	**(503)**	(138)
Deferred tax expenses				
Origination and reversal of timing differences	**4,622**	4,431	**127**	(467)
Adjustments in respect of prior years	**(775)**	(1,846)	**-**	-
Relating to impact of change in tax rate	**-**	11,944	**-**	(21)
Total deferred tax charge/(credit)	**3,847**	14,529	**127**	(488)
Tax charge/(credit) reported in the income statement	**4,593**	14,477	**(376)**	(626)

Notes to the financial statements
as at 31 March 2021

11. Taxation *(continued)*

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

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Profit/(loss) before taxation	**23,867**	16,557	**(1,511)**	(8,179)
Tax using the company's domestic rate of 19% (2020: 19%)	**4,535**	3,146	**(287)**	(1,554)
Expenses not deductible for tax purposes	**(200)**	225	**-**	-
Tax effect of income not taxable in determining taxable profit	**312**	(184)	**(1,513)**	(726)
Adjustments to current tax charge in respect of prior years	**(85)**	(56)	**138**	-
Adjustments to deferred tax charge in respect of prior years	**(775)**	(1,845)	**-**	-
Adjustments to deferred tax in respect of rate change	**-**	11,944	**-**	(21)
Fair value movements not subject to current tax	**-**	38	**-**	-
Other timing differences for which no DTA is recognised	**806**	1,209	**806**	1,209
Group relief losses surrendered at no cost	**-**	-	**480**	466
Total tax charge/(credit) reported in the income statement	**4,593**	14,477	**(376)**	(626)

Changes in tax rates and factors affecting the future tax charges

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.

11.2 Income tax recognised directly in equity

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Deferred tax				
Impact of deferred tax rate change	**-**	4,889	**-**	-

11.3 Income tax recognised in other comprehensive income

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Deferred tax				
Remeasurement of defined benefit obligation	**(2,844)**	927	**-**	-
Impact of rate change on pension scheme	**-**	124	**-**	-
	(2,844)	1,051	**-**	-

Notes to the financial statements
as at 31 March 2021

11. Taxation *(continued)*

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

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Deferred tax liabilities/(assets)	**166,689**	165,686	**(539)**	(666)

Group	Opening balance £000	Recognised in Profit and loss £000	Recognised in OCI £000	Recognised directly in equity £000	Closing balance £000
2021					
Deferred tax liabilities/(assets) in relation to:					
Property, plant and equipment	160,319	1,011	-	-	161,330
General provision – NI & incentive plan	(198)	169	-	-	(29)
Fair value swap	(666)	127	-	-	(539)
Remeasurement of defined benefit obligation	6,231	2,540	(2,844)	-	5,927
	165,686	**3,847**	**(2,844)**	**-**	**166,689**

Group	Opening balance £000	Recognised in Profit and loss £000	Recognised in OCI £000	Recognised directly in equity £000	Closing balance £000
2020					
Deferred tax liabilities/(assets) in relation to:					
Property, plant and equipment	142,273	1,519	-	-	143,792
Rate change on PPE	-	11,638	-	4,889	16,527
General provision – NI & incentive plan	(283)	85	-	-	(198)
Fair value swap	(580)	(86)	-	-	(666)
Remeasurement of defined benefit obligation	3,807	1,049	927	-	5,783
Rate change impact on defined benefit obligation	-	324	124	-	448
	145,217	14,529	1,051	4,889	165,686

Company	Opening balance £000	Recognised in Profit and loss £000	Closing balance £000
2021			
Deferred tax liabilities/(assets) in relation to:			
Fair value swap	**(666)**	**127**	**(539)**

Notes to the financial statements
as at 31 March 2021

11. Taxation *(continued)*

11.4 Deferred tax *(continued)*
Company

	Opening balance £000	Recognised in Profit and loss £000	Closing balance £000
2020			
Deferred tax liabilities/(assets) in relation to:			
Fair value swap	(178)	(488)	(666)

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 2021 was £166.7 million (2020: £165.6 million) for the group and £0.5 million (2020: £0.7 million) for the company.

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, allowing for any group relief arrangements within the HDF (UK) Holdings Ltd group of companies.

In the March 2021 Budget it was announced that legislation will be introduced in Finance Bill 2021 to increase the main rate of UK corporation tax from 19 per cent to 25 per cent, effective 1 April 2023. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 March 2021 continue to be measured at a rate of 19 per cent. If the amended tax rate had been used, we estimate that the deferred tax liability would have been £49.3 million higher.

The deferred tax on temporary differences as at 31 March 2021 have been calculated using 19 per cent, the substantively enacted rate for the periods during which the temporary differences are expected to unwind.

Timing differences
All temporary timing differences are recognised for deferred tax purposes at year end.

Some of the Group's interest is treated as non-deductible under UK transfer pricing legislation and is considered a permanent difference. Therefore, these are not considered for deferred tax recognition purposes.

12. 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**	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Profit/(loss) for the year from continued operation	**19,274**	2,080	**(1,1356)**	(7,553)
	2021 Number	2020 Number	**2021 Number**	2020 Number
Basic and diluted weighted average number of shares	**18,019,792**	18,019,792	**18,019,792**	18,019,792
Basic and diluted earnings/(loss) per share from continued operation	**106.96p**	11.54p	**(6.30p)**	(41.92p)

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
as at 31 March 2021

13. Intangible assets

Group	Computer software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 April 2020	27,245	206	27,451
Additions	**-**	**2,822**	**2,822**
Transfers	**1,771**	**(1,771)**	**-**
Disposal	**(1,231)**	**-**	**(1,231)**
Reclassifications to/(from) tangible assets	**(106)**	**-**	**(106)**
At 31 March 2021	**27,679**	**1,257**	**28,936**
Accumulated amortisation and impairment			
At 1 April 2020	(17,883)	-	(17,883)
Charge for the year	**(3,497)**	**-**	**(3,497)**
Disposal	**1,231**	**-**	**1,231**
At 31 March 2021	**(20,149)**	**-**	**(20,149)**
Net book amount at 31 March 2021	**7,530**	**1,257**	**8,787**
Cost			
At 1 April 2019	24,087	1,248	25,335
Additions	-	2,985	2,985
Transfers	1,129	(1,129)	-
Reclassifications	2,029	(2,898)	(869)
At 31 March 2020	27,245	206	27,451
Accumulated amortisation and impairment			
At 1 April 2019	(14,834)	-	(14,834)
Charge for the year	(3,049)	-	(3,049)
At 31 March 2020	(17,883)	-	(17,883)
Net book amount at 31 March 2020	9,362	206	9,568

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

Notes to the financial statements
as at 31 March 2021

14. Property, plant and equipment

Group	Land, wells, reservoirs and buildings £000	Mains £000	Plant, equipment and vehicles £000	Assets in the course of construction £000	Total £000
Deemed cost					
At 1 April 2020	**249,274**	**1,144,337**	**421,850**	**59,669**	**1,875,130**
Additions	**-**	**-**	**-**	**90,434**	**90,434**
Transfers	**12,030**	**42,871**	**13,971**	**(68,872)**	**-**
Reclassifications to/(from) intangible assets	**(181)**	**97**	**190**	**-**	**106**
Disposals	**(48)**	**(104)**	**(2,039)**	**-**	**(2,191)**
At 31 March 2021	**261,075**	**1,187,201**	**433,972**	**81,231**	**1,963,479**
Accumulated depreciation and impairment					
At 1 April 2020	**(25,179)**	**(106,895)**	**(134,211)**	**-**	**(266,285)**
Charge for the year	**(5,135)**	**(19,722)**	**(28,050)**	**-**	**(52,907)**
Eliminated on disposals	**8**	**50**	**1,272**	**-**	**1,330**
Impairment	**(2,288)**	**-**	**(65)**	**-**	**(2,353)**
At 31 March 2021	**(32,594)**	**(126,567)**	**(161,054)**	**-**	**(320,215)**
Net book amount at 31 March 2021	**228,481**	**1,060,634**	**272,918**	**81,231**	**1,643,264**
Assets under construction relate to the following categories	7,900	12,020	61,311	-	81,231
Deemed cost					
At 1 April 2019	242,154	1,094,883	394,701	42,693	1,774,431
Additions	1,363	-	-	100,122	101,485
Transfers	5,799	49,626	30,619	(86,044)	-
Reclassifications	-	-	(2,029)	2,898	869
Disposals	(42)	(172)	(1,441)	-	(1,655)
At 31 March 2020	249,274	1,144,337	421,850	59,669	1,875,130
Accumulated depreciation and impairment					
At 1 April 2019	(20,428)	(87,734)	(108,048)	-	(216,210)
Charge for the year	(4,753)	(19,264)	(27,405)	-	(51,422)
Eliminated on disposals	2	103	1,435	-	1,540
Impairment	-	-	(193)	-	(193)
At 31 March 2020	(25,179)	(106,895)	(134,211)	-	(266,285)
Net book amount at 31 March 2020	224,095	1,037,442	287,639	59,669	1,608,845
Assets under construction relate to the following categories	2,822	16,471	40,376	-	59,669

Notes to the financial statements
as at 31 March 2021

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

The net book value of owned and leased assets included above is as follows:

Group and company	**2021**	2020
	£000	£000
Property, plant and equipment owned	**1,631,312**	1,595,916
Right-of-use assets, excluding investment property	**11,952**	12,929
	1,643,264	1,608,845

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

	2021	2020
	£000	£000
Net book value		
Property	**7,753**	8,311
Plant and machinery	**4,199**	4,618
	11,952	12,929

Impairment losses recognised during the year

During the year, a significant series of sinkholes opened up underneath the service reservoirs at our site in Aylesford. These reservoirs hold a storage maximum of 20ML of treated water and were severely damaged and put out of action. The site needed extensive ground stabilisation before work could commence on restoring the reservoirs to operational use. At 31 March 2021 only 25 per cent of the original storage capacity had been returned to use. The remaining reservoirs require substantial reconstruction which will continue into 2021/22 and subsequent years.

The physical damage of an asset is noted in IAS 36 as one of the potential indicators of impairment. The company has therefore undertaken a review of the recoverable amount of the assets at Aylesford.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. It is considered that fair value less costs of disposal cannot be reliably ascertained for the damaged reservoirs as there is no ready market for such assets given the nature of the industry. Value in use is the present value of future cash flows expected to be derived from the asset or cash generating unit. However, as resilience within the water network has enabled the group to continue to supply the Aylesford area despite the loss of the reservoirs, the cash flows from the cash generating unit have been unaffected by the physical damage suggesting that there would be no impairment recorded. It is not considered that this would fairly reflect what has happened at Aylesford and an alternative approach has therefore been followed.

The write-off has been determined using the forecast rectification costs to derive an estimate of the net book value of the assets being replaced. This results in a write-off of £2.3 million being recorded in the year to 31 March 2021.

The write-off of “Land, wells, reservoirs and buildings” of £2.3 million is included in “Net operating costs” under the sub-heading “Asset expense/income”.

The group’s index linked loans and listed bonds are secured on certain assets of the group (see note 20).

The company does not hold any property, plant and equipment in the current or prior year.

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15. Investment properties

	2021	2020
	£000	£000
Valuation		
At 1 April	1,818	1,100
Revaluation of land at Henwood, Ashford	-	(200)
Disposal of land at Hermitage Lane, Maidstone	(918)	-
Revaluation of land at Hermitage Lane, Maidstone	-	918
At 31 March	**900**	**1,818**

The valuation of the land at Henwood in Ashford has been assessed on 8 June 2021 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 2021 valuations were made by Dalcour Maclaren on an open market value for existing use basis. This valuation, which resulted in no change to the fair value of the property, was adopted at 31 March 2021.

In March 2015 the group sold land at Hermitage Lane, Maidstone, Kent. The contract of sale contained an “overage payment” clause, entitling the group to additional proceeds in the event of certain criteria being met for which the payment date was 31 March 2020. Negotiations have now concluded resulting in the group receiving £0.9 million in June 2020.

16. Investment in subsidiaries

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

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

	£000
Cost and net book amount	
At 1 April 2020 and at 31 March 2021	**412,950**

Notes to the financial statements
as at 31 March 2021

17. Inventories

Group	**2021**	2020
	£000	£000
Consumables	**636**	639
Work in progress	**37**	50
	673	689

18. Trade and other receivables

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Financial asset receivables				
Trade receivables	**39,524**	39,751	**-**	-
Accrued income	**40,835**	39,018	**-**	-
Other receivables	**2,250**	1,805	**4**	4
Amounts due from subsidiary undertakings	**-**	-	**3,920**	3,374
	82,609	80,574	**3,924**	3,378
Non-financial asset receivables				
Prepayments and accrued income	**4,129**	3,891	**73**	19
Total trade and other receivables	**86,738**	84,465	**3,997**	3,397

At 31 March 2021 amounts owed to HDF by subsidiary undertakings relate to group relief which is payable on demand. A review of intercompany arrangements within the HDF group is due to be undertaken and the expectation is that this review will result in the amounts owed by subsidiary undertakings being settled or restructured by 31 March 2022. Accordingly, it is appropriate to continue to record these balances as current assets.

Trade receivables are sterling denominated and stated after provision for doubtful debts of £30.9 million (2020: £28.1 million). They are non-interest bearing and generally for immediate settlement. 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 debtors were as follows:

	2021	2020
	£000	£000
Balance brought forward	**28,085**	25,937
Charge for the year from continuing operation	**3,788**	4,198
Amounts utilised	**(975)**	(2,050)
At 31 March	**30,898**	28,085

At 31 March, the age of trade debtors that were past due but not impaired was as follows:

	Total	Current	<30 days	30-60 days	60-90 days	90-120 days	120-365 days	>365 days
	£000	£000	£000	£000	£000	£000	£000	£000
2021	**39,524**	**7,872**	**3,773**	**2,280**	**1,548**	**1,410**	**7,953**	**14,688**
2020	39,751	9,501	4,297	2,500	1,482	1,697	8,911	11,363

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as at 31 March 2021

19. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 March:

	Group		Company	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Cash at bank and in hand	**43,439**	15,183	**-**	-
Short term bank deposits	**13,559**	14,952	**13,220**	14,687
	56,998	30,135	**13,220**	14,687

Included in the group cash at bank and in hand balance at 31 March 2021 was £38.8 million (2020: £12.0 million) held on an on demand deposit account.

At 31 March 2021, £0.8 million (2020: £0.4 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 10).

20. Non-current financial liabilities

Group		**2021**	2020
		£000	£000
Loans and borrowings	(i)	**1,280,122**	1,270,559
Trade and other payables	(ii)	**4,623**	4,997
Derivative financial instruments	(iii)	**2,835**	3,505
		1,287,580	1,279,261

		2021	2020
		£000	£000
(i) Loans and borrowings			
Irredeemable debenture stock	(a)	**948**	941
Listed bonds	(b)	**344,328**	342,142
Index linked loans	(c)	**399,704**	392,839
Other term loans and creditors	(d)	**148,538**	148,000
Amounts due to shareholders	(e)	**90,395**	90,395
Variable rate loan	(f)	**118,725**	118,493
Fixed rate loan	(g)	**173,891**	173,839
Lease liability	(h)	**3,593**	3.910
		1,280,122	1,270,559

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

	2021 £000	2020 £000
(a) Irredeemable debenture stock		
3 % perpetual stock	**26**	25
3 ½ % perpetual stock	**364**	362
4 % perpetual stock	**176**	175
5 % perpetual stock	**342**	341
5 ½ % perpetual stock	**2**	1
6 % perpetual stock	**38**	37
	948	941

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 (2020: £296 million), with effective terms, as follows:

- £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 at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the group).

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

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

	Loan due 2029 £000	Loan due 2041 £000	Total £000
2021			
Original loan consideration	166,000	130,000	296,000
Unamortised revaluations	2,859	-	2,859
	168,859	130,000	298,859
Indexation on bonds	-	47,369	47,369
Less: unamortised issue costs	(886)	(1,014)	(1,900)
Listed bonds	**167,973**	**176,355**	**344,328**
2020			
Original loan consideration	166,000	130,000	296,000
Unamortised revaluations	3,216	-	3,216
	169,216	130,000	299,216
Indexation on bonds	-	44,986	44,986
Less: unamortised issue costs	(996)	(1,064)	(2,060)
Listed bonds	168,220	173,922	342,142

Notes to the financial statements
as at 31 March 2021

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

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

- £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 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 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
2021				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	92,159	19,064	21,869	133,092
Less: unamortised issue costs	(952)	(184)	(1,252)	(2,388)
Loans due	**226,207**	**52,880**	**120,617**	**399,704**
2020				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	88,530	18,216	19,652	126,398
Less: unamortised issue costs	(1,036)	(196)	(1,328)	(2,559)
Loans due	222,494	52,020	118,324	392,839

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

***(d)* Other term loans and creditors**
The group's other loans and creditors with effective terms, having taken account of a related interest rate swap comprise a loan facility of £150 million. In December 2018, £96 million was draw down from the facility and a further £54 million was drawn down in September 2019

The facility has been provided by National Westminster Bank plc, ING Bank N.V., Crédit Agricole Corporate and Investment Bank and Canadian Imperial Bank of Commerce, at the rate of 2.5% plus LIBOR maturing on 20 December 2023.

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 2021 were £1.5 million (2020: £2.0 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.

Notes to the financial statements
as at 31 March 2021

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

***(e)* Amounts due to shareholders**
The group has loans due to its shareholders totalling £90.4 million as follows:

- unsecured loan notes of £45.2 million (2020: £45.2 million) from UTA International Holdings 1 Pty Limited;
- unsecured loan notes of £22.6 million (2020: £22.6 million) from NatWest Pensions Trustees Limited as Trustee for the NatWest Group Pension Fund – Group Fund Section;
- unsecured loan notes of £11.3 million (2020: £11.3 million) from Régime de Rentes du Mouvement Desjardins;
- unsecured loan notes of £5.6 million (2020: £5.6 million) from Desjardins Financial Security Life Assurance Company;
- unsecured loan notes of £5.6 million (2020: £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).

(f) Variable rate loan

	2021	2020
	£000	£000
Original loan amount	**120,000**	120,000
Less: unamortised issue costs	**(1,275)**	(1,507)
	118,725	118,493

In December 2018 the group entered into a loan facility arrangement for £120 million at a variable rate of LIBOR plus 1.2 per cent which matures on 20 December 2025. This loan was drawn down in September 2019.

(g) Fixed rate loan notes

	2021	2020
	£000	£000
Original loan amount	**175,000**	175,000
Less: unamortised issue costs	**(1,109)**	(1,161)
	173,891	173,839

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

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

(h) Lease liability over one year

	2021	2020
	£000	£000
Balance as at 1 April	**3,910**	2,876
Capital addition	**-**	1,363
Lease liability reclassified to current liabilities	**(317)**	(329)
	3,593	3,910

(ii) Trade and other payables
Trade and other payables comprise deposits payable to developers of £4.6 million (2020: £5.0 million).

Notes to the financial statements
as at 31 March 2021

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

(iii) Derivative financial instruments

	2021 **£000**	2020 £000
Derivative financial instruments	**2,835**	3,505

Company	**2021** **£000**	2020 £000
Loans and borrowings		
Amounts due to group undertakings	**164,842**	164,842
Issue costs on loans due to shareholders	**(1,463)**	(2,000)
	163,379	162,842

21. Group financial instruments

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

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

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

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

Interest rate and cash flow risk
The group finances its activities through a mixture of cash generated from operations, irredeemable debentures and other fixed rate long-term loans, variable rate loans and long-term index linked loans. Debentures are long-term fixed rate loans. 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 by using short term fixed rate drawdowns under a committed facility. During the year to 31 March 2021 there was a net inflow of £50 million from the committed facility (2020: net outflow of £25 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.

Notes to the financial statements
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21. Group financial instruments *(continued)*

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 18). An estimate for the provision for doubtful debts is calculated by management based on the application of expected recovery rates to an aged debt profile. We have no significant concentration of credit risk with exposure spread over a large number of domestic customers and a number of retail customers. For our retail customers, we have secured adequate collateral under the Market Codes to mitigate any risk.

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

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

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

	Increase/ decrease in basis points	Effect on profit before tax £000	Effect on shareholders' equity £000
2021			
Sterling	+300	25,182	20,146
Sterling	+100	8,394	6,715
2020			
Sterling	+300	23,682	18,946
Sterling	-100	7,894	6,315

Fair values of financial assets and financial liabilities
Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. In the opinion of the directors, the fair values of the financial assets and liabilities of the group (apart from the specific items shown in the fair value table below) are not materially different from the book values. The fair value of the group's long-term borrowings have been estimated based on the calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates.

Notes to the financial statements
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21. Group financial instruments *(continued)*

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.

	Book Value 2021 £000	**Fair Value 2021 £000**	Book Value 2020 £000	Fair Value 2020 £000
Loans and receivables				
Trade receivables other receivables	**82,609**	**82,609**	80,574	80,574
Cash and short term investments	**56,998**	**56,998**	30,135	30,135
	139,607	**139,607**	110,709	110,709
Financial liabilities at amortised cost				
Trade and other payables	**41,499**	**40,978**	52,802	52,156
Irredeemable debentures	**948**	**861**	941	842
Listed bonds	**344,328**	**430,369**	342,142	430,369
Index linked loans	**399,704**	**503,851**	392,839	504,074
Fixed rate loan notes	**173,891**	**181,747**	173,839	179,166
Variable rate loan	**118,725**	**117,195**	118,493	115,003
Lease liability	**3,910**	**3,910**	4,239	4,239
Committed loan facility	**80,000**	**80,000**	30,000	30,000
Other long-term loans	**238,933**	**268,419**	238,395	272,266
Trade and other payables over one year	**4,623**	**4,623**	4,997	4,997
	1,406,561	**1,631,953**	1,358,687	1,593,112
Financial liabilities at fair value through income statement				
Interest rate swaps	**2,835**	**2,835**	3,505	3,505

The net book value is considered to equate to the fair value for trade 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 index-linked loans have been calculated by discounted cash flow method, taking into account future capital and interest payments based on estimated interest and inflation rates appropriate to the loans. These amounts have been similarly discounted for credit risk and inflation using appropriate discount rates in effect at the balance sheet dates. The fair values of listed bonds are based on market prices. The book value of the interest rate swaps have been adjusted to reflect their fair value.

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
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21. Group financial instruments *(continued)*

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

31 March 2021	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial liabilities at fair value through income statement				
Interest rate swap	**2,835**	**-**	**2,835**	**-**
31 March 2020				
Financial liabilities at fair value through income statement				
Interest rate swap	**3,505**	**-**	**3,505**	**-**

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

31 March 2021	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	**(40,978)**	-	(40,978)	-
Irredeemable debentures	**(861)**	-	(861)	-
Listed bonds	**(430,369)**	(430,369)	-	-
Index linked loans	**(503,851)**	-	(503,851)	-
Fixed rate loan notes	**(181,747)**	-	(181,747)	-
Variable rate loan	**(117,195)**	-	(117,195)	-
Lease liability	**(3,910)**	-	(3,910)	-
Committed loan facility	**(80,000)**	-	(80,000)	-
Other long term loans	**(268,419)**	-	(268,419)	-
Trade and other payables over one year	**(4,623)**	-	(4,623)	-
Total fair value of financial liabilities at amortised cost	**(1,631,953)**	**(430,369)**	**(1,201,584)**	**-**

31 March 2020	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	(52,156)	-	(52,156)	-
Irredeemable debentures	(842)	-	(842)	-
Listed bonds	(430,369)	(430,369)	-	-
Index linked loans	(504,074)	-	(504,074)	-
Fixed rate loan notes	(179,166)	-	(179,166)	-
Variable rate loan	(115,003)	-	(115,003)	-
Lease liability	(4,239)	-	(4,239)	-
Committed loan facility	(30,000)	-	(30,000)	-
Other long term loans	(272,266)	-	(272,266)	-
Trade and other payables over one year	(4,997)	-	(4,997)	-
Total fair value of financial liabilities at amortised cost	(1,593,112)	(430,369)	(1,162,743)	-

During the reporting period ended 31 March 2021, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Notes to the financial statements
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21. Group financial instruments *(continued)*

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

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

Notes to the financial statements
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21. Group financial instruments *(continued)*

Year ended 31 March 2020	Within 1 year £000	1 – 2 Years £000	2 – 5 years £000	More than 5 years £000	Total £000
Fixed rate					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	125	1,045	1,254
Listed bond	9,268	9,268	27,805	212,342	258,683
Loan note	2,713	5,425	16,275	245,683	270,096
Other long-term financial liabilities	5,594	5,594	161,187	-	172,375
Total fixed rate financial liabilities	17,617	20,329	205,392	459,070	702,408
Floating rate					
Floating rate financial assets:					
Cash	30,135	-	-	-	30,135
Short-term financial assets	80,574	-	-	-	80,574
Total floating rate financial assets	110,709	-	-	-	110,709
Floating rate financial liabilities:					
Short-term financial liabilities	52,802	-	-	-	52,802
Listed bond	4,414	4,519	14,189	234,851	257,973
Index linked loans	12,659	12,926	40,382	659,203	725,170
Bank loan	31,222	2,353	7,059	121,765	162,399
Lease liability	459	447	1,272	2,921	5,099
Other long-term financial liabilities	6,137	6,137	18,410	102,668	133,352
Trade and other payables over 1 year	-	4,997	-	-	4,997
Total floating rate financial liabilities	107,693	31,379	81,312	1,121,408	1,341,792

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

Borrowing facilities
The group has committed borrowing facilities of £148.0 million (2020: £147.0 million), of which £80 million (2020: £30 million) was drawn down. Any drawdowns under these facilities are repayable in less than one year.

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

	2021 £000	2020 £000
Financial assets, loans and receivables (see note 9)	**889**	989
Financial liabilities at amortised cost (see note 10)	**(56,307)**	(63,252)
Financial liabilities at fair value through profit or loss (see note 10)	**669**	(5,172)
Financial assets due to impairment (see note 18)	**(3,788)**	(4,198)

Notes to the financial statements
as at 31 March 2021

22. Current liabilities

Group		**2021 £000**	2020 £000
Loans and borrowings	(i)	**80,317**	30,329
Trade and other payables	(ii)	**78,619**	88,673
		158,936	119,002

(i) Loans and borrowings	**2021 £000**	2020 £000
Bank loan	**80,000**	30,000
Lease liabilities	**317**	329
Loans and borrowings	**80,317**	30,329

(ii) Trade and other payables	**2021 £000**	2020 £000
Financial liabilities payable		
Trade payables	**11,450**	12,899
Other payables	**2,333**	4,607
Accruals	**27,716**	35,296
	41,499	52,802
Non-financial liabilities payable		
Other taxes and social security	**1,921**	1,015
Payments received in advance	**35,199**	34,856
	37,120	35,871
	78,619	88,673

Company	**2021 £000**	2020 £000
Financial liability payables		
Amounts due to group undertakings	**5,216**	5,789
Accruals	**246**	69
	5,462	5,858

As at 31 March 2021 and 2020, amounts due to subsidiary undertakings represent unsecured non-interest bearing balances relating to the surrender of group tax relief and interest due on debt with the subsidiary company.

Notes to the financial statements
as at 31 March 2021

23. Provisions

Group	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2020	**1,655**	**2,802**	**-**	**4,457**
Additional provisions	**1,306**	**3,064**	**3,527**	**7,897**
Amounts utilised	**(930)**	**(3,440)**	**-**	**(4,370)**
As at 31 March 2021	**2,031**	**2,426**	**3,527**	**7,984**
As at 1 April 2019	2,144	1,828	-	3,972
Additional provisions	824	4,632	-	5,456
Amounts utilised	(1,313)	(3,658)	-	(4,971)
As at 31 March 2020	1,655	2,802	-	4,457

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

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

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

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

24. Deferred income

Group	**2021 £000**	2020 £000
As at 1 April	**8,856**	10,368
Received in the year	**6,338**	7,048
Released during the year	**(6,233)**	(8,560)
As at 31 March	**8,961**	8,856
Non-current	**3,625**	3,438
Current	**5,336**	5,418
	8,961	8,856

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
as at 31 March 2021

25. Issued Share Capital

	2021	2020
	£000	£000
Called up, allotted and fully paid		
13,514,844 A class ordinary shares of £0.125 (2020: 13,514,844)	**1,688**	1,688
2,252,474 B class ordinary shares of £0.125 (2020: 2,252,474)	**282**	282
2,252,474 C class ordinary shares of £0.125 (2020: 2,252,474)	**282**	282
241,831,558 non-voting redeemable preference shares of £1 (2020: 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
as at 31 March 2021

26. Movements in liabilities arising from financing activities

Group non-current loans and borrowings	Irredeemable debenture stock £000	Leases £000	Shareholder loans £000	Bank loans £000	Listed bonds £000	Loan Notes £000	Indexed linked loans £000	Non-current loans and borrowing £000
Balance 1 April 2019	935	2,876	90,395	93,629	338,538	-	382,226	908,599
Changes from cash flow activities:								
New fixed rate loan notes	-	-	-	-	-	175,000	-	175,000
New variable rate loan	-	-	-	120,000	-	-	-	120,000
New bank loan	-	-	-	54,000	-	-	-	54,000
Loan repayment	(1)	-	-	-	-	-	-	(1)
Issue costs on new loans	-	-	-	(168)	-	-	-	(168)
Changes from other financing activities:								
Right of use liability	-	1,363	-	-	-	-	-	1,363
Indexation on index linked instruments	-		-	-	4,378		10,443	14,821
Lease liability reclassified to current liabilities	-	(329)	-	-	-	-	-	(329)
Reclassification of issue costs from debtors	-	-	-	(1,502)	-	(1,189)	-	(2,691)
Amortisation of issue costs	-		-	534	161	28	170	893
Amortisation of revaluation reserves	7		-	-	(935)	-	-	(928)
Balance at 31 March 2020	941	3,910	90,395	266,493	342,142	173,839	392,839	1,270,559
Balance 1 April 2020	941	3,910	90,395	266,493	342,142	173,839	392,839	1,270,559
Changes from other financing activities:								
Issue costs on new loan	-	-	-	-	-	-	-	-
Right of use	-	-	-	-	-	-	-	-
Indexation on index linked instruments	-		-	-	2,382	-	6,695	9,077
Lease liability reclassified to current liabilities	-	(317)	-	-	-	-	-	(317)
Amortisation of issue costs	-	-	-	770	161	52	170	1,153
Amortisation of revaluation reserves	7	-	-	-	(357)	-	-	(350)
Balance at 31 March 2021	948	3,593	90,395	267,263	344,328	173,891	399,704	1,280,122

Notes to the financial statements
as at 31 March 2021

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

Group current loans and borrowings	**2021 £000**	2020 £000
Balance 1 April	**30,329**	255,690
Changes from financing cash flows:		
New loans received during the period	**50,000**	-
Loan repayment	**-**	(200,000)
Loan Repaid	**-**	(25,000)
Lease liability repaid	**(329)**	(222)
Changes from other financing activities:		
Amortisation of issue cost	**-**	110
Amortisation of revaluation reserves	**-**	(578)
Lease liability reclassified	**317**	329
Balance 31 March	**80,317**	30,329

Group derivative financial instruments	**2021 £000**	2020 £000
Balance 1 April	**3,505**	109,882
Changes from financing cash flows:		
Payment of loan on maturity	**-**	(111,549)
Changes from other financing activities:		
Movement in fair value of interest rate swap	**(670)**	5,172
Balance 31 March	**2,835**	3,505

27. Commitments and contingent liabilities

Capital commitments

Group and company	**2021 £000**	2020 £000
Contracts placed for future capital expenditure not provided in the financial statements	**47,119**	35,169

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

Contingent liabilities

Through the ordinary course of operations, the company is party to various contract disputes. The directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the company's results of operations, cash flows or financial position.

28. Obligations under operating leases

Group and company	**2021 £000**	2020 £000
Minimum lease payments under operating leases recognised as an expense in the year (see note 6)	**271**	256

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

Notes to the financial statements
as at 31 March 2021

29. Retirement benefit schemes

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

The scheme was originally contracted-out under the Guaranteed Minimum Pension Test. From 6 April 1997, after taking independent actuarial advice, the group decided to contract-out via the Protected Rights Test. With effect from 6 April 2012, the Government removed the option for schemes to contract-out via a Protected Rights basis. From 6 April 2012, the group decided to contract-out via a salary related basis. The final salary defined benefit section of the scheme was closed to new entrants with effect from July 2002.

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

The group contribution rate for the defined benefit pension scheme was nil (2020: nil) of pensionable remuneration during the year plus an annual contribution of £4.0 million (2020: £3.9 million). The group’s future annual contribution is expected to be £4.0 million.

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

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

The group contribution towards the defined benefit pension scheme during the year was nil (2020: nil) of pensionable remuneration plus £1.4 million (2020: £1.4 million) in respect of the deficit as at 31 March 2020 to the scheme during the year. The group’s future annual contribution is expected to be £1.4 million.

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

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

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

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

Notes to the financial statements
as at 31 March 2021

29. Retirement benefit schemes *(continued)*

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

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

This additional cost is required to be recognised through the income statement as a past service cost. We have determined an estimated cost of the impact of this ruling of £6,000 for the SEWPS and £3,000 for the MKGPS based on high level scheme summary data.

The indexation of pension increases in payment in the MKGPS changed from RPI to CPI during the period. A Deed of Record was signed to formalise the change of inflation index from RPI to CPI, with members being written to and notified of the change at the end of April 2020. The first pension increase that will be determined with reference to CPI instead of RPI will be awarded on 1 April 2021. This event has been treated at a plan amendment as at 30 April 2020.

The impact of this plan amendment has been recognised as a past service credit of £7.8 million in the income statement, based on market conditions at 30 April 2020.

The net finance cost for the year allows for remeasurement at 30 April 2020 based on a discount rate of 1.65 per cent, CPI inflation of 1.75 per cent (giving a resulting liability value at 30 April 2020 of £105.1 million) and an asset value as at 30 April 2020 of £131.2 million.

We have received statistics for deaths in the SEWPS and MKGPS over the past three years to 31 March 2021 from Hymans Robertson LLP, the Schemes' administrator. This did not reveal clear evidence to suggest mortality was significantly higher in the Schemes as a result of Covid-19. Therefore, we have not made any explicit adjustment to the mortality assumptions to allow for the impact of the pandemic.

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

	2021 £000	2020 £000
Defined contribution scheme	**2,481**	2,385

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2021 %	SEW Pensions 2020 %	**MKW Pensions 2021 %**	MKW Pensions 2020 %
Main assumptions:				
Rate of increase in pensions in payment				
RPI – Linked	**-**	2.50	**-**	2.50
CPI – Linked	**2.55**	1.75	**2.55**	1.75
Rate of increase in deferred pensions	**2.55**	1.75	**2.55**	1.75
Discount rate	**2.05**	2.30	**2.05**	2.30
RPI assumption	**3.25**	2.50	**3.25**	2.50
CPI assumption	**2.55**	1.75	**2.55**	1.75

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

	SEW Pensions 2021 Years	SEW Pensions 2020 Years	**MKW Pensions 2021 Years**	MKW Pensions 2020 Years
Life expectancies from age 65				
Currently aged 65 – male	**21.6**	21.7	**21.6**	21.7
Currently aged 65 – female	**24.0**	23.7	**24.0**	23.7
Currently aged 45 – male	**24.0**	22.9	**24.0**	22.9
Currently aged 45 – female	**26.3**	25.8	**26.3**	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 £000	(Decrease)/ increase %
0.1% decrease to the discount rate	4,000	1.5
0.1% increase to inflation	3,500	1.3
One year increase in life expectancy	12,500	4.6

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

	SEW Pensions £000	MKW Pensions £000	Total £000
2021			
Equities	32,527	17,406	49,933
Corporate bonds	86,115	63,555	149,670
Government bonds	47,547	37,323	84,870
Cash	5,881	2,983	8,864
Insured persons	5,634	5,246	10,880
Total fair value of assets	177,704	126,513	304,217
Present value of funded obligations	(166,991)	(102,858)	(269,849)
Surplus in the schemes	**10,713**	**23,655**	**34,368**

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

Notes to the financial statements
as at 31 March 2021

29. Retirement benefit schemes *(continued)*

	SEW Pensions £000	MKW Pensions £000	Total £000
2020			
Equities	29,862	14,221	44,083
Corporate bonds	73,983	55,604	129,587
Government bonds	50,221	42,066	92,287
Cash	10,088	6,758	16,846
Insured persons	5,044	4,761	9,805
Total fair value of assets	169,198	123,410	292,608
Present value of funded obligations	(154,121)	(102,575)	(256,696)
Surplus in the schemes	15,077	20,835	35,912

	£000
Unfunded obligation 2020	
Present value of unfunded obligations	(3,115)

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

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

	SEW Pensions £000	MKW Pensions £000	Unfunded £000	Total £000
2021				
Net interest on defined asset	(388)	(441)	68	(761)
Past service costs	6	(7,802)	-	(7,796)
Administrative expenses	495	406	-	901
Total amount charged to income statement	**113**	**(7,837)**	**68**	**(7,656)**
2020				
Net interest on defined asset	(311)	(399)	77	(633)
Past service costs	-	-	-	-
Administrative expenses	411	299	-	710
Total amount charged to income statement	100	(100)	77	77

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

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

Notes to the financial statements
as at 31 March 2021

29. Retirement benefit schemes *(continued)*

Analysis of amounts recognised in the statement of comprehensive income:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2021				
Return on schemes' assets excluding interest income	8,304	4,981	-	13,285
Actuarial losses due to changes in financial assumptions	(20,454)	(14,906)	(240)	(35,600)
Actuarial losses due to changes in demographic assumptions	(336)	(323)	(34)	(693)
Experience gain on obligation	4,206	3,835	-	8,041
Actuarial (losses)/gains recognised in the statement of comprehensive income	**(8,280)**	**(6,413)**	**(274)**	**(14,967)**
Cumulative actuarial losses	**(13,599)**	**(15,599)**	**(3,593)**	**(32,791)**
2020				
Return on schemes' assets excluding interest income	(2,692)	211	-	(2,481)
Actuarial gains due to changes in financial assumptions	4,834	5,019	62	9,915
Actuarial losses due to changes in demographic assumptions	(1,347)	(981)	(33)	(2,361)
Experience loss on obligation	-	-	(194)	(194)
Actuarial gains/(losses) recognised in the statement of comprehensive income	795	4,249	(165)	4,879
Cumulative actuarial losses	(5,319)	(9,186)	(3,319)	(17,824)

Reconciliation of defined benefit obligations:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2021				
Opening defined benefit obligations	154,121	102,575	3,115	259,811
Interest cost	3,462	1,748	68	5,278
Actuarial (gains)/losses	16,584	11,394	274	28,252
Past service cost	6	(7,802)	-	(7,796)
Benefits paid	(7,182)	(5,057)	(285)	(12,524)
Closing defined benefit obligations	**166,991**	**102,858**	**3,172**	**273,021**
2020				
Opening defined benefit obligations	161,451	109,496	3,154	274,101
Interest cost	4,017	2,721	77	6,815
Actuarial losses/(gains)	(3,487)	(4,038)	165	(7,360)
Past service cost	-	-	-	-
Benefits paid	(7,860)	(5,604)	(281)	(13,745)
Closing defined benefit obligations	154,121	102,575	3,115	259,811

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

Reconciliation of fair value of plans' assets:

	SEW Pensions £000	MKW Pensions £000	Total £000
2021			
Opening fair values of schemes' assets	169,198	123,410	292,608
Interest income on assets	3,850	2,189	6,039
Return on scheme assets excluding interest income	8,304	4,981	13,285
Contributions by employer	4,029	1,396	5,425
Administrative expenses	(495)	(406)	(901)
Benefits paid	(7,182)	(5,057)	(12,239)
Closing fair values of schemes' assets	**177,704**	**126,513**	**304,217**
2020			
Opening fair values of schemes' assets	171,894	124,617	296,511
Interest income on assets	4,328	3,120	7,448
Return on scheme assets excluding interest income	(2,692)	211	(2,481)
Contributions by employer	3,939	1,365	5,304
Administrative expenses	(411)	(299)	(710)
Benefits paid	(7,860)	(5,604)	(13,464)
Closing fair values of schemes' assets	169,198	123,410	292,608

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.

30. Subsequent events

Innovation Fund payments/awards
In April 2021, Ofwat announced the results of the first Innovation in Water Challenge competition. There are 11 successful projects that will receive £2.2 million in funding from the Innovation Fund, including one that is being led by SEW.

South East Water's project is titled Catchment LIFE and will build bespoke software that volunteers and experts can use, showing the impacts of habitat degradation on wildlife and ecological communities.

The project will receive £178,000 in funding from the Innovation Fund in the 2021/22 financial year. Additionally, SEW's contributions from the collections made for the Innovation Fund to the other 10 successful projects will total £43,000 in 2021/22.

Committed credit facility re-financing and replacement
The group will be re-financing the outstanding balance on its existing revolving committed credit facility in 2021. The current facility is for a total of £90 million that can be drawn down by South East Water as required to finance its working capital and capital programme expenditure. This facility is due to expire in June 2022.

The amount drawn down at the balance sheet date was £80 million, which included £40 million taken as a safeguard against any potential liquidity issues the group may have experienced during the Covid-19 pandemic period. In July 2021, £30 million of the facility was repaid by South East Water .

The existing committed facility will be replaced with a new facility for £125 million and a term of five years.

Notes to the financial statements
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31. Related party transactions

The group has loans from each of its shareholders totaling £90.4 million (2020: £90.4 million) as detailed in notes 20 and 21. Interest costs of £5.6 million (2020: £6.1 million) are disclosed in note 10.

The company has received unsecured loans totalling £123.5 million (2020: £123.5 million) from its subsidiary, Hastings Water (Luxembourg) S.a.r.l and an unsecured loan of £41.6 million (2020: £41.6 million) from its subsidiary Swan Group. These loans are disclosed in note 20. Interest of £7.5 million (2020: £7.2 million) was paid to Hastings Water (Luxembourg) S.a.r.l. and of £1.4 million (2020: £1.7 million) to Swan Group.

32. 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 incorporated in Australia. NWPF is incorporated in the United Kingdom, RRMD, DFSL and Certas are incorporated 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.