Interim Financial Report

Condensed group financial statements for the six months ended 30 September 2023

Pure know h2ow

Our 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.

Our Business*

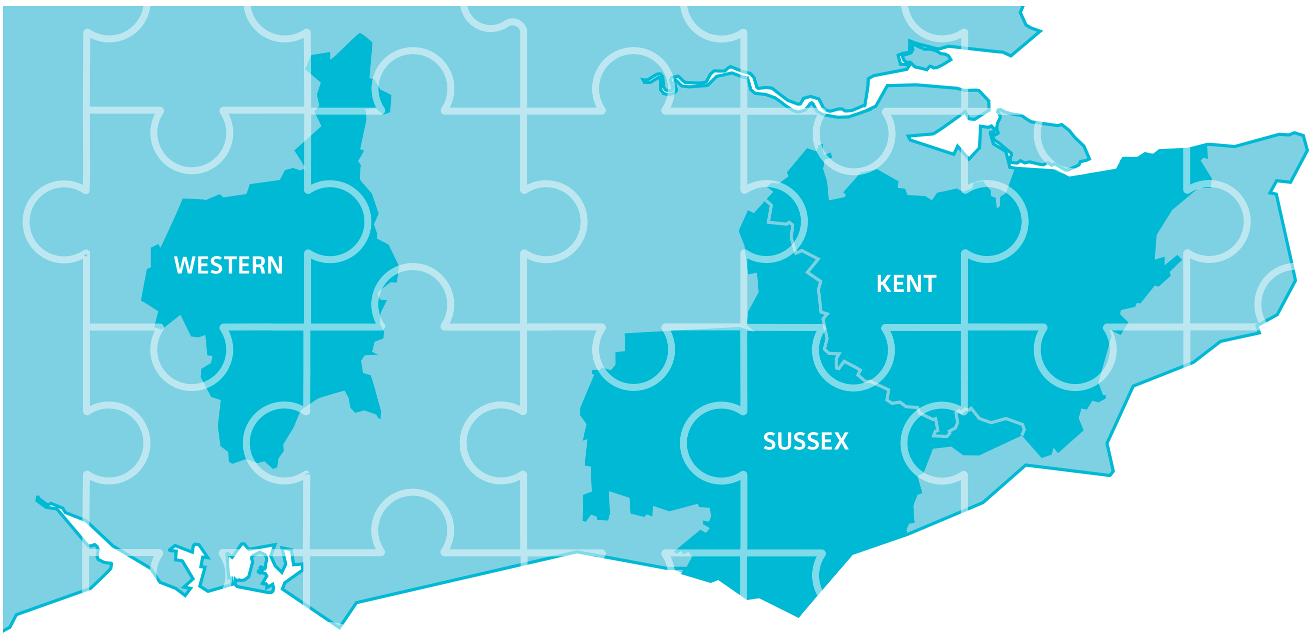
We supply top quality drinking water to 2.3 million customers in the south east of England. Through our network of 9,000 miles of pipes, we deliver around 542 million litres of water every day. The skill and expertise of our colleagues ensures our customers' water meets the highest of standards.

Our Area

We operate our supply system across three operational regions:

South East Water is made up of three operating areas – the Western region, Sussex and Kent.

Each of our regions has specific characteristics determined by different river catchments, geology, topography, ecology, land use and importantly history. The investment needed to maintain a resilient supply system will therefore be different in each region.



*The values quoted are for the year ended 31 March 2023

Our Vision

Our vision is to be the water company people want to be supplied by and want to work for. Everything we do is underpinned by technical excellence.

We supply around 542 million litres of water a day

that's how much water we supply to around 2.3 million people

9,000 miles of underground pipes

that's how we get fresh drinking water direct to your tap

1,061 employees

that's how we make sure your water supply runs 24 hours a day, 365 days a year

206.6 kgCO_2e/Ml

that's the level of Greenhouse gas emissions we emit across the company, to supply water to your tap

Find out more
southeastwater.co.uk/businessplan

Contents

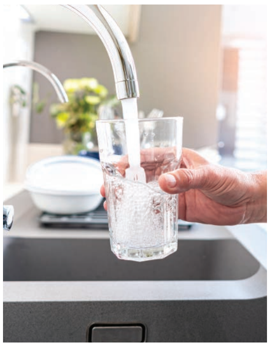
Online interim report
Read our Condensed Group Financial Statements for the six months ended 30 September 2023 online:
southeastwater.co.uk/financialreports

Our priorities at a glance

Supplier of choice supporting customers and society

We will provide a top quality water supply and efficient service consistently to all our customers.

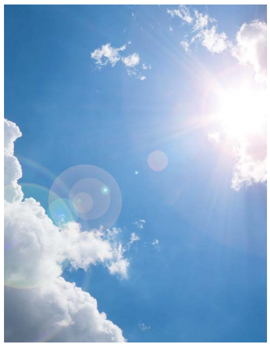
Read more on page 14



Low carbon sustainable business

We will reduce our own direct carbon emissions to achieve operational net zero by 2030.

Read more on page 20



Flexible, resilient infrastructure and service

We will regularly enhance resilience over the period to 2050 in step with the increasing challenges.

Read more on page 16

Securing the future of water

We will ensure that there is enough water for all by helping customers to use less, tackling leakage and increasing resources where needed.

Read more on page 21

Thriving environment

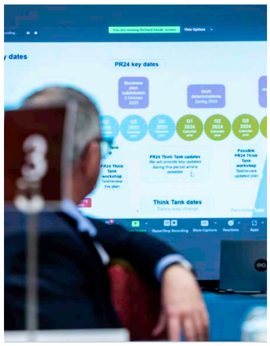
We will be recognised as an expert in science-based catchment and environmental management for delivering environmental value using the latest insight and knowledge.

Read more on page 18

Future-ready business

We will ensure that we are ready to face future challenges by using innovation and best practice to meet future water needs.

Read more on page 22



Find out more
southeastwater.co.uk/businessplan

Our performance

FINANCIAL HIGHLIGHTS

Revenue
£147.1 million
Increase of 6.7 per cent on last year

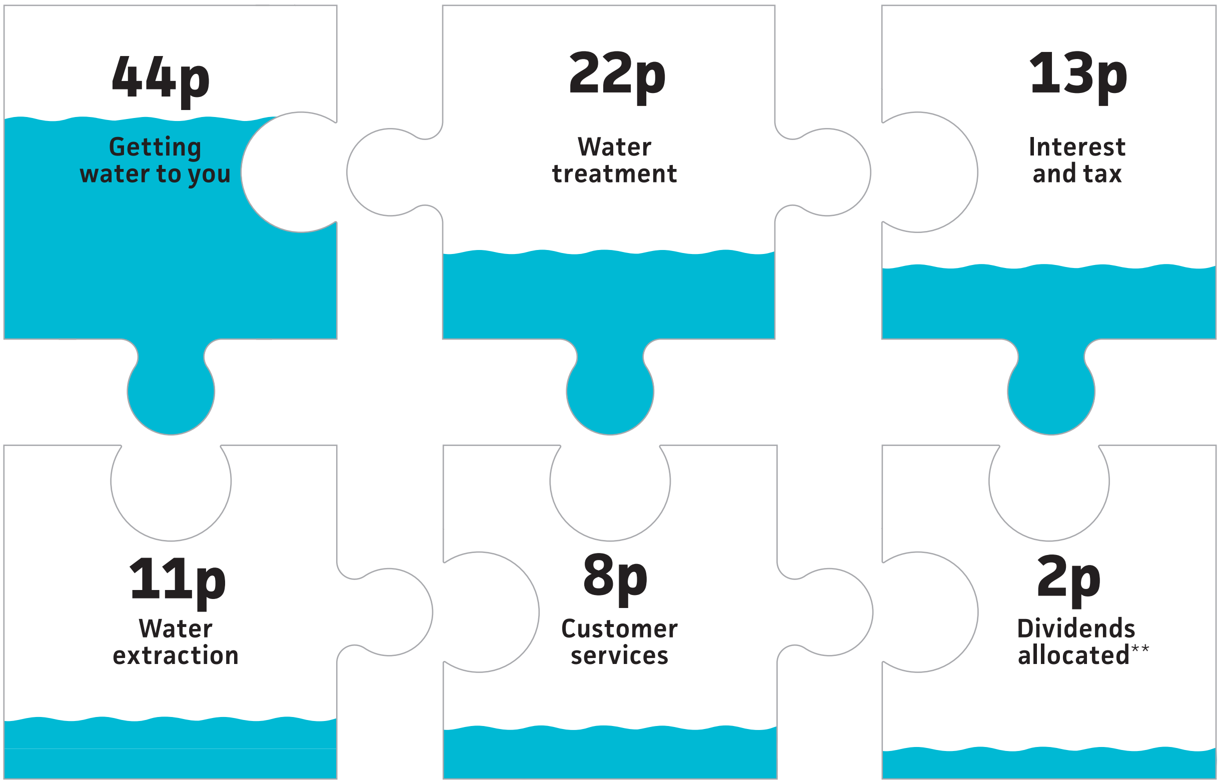
Loss before tax
£18.1 million
Last year loss before tax of £12.7 million

Capital expenditure
£61.9 million
Increase of 41 per cent on last year

Cash generated from operating activities
£44.8 million
Decrease of 17 per cent on last year

How we invest in your water*

Where each £1 of your bill is spent by the appointed water business



* The values quoted are for the year ended 31 March 2023
** Dividends allocated to the appointed business

Chair and CEO joint report

We are pleased to present our interim report for the six months ended 30 September 2023. Our interim report and our company's performance for this period is set against the backdrop of another challenging, dry, hot early summer. We would like to start by saying thank you to everyone involved in our business and supply chain who has continued to go above and beyond throughout the summer to maintain supplies in challenging conditions. Despite these challenges and the regrettable localised interruptions we saw in June, we are pleased to be able to report continued progress and good performance in other areas such as priority services, water quality and unplanned outages.

Business plan submission

We have just submitted our next and most important Business Plan ever to our regulator, Ofwat, which sets out how we are going to provide the public water service in the next five years. The plan includes a proposal to invest £1.9 billion into our network to deliver a reliable and high-quality service for our customers, whilst ensuring that the environment thrives.

This business plan is the most important in our long history because we recognise that our service has not been of the high standard our customers and stakeholders expect of us and we expect of ourselves. Our operational capacity and resilience has been under severe pressure from the long-term impact of the Covid pandemic and accelerated impact of climate change. Included in our plan is a significant investment into the capacity of our network to improve customer service, reduce customer supply interruptions and strengthen network resilience, all areas our customers tell us are important to them.

This business plan demonstrates a vital step forward for us by developing new water sources such as a reservoir at Broad Oak near Canterbury, increasing clean drinking water storage capacity, improving the interconnectivity of the network, implementing smart meters, using new technology to help reduce leaks and continuing and expanding our work with land owners to maintain excellent water quality.

“We would like to start by saying thank you to everyone involved in our business and supply chain who has continued to go above and beyond throughout the summer to maintain supplies in challenging conditions

A plan of this size and scope requires us to raise significant new capital to fund it, which we have assessed carefully, in line with guidance from Ofwat. Our plan limits the impact on customer bills over this period by funding investment through raising capital from our lenders, as well as from shareholders.

While increasing bills is never welcome, investment in our water system is essential in ensuring the security of our water supply for the future. Using the Ofwat investment methodology, we believe that delivery of this plan will see bills rise on average from £19.33 a month in 2025 to £23.12 a month in 2030. The funds we raise are guaranteed only to fund improvements in our water systems and, if these improvements aren't delivered, bills will automatically be reduced.

Chris Train OBE
CHAIR

Supporting customers

A key focus of our business plan is to ensure that it works for and actively supports our most vulnerable customers, something which has always been important to us, but never more so than in the current cost of living crisis, which we know is having a significant impact on family budgets.

We have redesigned our social tariffs, working hard to ensure they benefit all those customers who need our support. Working with partners such as local authorities, we have increased the reach of our social tariffs to support more people than ever before and made it much easier for people to apply.

Our Priority Services Register (PSR), which is free to join and provides extra care and support to those who need it most, continues to grow, with almost 90,000 customers now registered to receive additional support from us to ensure their needs are met. From priority treatment during a water supply interruption, to receiving information in large print or spoken word, we are committed to growing our PSR and ensuring we provide that additional support for any customer who needs it.

We are proud to be one of the first nine organisations to receive and pilot the BS ISO 22458 Inclusive Service Kitemark, which recognises our commitment to supporting vulnerable customers, and we continue to develop our staff training and the support we offer customers to ensure we remain industry leaders in supporting vulnerable customers.

David Hinton
CEO

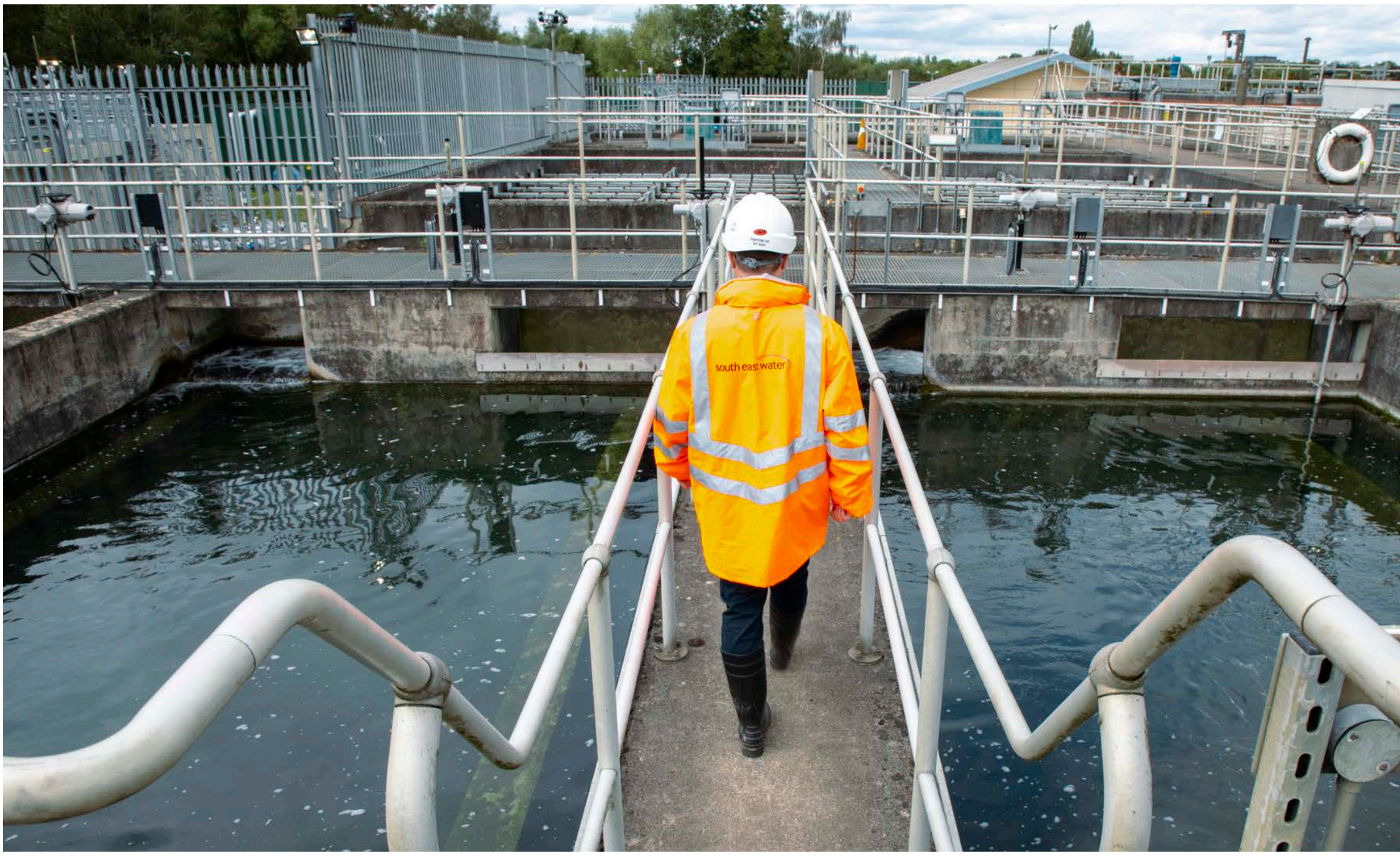
Investment adaptation

Since 2018, we have experienced some of the most significant weather-related events in over 50 years across our supply area. Freeze/thaws, powerful storms, heatwaves, droughts and flooding across the region in such a short space of time demonstrate the very real issue of climate change and the pressure that our network has been put under.

Our business plan is bold and ambitious, and it calls for significant investment to improve our network capacity, delivering a more resilient and reliable service for our customers. Like most water companies, we have known about and planned for climate change, but what we are seeing now is a pattern of accelerated climate change, far exceeding forecasts made just a few years ago, and this is impacting our ability to supply our customers with the public water service they deserve. We want to put that right.

Our business plan tackles the challenges of climate change head on, with a highly researched, cost-effective proposal that addresses the challenges we have faced in providing our customers with water in an efficient and affordable way. The level of investment we expect to make in the next five years represents a near doubling of the investment approved in the last business plan, PR19.

Chair and CEO joint report continued



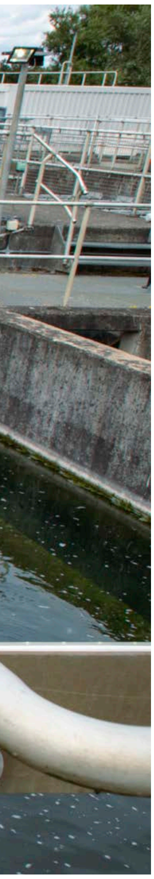
June and the Temporary Use Ban (TUB)

Responding to unprecedented high levels of demand, due to the hottest June since records began, our network treatment and distribution capacity was exceeded, which regrettably resulted in customers in the Wadhurst, Rotherfield and Mayfield area suffering a lengthy interruption over several days. During this time, we produced an additional 110 million litres of water per day, which is the equivalent of adding an additional four towns the size of Eastbourne or Maidstone to our network overnight. Despite all our assets functioning at full capacity, with demand rising to 678 million litres per day, our ability to keep up with demand was severely impacted, which regrettably led to customer outages.

This situation was compounded by the fact that the preceding six-weeks saw little to no rainfall across our supply area. Despite this, our raw water stocks were in a good position and reflected the careful planning undertaken to ensure we were prepared for summer. Regrettably, despite all our planning and preparation, this long, extreme period of hot weather challenged us deeply and, even with all our treatment works and water sources working at full output, we were unable to keep up with demand and return our drinking water storage tanks to acceptable levels.

On 16 June, we took the difficult but necessary decision to implement a temporary use ban (TUB), which came into effect on 26 June. Whilst we never do this lightly, it was necessary in our efforts to secure water supplies for our customers. The combination of implementing the TUB, effective customer messaging and a break in the extreme hot weather had the desired effect of reducing consumption and enabling us to recover water storage levels.

Although this was the second temporary use ban in two years, it is important to note that it is the first temporary use ban implemented due to demand alone and reflects the significant change we've seen in customer water usage, both domestic and agricultural, since the Covid pandemic. It also highlights the very real and rapid increase in climate change we are seeing here in south east England, which is something we have factored into our latest business plan.



> **By Summer 2024, we will have commissioned Forest Row water treatment works, which will provide an additional two and a half million litres of water to Wadhurst and the surrounding area**

Ofwat Company Performance Report

In September, our regulator Ofwat published their ‘Water Company Performance Report 2022/23’. Whilst we always look closely at our regulator’s view of our performance and respond accordingly, we are, of course, disappointed that our customer service and leakage performance has not met the stringent targets set by Ofwat.

For 14 of the past 15 years, we have achieved our regulatory targets for leakage, leading the industry in this field. Last year we faced exceptional challenges from events outside of our control, such as Storm Eunice and the summer heatwave, which was followed by flooding in the autumn and a severe freeze/thaw in the winter.

Those unprecedented extreme weather events were the cause of the majority of supply interruptions, but we appreciate that problems experienced by our customers will result in lower levels of customer satisfaction. We are deeply sorry to customers who have been affected by supply interruptions and continue to work tirelessly to recover. We have 52 teams actively repairing leaks, and 40 technicians proactively looking for them.

Our business plan (PR24) sets out clearly how we intend to tackle these challenges head on, creating a more resilient water supply for all our customers.

Wadhurst supply interruptions

Regrettably, our customers in the Wadhurst area were disproportionately affected by the June incident and we give an unreserved apology for this. This is a challenging part of our distribution network, with limited network flexibility and interconnectivity.

As part of our ongoing commitment to improving resilience and removing these pinch points from our network, our business plan includes several measures which will greatly benefit Wadhurst and the wider Wealden district. These include a new transfer water main between Bewl Water and Best Beech, increasing the transfers available to support Cottage Hill from Popeswood and to Ashdown from Horsted Keynes drinking water storage tanks. By summer 2024, we will have commissioned Forest Row water treatment works, which will provide an additional two and a half million litres of water to Wadhurst and the surrounding area.

Chair and CEO joint report continued

Tough current operating conditions

The extreme weather events we've experienced this year, combined with high energy and chemical prices and high general inflation continue to have a significant impact on our operating costs. Rising interest rates have also resulted in higher financing costs than in previous years. These economic conditions combined with a preset revenue continue to challenge our financial performance.

Ofwat investigation into supply resilience

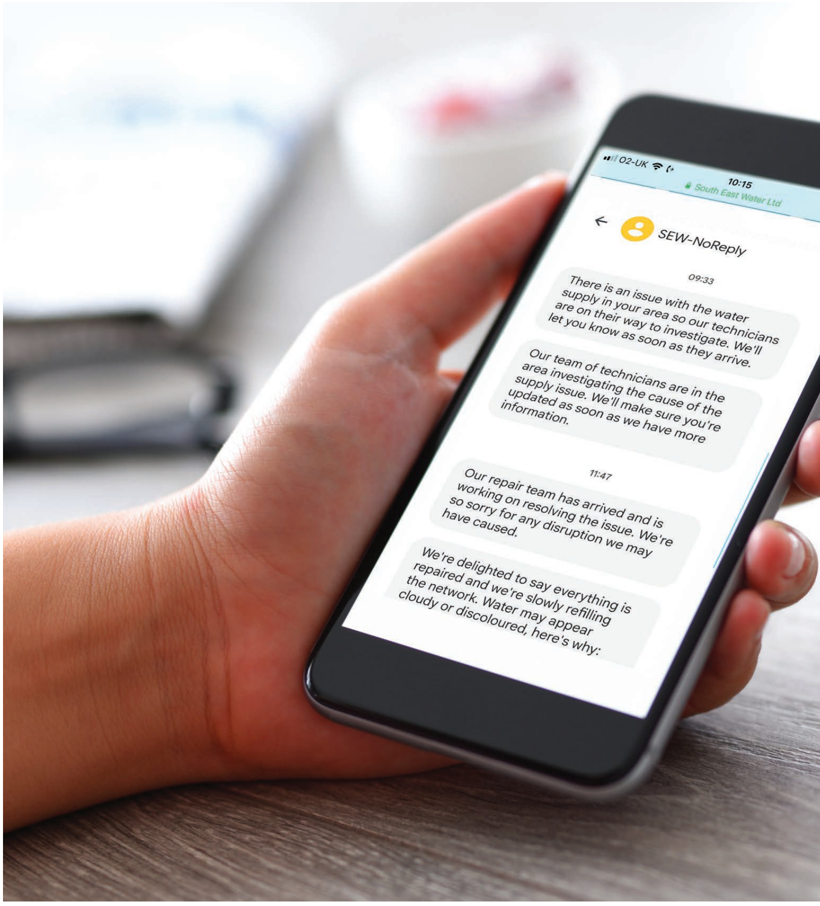
In November, Ofwat launched an investigation into our supply resilience. We acknowledge the decision by Ofwat to open this investigation and will fully cooperate with them on this matter. Resilience forms a major focus for us, and is a significant part of our PR24 business plan, which has been submitted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

GRESB

We were delighted to have received 'Infrastructure Asset Sector Leader' status in the 2023 GRESB Infrastructure Assessment for our sustainability leadership. Each year, GRESB assesses and benchmarks the Environmental, Social, and Governance (ESG) performance of assets worldwide, which provides clarity and insights to financial markets on complex sustainability topics.

GRESB data is used by hundreds of capital providers and thousands of asset managers to benchmark investment across portfolios and to better understand the opportunities, risks and choices that need to be made as industry transitions to a more sustainable future.

This GRESB Infrastructure Asset Sector Leader award recognises our outstanding leadership in sustainability and drive towards a net-zero future amongst an international business community, and is a testament to the hard work and commitment of everyone involved.



"I wanted to thank you for the great communication during the Hurst Green/Robertsbridge/ Flimwell burst water main. The text alerts, links and photos of the repair were really helpful and the estimated repair times were also good and accurate

South East Water customer, September 2023

Find out more
southeastwater.co.uk/businessplan

AquAlerter

Responding to customer feedback on the quality of our communications during incidents, we have completely reviewed our incident communications strategy. This has included developing new tools and techniques to keep customers updated during supply interruptions. Phase one of a new communications tool – AquAlerter – was launched in the summer with the aim to give customers timely updates when they experience no water or low pressure. Further phases of this new tool are planned in the second half of the year.

WRMP24

In August, we published our revised Water Resource Management Plan (WRMP24), which sets out how we propose to provide our customers with safe, reliable water supplies now and in the future and, at the same time, protect and enhance our precious environment.

Developed through our work with Water Resources South East (WRSE), our plan details how we will efficiently deliver a resilient and sustainable supply of clean drinking water, while managing the challenges of operating in an area of severe water stress. By joining forces with other water companies, we have been able to develop inter-regional options for water resource management, and will continue to develop our plans through close and continuous engagement, regional collaboration and consultation.

Our revised WRMP24 follows the very latest national framework, regulatory requirements, government guidance and policy for water resources planning. It also incorporates the feedback we received from stakeholders and customers during our consultation.

Going above and beyond the minimum 25-year period, our WRMP looks forward to 2075, enabling us to fully investigate, scrutinise and plan future water resource needs. Our plan is ambitious, but not without risk due to the significant demand reductions assumed, and has been guided by extensive research, detailed data, customer involvement, and engagement with stakeholders and other interested parties.

Throughout its development, ongoing stakeholder challenge has been provided by our Customer Challenge Group (CCG) and Environmental Scrutiny Group (ESG). We have collaborated in more ways than ever before, with more stakeholders, customers and communities, to create a plan that meets future needs and priorities.

Find out more
southeastwater.co.uk/WRMP

Chair and CEO joint report continued

Results and key financial performance indicators

The results published in this statement summarise our performance for the six months ended 30 September 2023. The financial statements are prepared under International Financial Reporting Standards ("IFRS") and incorporate the performance of South East Water Limited and its subsidiary, South East Water (Finance) Limited.

Revenue

Revenue for the period was £147.1 million (2022: £137.8 million). The additional £9.3 million of revenue was due to tariff increases of £15.2 million, partially offset by £5.9 million of lower consumption experienced this year when compared with the record consumption during last year's summer heatwave. Other revenue remained stable compared with last year.

Operating expenditure

Operating costs, excluding bad debt, were £115.4 million for the six months to 30 September 2023. This compares to costs of £107.9 million in the corresponding period for the previous year. The increase of £7.5 million was driven by increased reactive maintenance costs of £2.8 million, due to additional leakage gangs being employed, and by inflationary pressures, such as chemicals (£0.8 million), bulk supply and abstraction charges (£0.8 million) and power (£0.7 million). Staff costs also increased by £1.3 million driven by an average staff pay award of 6.6 per cent, a budgeted increase in average FTE and higher underlying overtime, plus the transition to the cloud added a further £0.6 million in computer costs.

Depreciation charges in the period increased by £0.8 million and other cost increases totalled £1.6 million, while savings of £0.9 million were seen on the six month's business rates charge.

The results for the six months to 30 September 2023 included £3.0 million of costs associated with the high temperatures in June 2023, including customer compensation of £1.5 million, bottled water costs of £0.7 million and other related charges of £0.8 million. This was £1.9 million lower than the weather-related costs incurred in the first half of the previous year.

Profit from Operations

Operating profit for the six months period was £35.9 million (2022: £33.8 million), an increase of £2.1 million as detailed above.

Finance expenses

Finance expenses for the period were £54.8 million (2022: £47.4 million). The increase of £7.4 million reflects higher indexation charges on our four indexed linked loans of £2.9 million, due to a significant rise in inflation over the period. Additionally, cash interest on our index linked loans has increased by £1.2 million and interest on our variable rate bank loan has increased by £2.1 million due to the increase in the SONIA rate. During the period we drew an additional £23 million (2022: £nil) from our revolving credit facility ("RCF") resulting in an increased interest charge during the period of £1.2 million.

Finance Income

Interest receivable for the six months to 30 September 2023 was £0.8 million (2022: £0.9 million), which comprises interest earned on bank deposits and returns on pension scheme assets.

Loss before taxation

The loss before tax for the six months to 30 September 2023 was £18.1 million (2022: loss of £12.7 million). The result was significantly impacted by the increase in operating and finance expenses in the period.

Taxation

The group tax credit for the period was £5.2 million (2022: £4.5 million). The current tax charge in the period was £nil. The deferred tax credit was generated primarily by the deferral of capital allowances for future use.

Loss after taxation

The group has recorded a loss after tax of £12.9 million for the period (2022: loss of £8.2 million). The increased loss for the period is primarily due to the rise in finance costs because of the increase in inflation throughout the reporting period.

Net debt and cash flow

During the six months to 30 September 2023, cash generated from operations was £67.0 million (2022: £69.2 million). Net payments in respect of capital activities in the period totalled £61.5 million (2022: £42.5 million). Net payments in respect of interest and other finance income and costs were £19.1 million (2022: £14.8 million).

The higher net interest paid in the period is due to higher interest rates in the period and additional borrowing on our RCF (see above).

The group statement of cash flows on page 27 shows an increase in the cash balance, from £4.0 million at the beginning of the financial year to £7.8 million at the end of the period. The increase is largely because of the RCF drawdowns.

Dividend

The dividend paid for the six months period ended 30 September 2023 of £2.25 million (2022: £4.5 million) was lower than that paid in the corresponding period last year and this represents a nominal dividend yield of 0.9 per cent. The dividend was in line with our dividend policy and was lower than Ofwat's view of what is a reasonable nominal dividend yield, which is 4 per cent.

Going concern

We continue to comply with the financial covenants set out in our securitisation structure and continue to hold ratings from Moody's and Standard & Poor's consistent with the requirements of both our securitisation and our instrument of appointment.

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

The group's business activities together with the factors likely to affect its future development were set out in the strategic report included in the group's annual report for the financial year ended 31 March 2023.

The group finances its working capital requirements through cash generated from operations and committed facilities that can be called upon as required. The group's liquidity position and cashflow projections are closely monitored and are updated each month. When necessary, mitigating actions are identified and implemented. The group has significant headroom in its £125 million revolving credit facility, of which £53 million had been drawn at 30 September 2023.

The directors have assessed the going concern review that has been completed for the group. That assessment considered the output of the viability assessment for the year ended 31 March 2023 and performance since that date compared with budget.

In adopting the going concern basis of preparation for these financial statements, the directors have considered the liquidity position of the group, financial forecasts, stress testing of principal risks and uncertainties and the impact of these stress tests on committed funding facilities levels and applicable covenants.

In forming their view on going concern, the directors are aware that the financial statements of HDF (UK) Holdings Limited ("HDF") for the year ended 31 March 2022 contained a material uncertainty in respect of going concern. HDF had £150 million of debt that was due for repayment on 18 December 2023. The directors are aware that the debt was refinanced on 26 September 2023. The directors of HDF are in the process of evaluating the going concern position of that company.

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

A trusted and affordable service supporting customers and society

In the first half of this financial year, we have continued to increase the number of customers who have joined our Priority Services Register (PSR). Through active promotion of this support, as well as strategic partnerships with key organisations and support networks across our supply area, the current total number of customers on our PSR is 88,492, representing a 9.73 per cent increase since the beginning of this financial year.

By restructuring our Resilient Customer team to now include two brand new Community Partnership Leads, we have been able to work closely with food banks, cost of living hubs and community cafes to identify and support those customers who are most difficult to reach and most vulnerable, giving them vital support around affordability and water efficiency, helping with their household budget and ensuring their wellbeing.

Both our Community Partnership Leads have developed bespoke, targeted community campaigns in specific areas, such as Hailsham and East Hampshire, where we had identified a need for this support. They are working closely with charitable organisations and statutory services in these areas to ensure a joined-up and collaborative approach to this crucial outreach work.

We have developed an exciting partnership with Basingstoke and Deane Borough Council, working with its green teams to support the promotion of water efficiency and supporting vulnerable customers and those who are struggling to pay their bills. We have also built a wider partnership with the council, implementing auto-enrolment data sharing between us for our social tariffs, whilst working directly with the teams on the ground to enable them to register customers directly for our support services.

Our continued partnership with Ashford Borough Council has focused on climate campaigns in its locality, ranging from improving efficiency work on housing developments, community campaigns for water efficiency, attending cost of living events for residents and the promotion of water saving devices. We are also working with a number of local councils to develop a new water butt giveaway scheme which will be aimed at benefiting customers in lower income households.

In redesigning our social tariffs, we engaged extensively with stakeholders across all our regions to gain their views on eligibility, current gaps in support, ease of application for our support and the overall impact they feel the social tariffs are having. Working with a multitude of stakeholders across a wide range of sectors, we worked hard to ensure we gained as much insight from our communities as possible.

Our new social tariff will apply a discount, rather than the current capped approach. The discount will be based on the household income for our customers, with a 30 per cent discount provided for those earning between £17,000 and £21,000, rising to a discount of 50 per cent for those with a household income of less than £17,000.

Overall, stakeholders were very supportive of the new social tariff design and provided valuable feedback on how we communicate these social tariffs to customers and ensure their easy accessibility. We will accelerate our efforts to bring eligible customers onto this new tariff in the first two years of AMP8, and will reach 105,000 customers by 2030. Our WaterSure offering will remain in place and we plan to nearly double its reach to 13,000 customers by 2030. As with our existing social tariff, the proposed new tariffs are funded by our wider customer base who, through extensive research, have indicated a willingness to subsidise this support to those who need it most.

During the summer incident, we made 3,466 bottled water deliveries to vulnerable customers on our Priority Services Register, and a further 419 deliveries to customers who contacted us during the incident to join our Priority Services Register. This continues to be expanded to include vulnerable customers identified by local councils, the NHS, social care professionals and other trusted third-sector organisations.

We remain proud to be one of the first nine organisations to receive and pilot the BS ISO 22458 Inclusive Service Kitemark in recognition of our commitment to supporting vulnerable customers. Since our last accreditation, we have continued to enhance the vulnerability training we offer our staff, and are developing new training modules with our expert stakeholders and teams to ensure we continue to be industry leaders in supporting vulnerable customers.

As of October, we have 538,567 active accounts on My Account, which is 50.25 per cent of our total customers. This represents an 8.25 per cent increase, up from 42 per cent in May. We continue to actively encourage customers to sign up for and utilise their My Account, which makes it easy for customers to manage their account online anytime, anywhere. Using the My Account portal, customers can view and download their bills, set up and amend direct debits and manage payments, manage their home move and track water usage.

We are pleased to see continuing large order numbers for water saving devices, with customer engagement in this area remaining very high. We are working with our partners to innovate in this space to provide new products which promote behavioural change around water usage.

As part of our ongoing commitment to engage with schools and local communities, we have been working closely with eco-schools and councils to test our AquaSmart platform, gaining their expert insight on the activities and characters. AquaSmart is our online, water efficiency learning platform that allows children to work through a series of fun and educational activities, learning about the ways in which they can help to save water. We will be continuing to develop this work with our partners in the community to ensure AquaSmart becomes a trusted resource everyone is aware of and able to easily access.

Find out more
southeastwater.co.uk/businessplan

Flexible, resilient infrastructure and service

Wellwood to Charing

A £12 million project to lay 16 kilometres of new water main between Wellwood and Charing has begun, which will increase the flexibility and resilience of our network in Kent, enabling us to move water around more easily when supplies are disrupted. With phase one due to complete in autumn 2023, we have laid 2.7 kilometres of new pipe in the Wichling and Doddington area, as well as 5.7 kilometres from our service reservoir in Warren Street to The Pilgrims Way carriageway in Charing.

Butler Water Treatment Works

We are building a brand-new, state-of-the-art water treatment works on a section of the old Aylesford Newsprint site near Maidstone. This new £39 million facility will provide up to 20 million litres of treated drinking water per day to the area, once built. This site is a key investment scheme for Maidstone and is a vital part of our plans to ensure we can continue to supply the area with tap water as the population grows.

Once operational, it will take water from underground sources via boreholes and turn it into top-quality drinking water, before pumping it into the local area. In addition to drilling new boreholes, we will be making use of existing boreholes, pipework and storage tanks originally built on the site. By upgrading infrastructure already in place, we will ensure these existing facilities reach drinking water quality standards and reduce construction costs and impact on the area. Work is underway and the site is due to be fully operational by March 2025.

Aylesford storage tanks

A complex three-year project has been completed after millions of litres of water were lost when sinkholes appeared at our water storage reservoir in Aylesford in 2020. Of the three cells on site, one was demolished, a second repaired and a third split in two, increasing resilience and efficiency.

This extraordinary project utilised a wide range of specialist surveys and assessments, including geophysical, laser scanning ground level monitoring and dynamic probing, helping increase understanding of what was happening underground after the sinkholes appeared.

This £12.4 million project demonstrates our ability to rise to significant challenges, the likes of which had not been experienced before and has resulted in a much-improved facility with greater water turnover and guaranteed water quality, whilst cost and carbon efficiency savings have been made by re-using or recycling everything on site, including pipework.

This was an incredibly innovative and successful project and, in acknowledgment of that, the project has been shortlisted for the UtilityWeek Awards 'Infrastructure Delivery Award', which "celebrates best-in-class performance and innovative approaches to delivering infrastructure projects for the benefit of customers and the environment."

We will find out in December if we have won, but to be shortlisted among seven industry-leading entries is a huge achievement.

Leeds Village

Phase two of our water main replacement in Upper Street, Leeds began on 24 July. This vital scheme replaces approximately 535 metres of ageing, burst-prone pipe with a new, wider water main, enabling us to feed more water into the village and surrounding areas, reducing the risk of leaks and the subsequent disruption this causes to the community when closing the road to repair the existing main.

Due to the volume of other utility service networks in the area, as well as ensuring the safety of residents, motorists and our workforce, we had no choice but to operate a phased closure of Upper Street, which allowed for access for residents and businesses, but was closed to through traffic.

Initially scheduled to take six months, through the hard work and dedication of our team, we were able to use a faster technique to lay the water main, meaning all work was completed by the end of October and disruption to residents and businesses was greatly minimised. Whilst disruption to businesses was reduced significantly, we appreciate there was disruption and, in acknowledgment of this, compensation was awarded to businesses in Leeds village.

Tongham

The community in Tongham is growing and, to ensure there is sufficient pressure in the area and meet increasing demand, we have installed new pipework along The Street to future-proof water supplies in the area.

Working collaboratively with the community and taking their feedback on board, we reviewed the scheme to see if there was anything we could do to minimise the project's impact on the community whilst works took place. Starting at the end of June, through careful planning and skilled delivery, we were able to reduce the completion time to just three weeks during the summer from an original projected completion date in November.

Whilst projects like these are essential in continuing to meet our statutory and legal duties to provide water, we understand that they can cause disruption to residents and businesses. By fully engaging with and consulting residents and businesses, we are doing our best to ensure the most positive outcome for everyone.

College Avenue Water Treatment Works upgrade

Work began in July on our £14 million project to upgrade College Avenue Water Treatment Works in Maidenhead. This upgrade includes various new tanks and the addition of a UV plant, which will further improve the quality of water supplied to customers in the Maidenhead area.

This vital work is being done to ensure we continue to meet our statutory requirements with the Drinking Water Inspectorate and maintain the high standard of our drinking water for customers.

The first phase of the project was completed successfully in August, with the planning application for phase two due to be submitted to the Royal Borough of Windsor and Maidenhead later this year. The project is utilising the most up-to-date technology to future-proof the quality of drinking water for Maidenhead.

Water Quality

We have once again performed strongly against our target and industry average in the DWI's Compliance Risk Index performance measure in the first half of this year. This considers water quality compliance failures at water treatment works and in domestic household water plumbing (cause, location and customer impact).

Our Event Risk Index, based on the seriousness of an event, how it is managed and its impact, is currently short of our corporate target as a direct result of this summer's loss of supply event. However, when compared with the industry average, we continue to fare very well.

Find out more
southeastwater.co.uk/businessplan

Thriving environment

Holland visit

In September, members from our Environment Team, along with delegates from a group of statutory and government agencies visited Holland with the Kent Wildlife Trust and other wildlife NGOs to look at and understand how the Dutch have approached rewilding and natural recovery. In particular, the visit focused on the re-introduction of European bison to manage the land naturally, helping preserve rich grasslands and prevent this botanically rich grassland from being taken over by trees, non-native invasive species and bracken.

The visit also explored the introduction of 'green bridges' to allow safe movement of wildlife across major roads and railways. This ensures that wildlife can thrive and allows us to continue to effectively manage habitats naturally – ensuring that these habitats are maintained or restored to their functional state.

As part of our ongoing commitment to improving biodiversity on our sites and securing our sites of special scientific interest (SSSIs) for the future, this research is fascinating and offers an innovative and environmentally sympathetic approach for the future.

Sustainability of water sources

Working with PhD students from Reading University, we have been developing hydrology models of Greywell Site of Special Scientific Interest (SSSI) in Hampshire. This bespoke, intensive research is being conducted to better understand how vegetation management and sustainable abstraction can work together to enable us to better manage the SSSI for its designated features.

With climate change and increasing demand becoming huge areas of concern for us, it is vital that we understand how to safely abstract in order to safeguard these sources for the future. We are working closely with the Hampshire and Isle of Wight Wildlife Trust on the long-term management of the Greywell site, as well as with landowners to the north, and we are committed to improving the SSSI status of Greywell.

A-WINEP project success

For over a decade, we have seen concentrations of nitrates increasing in the chalk groundwater we abstract from Woodgarston, just west of Basingstoke. With nitrate concentrations increasing and breaching Drinking Water Standards at our abstraction boreholes, in 2022 we completed the installation of a nitrate removal plant at Woodgarston but, with large ongoing operational costs and a high carbon budget, this is not cost-effective or sustainable as a long-term solution.

In September, we received confirmation from the Environment Agency and Ofwat that our proposal for the Advanced Water Industry National Environment Programme (A-WINEP) was accepted. Our proposal was to work with local farmers to extensively trial different agricultural techniques such as covered crop implementation, which uses less fertiliser, improves soil health, biodiversity and carbon infiltration, increasing crop yield for farmers and making it a cost-effective and sustainable method of farming whilst improving groundwater. The outputs will provide a blueprint for the water industry and agricultural sector to manage land sustainably in chalk groundwater catchments..

As part of our ongoing commitment to improving biodiversity on our sites and securing our sites of special scientific interest (SSSIs) for the future, this research is fascinating and offers an innovative and environmentally sympathetic approach for the future

INNS Mapper

In August, the INNS Mapper, co-funded by South East Water was launched. This free-to-use app and website enables people to quickly and effectively report sightings, surveys and the management of invasive non-native species (INNS) in England, Wales and Scotland.

INNS are species that have been accidentally or intentionally introduced by people and cause negative impacts. The negative impacts of these species are far reaching for the environment, economy and society.

We work closely with other water companies and stakeholders through groups such as the Aquatic Biosecurity Partnership and the Water UK INNS Forum in a combined effort to manage the impact of INNS. As part of these groups, information is shared regarding biosecurity best practice; for things like field work and water transfers, as well as new innovations such as using eDNA for surveys and discovery of new species of concern.

The INNS Mapper app will give us early warning of new arrivals in our area which allows our environment team and catchment partners to take quick action to tackle invasive species before they become established. It will also build up a picture of where INNS might be a particular threat to native biodiversity.

Find out more
southeastwater.co.uk/businessplan

Low carbon sustainable business

Net-zero schemes in the business plan

Our business plan, which was submitted in October features a number of net-zero schemes, including;

- The replacement of 70 per cent of our fleet with low carbon alternatives.
- Switching two of our water treatment works, Barcombe and Arlington, to liquid oxygen ozonation to reduce our operational carbon emissions.
- Pilot projects to decarbonise our resilience generators, switching from diesel to either full battery, hybrid (diesel/electric) or hydrotreated vegetable oil (HVO) generators.

EV salary sacrifice scheme

In October, we launched our EV salary sacrifice scheme, which is a fantastic way for staff to lease an electric vehicle at a significantly reduced cost, enabling more of our staff to transition from an ICE (internal combustion engine) vehicle to electric.

This way of leasing a new EV provides many benefits to our staff. By sacrificing a portion of their pre-tax salary, we can help them get behind the wheel of a new EV at a competitive price. This scheme is designed to encourage our staff to make the change to an EV, reducing the carbon footprint of the journeys they make for work and helping us achieve our commitment to reaching operational net zero by 2030.

With the price of EVs, insurance, servicing and parts increasing in recent years, this is one way we have been able to support staff and mitigate against the increases in cost of living. This scheme will enable staff who perhaps would otherwise have been unable to afford to drive an EV to do so.

Find out more
southeastwater.co.uk/businessplan

Securing the future of water

Great Stour project

As part of our commitment to improving the condition of the Chalk catchments we operate in, we have selected the Great Stour as our Chalk stream flagship project area. We are the only public water supply abstractor in this catchment.

With more than 70 per cent of baseflow into the river coming from groundwater, we understand that how we manage the groundwater catchment has a huge impact on flow and water quality of chalk streams. Effective catchment management is crucial, which is why we are working with developers and local authorities to ensure they don't build in the areas that are key to recharging the groundwater catchment that supplies the river.

Through our PROWATER, 2-seas Interreg project, we have researched the most effective ways to manage the landscape and agricultural land to improve water infiltration to ground and protect water quality. We aim to use this knowledge to further protect this chalk stream and groundwater catchment. This long-term project is part of our strategy to improve the Great Stour's Water Framework Directive waterbody status, and part of our 25 Year Environmental Plan.

South Downs – Super National Nature Reserve

We continue to work hard to link people with their local environment. So, on the back of our 25-year plan, we have started the process with our partners Natural England, to create a new super National Nature Reserve (sNNR) in the South Downs, as a way of protecting this outstanding and unique environment, whilst protecting both the quality and quantity of raw water it provides in the face of climate change and other potentially damaging factors.

With Natural England, we have now begun a public consultation for this, which has enjoyed ministerial support following a tour of the site by our Environment Team in August.

With groundwater providing 70 per cent of the water we abstract from the environment, it is crucial we protect the water quality and quantity of groundwater sources such as the South Downs Chalk. The Seaford to Eastbourne sNNR will be an ambitious project with a land management plan covering 12,000 ha, creating a mosaic of habitats from species-rich chalk grassland to sustainable and profitable farming land for improved food security, all whilst protecting groundwater supplies.

We are aware that we cannot do this alone, so we are working in collaboration with multiple partners including land managers and farmers to make this ambitious plan come to life.

Find out more
southeastwater.co.uk/businessplan

Future-ready business

AquAlerter

We have launched AquAlerter, our new way of communicating with customers during incidents. This brand-new SMS (text message) system will eventually replace our current 'In Your Area' system, which is being phased out. Through AquAlerter, during an incident, all affected customers who have given us their mobile number will receive text message updates from us. They don't need to sign up for the service and, already, we are reaching in the region of 75 per cent of affected customers in each incident which is significantly higher than on the 'In Your Area' system.

We have listened to customer feedback and researched what utility companies such as UK Power Networks do, adopting some of its approaches within AquAlerter to create a more effective system and, already, feedback from customers is incredibly positive. One customer messaged us to say, "I wanted to thank you for the great communication during the Hurst Green/Robertsbridge/Flimwell burst water main. The text alerts, links and photos of the repair were really helpful and the estimated repair times were also good and accurate."

Find out more
southeastwater.co.uk/businessplan

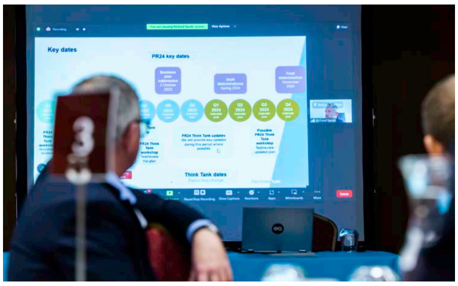
Aspire to Lead

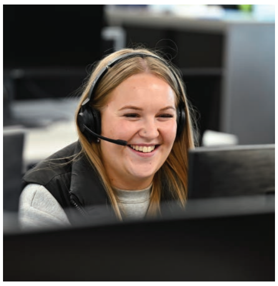
In May this year, we launched our newly developed 'Aspire to Lead' programme. The purpose of the programme is to engage future managers across the business, helping them develop the essential skills and behaviours required to take an effective assistant manager on the journey to becoming a highly successful team manager.

Staff participating in the Aspire to Lead programme learn practical ways to lead, organise and motivate others to achieve high performance in their roles. Each staff member participating is offered up to six hours of coaching support throughout the modules, helping support them with skills application and development planning. The programme actively encourages participants to take ownership of their learning and development through self-directed learning.

Leading for Change

'Leading for Change', our senior development programme entered its second phase. Designed by our internal organisational development team, the programme recognises the importance of developing a more collaborative, empowered performance culture.





> **Part of our vision is to be the water company people want to work for and, in showing that we actively encourage and reward personal development, we believe this sends a very strong, positive message to both existing staff and potential future staff**

Our Executive team recognise that it is essential to invest in building and developing the skills and behaviours of the senior leadership team, who have a challenging remit and objectives to deliver. The programme has been developed to enhance the skill set of the senior management team, supporting and enabling them to achieve our company objectives. All of our senior leaders have committed to this programme.

As of June this year, Leading for Change entered phase two, which runs until January 2024. Phase two takes the team through a series of bespoke workshops and project activities which run in parallel. Topics include leading through change, crisis management and commercial acumen. This has enabled more collaborative working across the business, and created really positive initiatives such as Project IMI, our incident management improvement project.

Apprenticeships

It is our continued ambition that, by the end of this business cycle, 10 per cent of our workforce will either be an apprentice or on an apprenticeship. As of September this year, having almost doubled our apprenticeship rate in the past 12 months, we have 6.4 per cent of our workforce who are either an apprentice or on an apprenticeship, and this really is exceptional. In recognition of this incredible achievement, we are joining the '5% Club', a dynamic movement of 850+ employer-members working to create a shared prosperity across the UK by driving 'earn and learn' skills training opportunities. Its members strive to achieve 5 per cent of their workforce in 'earn and learn' positions, such as apprentices and apprenticeships, within five years of joining.

Part of our vision is to be the water company people want to work for and, in showing that we actively encourage and reward personal development, we believe this sends a very strong, positive message to both existing staff and potential future staff. Our official audit from the 5% Club will take place next year, and it is our hope that we will receive its gold status as an employer.

Ask HR

With a continued desire to be available for all our colleagues across our 24/7 business, we have expanded our online HR offering which allows managers and colleagues to make requests at a point which suits them. This includes flexible working requests, transfers and engaging new starters and contractors. This system allows requests to be tracked from start through to completion, giving managers and colleagues peace of mind that their requests are being dealt with, together with a knowledge base which answers frequently asked questions.

Condensed group income statement

for the six months ended 30 September 2023

	Note	**Six months ended 30 September 2023 £000**	Six months ended 30 September 2022 £000
Revenue	6	**147,146**	137,839
Bad debt		**(2,415)**	(2,378)
Net operating costs	8	**(115,370)**	(107,857)
Other income	6	**6,567**	6,198
Profit from operations		**35,928**	33,802
Finance income	9	**788**	890
Finance expense	9	**(54,825)**	(47,394)
Loss before taxation		**(18,109)**	(12,702)
Taxation	10	**5,202**	4,494
Loss for the six months		**(12,907)**	(8,208)
Other comprehensive income:			
Items that will not be reclassified to the income statement:			
Net actuarial loss on pension schemes		**(3,666)**	(11,348)
Deferred tax credit on the net actuarial loss		**26**	1,959
Other comprehensive loss for the six months		**(3,640)**	(9,389)
Total comprehensive loss		**(16,547)**	(17,597)

		Six months ended 30 September 2023 Pence	Six months ended 30 September 2022 Pence
Loss per share attributable to the ordinary equity holders of the parent			
Basic and diluted	12	**(26.17)**	(16.64)

The notes on pages 28 to 40 form part of these financial statements.

Condensed group statement of financial position

as at 30 September 2023

Registered number: 02679874

	Note	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Assets				
Non-current assets				
Intangible assets	13	**9,528**	7,768	8,152
Property, plant and equipment	14	**1,747,979**	1,718,604	1,692,091
Right of use assets	14	**10,596**	11,153	10,647
Defined benefit pension surplus		**23,681**	23,842	49,001
		1,791,784	1,761,367	1,759,891
Current assets				
Inventories		**1,127**	1,132	832
Trade and other receivables	15	**106,017**	92,375	94,104
Cash and cash equivalents		**7,759**	4,002	21,261
		114,903	97,509	116,197
Total assets		**1,906,687**	1,858,876	1,876,088
Liabilities				
Non-current liabilities				
Trade and other payables	16	**4,005**	4,104	4,284
Loans and borrowings	17	**1,229,345**	1,198,501	1,148,687
Defined benefit pension liability		**2,427**	4,876	2,365
Deferred tax liability		**195,064**	200,205	222,416
Deferred income		**5,283**	2,482	3,974
		1,436,124	1,410,168	1,381,726
Current liabilities				
Trade and other payables	16	**138,754**	120,271	122,993
Loans and borrowings	17	**53,435**	30,520	409
Deferred income		**5,136**	5,312	6,224
Provisions		**6,715**	7,285	7,489
		204,040	163,388	137,115
Total liabilities		**1,640,164**	1,573,556	1,518,841
Net assets		**266,523**	285,320	357,247
Issued capital and reserves attributable to owners of the parent				
Share capital		**49,312**	49,312	49,312
Revaluation reserve		**210,958**	213,254	215,608
Retained earnings		**6,253**	22,754	92,327
Total equity		**266,523**	285,320	357,247

The financial statements on pages 24 to 40 were approved and authorised for issue by the board of directors and were signed on its behalf by:

David Hinton
DIRECTOR
7 DECEMBER 2023.

Andrew Farmer
DIRECTOR
7 DECEMBER 2023.

The notes on pages 28 to 40 form part of these financial statements.

Condensed group statement of changes in equity

for the six months ended 30 September 2023

	Note	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 April 2023		**49,312**	**213,254**	**22,754**	**285,320**
Comprehensive income for the six months					
Loss for the six months		-	-	(12,907)	(12,907)
Other comprehensive loss		-	-	(3,640)	(3,640)
Total comprehensive income for the six months		-	-	(16,547)	(16,547)
Dividends	11	-	-	(2,250)	(2,250)
Amortisation of revaluation reserve		-	(3,055)	3,055	-
Release revaluation reserve on disposals		-	(6)	6	-
Deferred tax on revaluation and retained earnings transfers[1]		-	765	(765)	-
		-	(2,296)	46	(2,250)
At 30 September 2023		**49,312**	**210,958**	**6,253**	**266,523**
At 1 April 2022		49,312	217,906	112,126	379,344
Comprehensive income for the six months					
Loss for the six months		-	-	(8,208)	(8,208)
Other comprehensive loss		-	-	(9,389)	(9,389)
Total comprehensive loss for the six months		-	-	(17,597)	(17,597)
Dividends	11	-	-	(4,500)	(4,500)
Amortisation of revaluation reserve		-	(3,056)	3,056	-
Release revaluation reserve on disposals		-	(8)	8	-
Deferred tax on revaluation and retained earnings transfers[1]		-	766	(766)	-
		-	(2,298)	(2,202)	(4,500)
At 30 September 2022		49,312	215,608	92,327	357,247

All transactions relate to the equity holders of the group.

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

Condensed group statement of cash flows
for the six months ended 30 September 2023

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Cash flows from operating activities		
Loss for the six months	**(12,907)**	(8,208)
Adjustments for		
Depreciation of property, plant and equipment	**29,970**	28,994
Amortisation of intangible assets	**1,316**	1,487
Finance income	**(788)**	(890)
Finance expense	**54,825**	47,394
Gain on disposal of property, plant and equipment	**(12)**	(126)
Difference between pension contributions paid and amounts recognised in the income statement	**(3,022)**	(2,791)
Taxation on loss	**(5,202)**	(4,494)
	64,180	61,366
Movements in working capital:		
Decrease in inventories	**5**	19
Increase in trade and other receivables	**(13,740)**	(10,248)
Increase in trade and other payables	**16,565**	18,095
Cash generated from operations	**67,010**	69,232
Interest paid	**(19,365)**	(14,989)
Interest received	**246**	148
Income tax paid	**(3,059)**	(522)
Net cash generated from operating activities	**44,832**	53,869
Cash flows from investing activities		
Purchases of property, plant and equipment	**(58,489)**	(41,320)
Proceeds from disposal of property, plant and equipment	**84**	159
Purchase of intangibles	**(3,076)**	(1,345)
Net cash outflow from investing activities	**(61,481)**	(42,506)
Cash flows from financing activities		
Issue costs of debt	**-**	(6)
Revolving credit facility	**23,000**	-
Debenture redemption	**-**	(1)
Dividends paid to shareholders	**(2,250)**	(4,500)
Payment of lease liabilities	**(344)**	(134)
Net cash generated/(used) in financing activities	**20,406**	(4,641)
Net increase in cash and cash equivalents	**3,757**	6,722
Cash and cash equivalents at the beginning of six months	**4,002**	14,539
Cash and cash equivalents at the end of the six months	**7,759**	21,261

The notes on pages 28 to 40 form part of these financial statements.

Notes to the condensed group financial statements

for the six months ended 30 September 2023

1. Reporting entity

South East Water Limited (the 'company') is a limited company incorporated in the United Kingdom. The company's registered office is at Rocfort Road, Snodland, Kent, ME6 5AH. These consolidated financial statements comprise the company and its subsidiary South East Water (Finance) Limited (collectively the 'group'). The group's principal activities are the supply of water to a population of 2.3 million in an area of 5,700 square kms and the provision of certain ancillary services for customers, developers and other bodies within the limits of the relevant legislation.

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2023 are set out on pages 24 to 40 and have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as endorsed by the UK endorsement board. The statements should be read in conjunction with the financial statements for the year ended 31 March 2023, which have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies using IFRS and UK adopted international financial reporting standards.

The condensed group financial statements are presented in sterling.

These interim financial results have not been audited or reviewed by our auditor. The information herein for the year ended 31 March 2023 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2023 were approved by the Board of Directors on 14 July 2023 and delivered to the Registrar of Companies. The report of the auditors on those accounts was not qualified, did not include any reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain any statement under section 498(2) or (3) of the Companies Act 2006.

3. Key judgements and sources of estimation uncertainty

The preparation of interim 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 six months ended 30 September 2023. Actual results may differ from those arrived at based on management's judgements and assumptions. In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Group Annual Report for the year ended 31 March 2023.

4. Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The directors have considered the current economic uncertainty and the impact that this might have on the business. 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 Chair and Chief Executive's joint statement on page 13.

Notes to the condensed group financial statements

for the six months ended 30 September 2023

5. Accounting policies

The accounting policies applied in these condensed interim financial statements are the same as those applied in the annual financial statements for the year ended 31 March 2023.

6. Revenue and other income

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Revenue		
Unmetered water income	**11,221**	10,294
Metered water income	**130,910**	122,561
Other sales	**5,015**	4,984
Total revenue	**147,146**	137,839
Other income		
Rental income	**599**	625
Other income	**5,968**	5,573
Total other income	**6,567**	6,198
Total income	**153,713**	144,037

Other sales comprise several income streams, including those associated with activities typically performed for property developers. These activities impact the group's infrastructure network assets, including diversions works to relocate water assets. Activities that facilitate the creation of an authorised connection through which properties can obtain water services are also included in other sales. Other sales include new connections income of £2.3 million (2022: £2.0 million), infrastructure income of £0.5 million (2022: £0.7 million) and capital contributions of £1.3 million (2022: £1.3 million).

Other income includes charges for billing and cash collection services amounting to £3.6 million (2022: £3.5 million) and laboratory income of £1.9 million (2022: £1.5 million).

Notes to the condensed group financial statements

for the six months ended 30 September 2023

7. Segmental analysis

Financial and other performance information is reported internally every month to the South East Water Executive Committee. The Executive Committee is responsible for the day to day running of the business, and accordingly the Executive Committee is considered to be the chief operating decision maker of the group for the purposes of segmental reporting under IFRS 8: Operating Segments. The Executive Committee considers that the Group's activities largely fall into one main business segment, namely Regulated Water, with all other activities included in "Other" below. Regulated Water is the supply of potable water on a wholesale and retail basis, both of which are governed by the Water Act 2014.

A segmental analysis of the management results are presented below together with a reconciliation to the statutory revenue and profit before tax.

	Regulated water £000	Other activities £000	Total £000
Six months to 30 September 2023			
Water revenue	**142,131**	**-**	**142,131**
Other income	**3,264**	**8,686**	**11,950**
Net operating costs	**(85,560)**	**(6,944)**	**(92,504)**
EBITDA	**59,835**	**1,742**	**61,577**
Depreciation and profit on disposal	**(30,819)**	**-**	**(30,819)**
Company operating profit	**29,016**	**1,742**	**30,758**
Six months to 30 September 2022			
Water revenue	132,855	-	132,855
Other income	3,000	8,181	11,181
Net operating costs	(77,965)	(7,034)	(84,999)
EBITDA	57,890	1,147	59,037
Depreciation and loss on disposal	(30,331)	-	(30,331)
Company operating profit	27,559	1,147	28,706

Notes to the condensed group financial statements

for the six months ended 30 September 2023

7. Segmental analysis continued

The water revenue on a management accounts basis above of £142.1 million (2022: £132.9 million) compares with total revenue on a statutory basis of £147.1 million (2022: £137.8 million). The difference is Other sales of £5.0 million (2022: £4.9 million) (see note 6).

The business segments' management accounts operating profit is reconciled to the group's statutory operating profit and profit before tax as follows:

	30 September 2023 £000	30 September 2022 £000
Management operating profit	**30,758**	28,706
Losses of South East Water (Finance) Limited [1]	**(1)**	-
Pension costs adjustment [2]	**3,088**	2,791
Additional gain/(loss) on disposal of property, plant and equipment	**12**	(24)
Capitalisation of new connections [3]	**2,482**	2,329
Statutory depreciation and write-off adjustments [4]	**(467)**	-
Other statutory adjustments	**56**	-
Statutory profit from operations	**35,928**	33,802
Finance income	**788**	890
Finance expense	**(54,825)**	(47,394)
Statutory loss before taxation	**(18,109)**	(12,702)

1) The losses of South East Water (Finance) Limited are consolidated into these financial statements but not included in the finance reports presented to the Executive Committee.

2) The internal finance reports include pension costs on the basis of contributions paid whereas the financial statements include pension costs on the basis of IAS 19 Employee Benefits.

3) The internal finance reports record the costs associated with new connections in operating costs but these costs are capitalised as Property, Plant and Equipment in the financial statements.

4) Adjustments are made to depreciation and impairment or write-off of assets between internal finance reports and the financial statements.

Notes to the condensed group financial statements

for the six months ended 30 September 2023

8. Net operating costs

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Employees benefits expenses	**19,343**	18,048
Asset expenses	**31,286**	30,481
Profit on asset sales	**(12)**	(126)
Operating lease rentals:		
Vehicles and office equipment	**142**	206
Land and buildings	**2**	7
Fee payable to group's auditor	**220**	219
Energy costs	**14,282**	13,800
Rates	**8,302**	9,233
Contractors	**21,374**	19,430
Bulk water supplies and abstraction licences	**5,689**	5,163
Chemicals	**3,700**	2,855
Insurance and related costs	**2,159**	2,047
Other	**11,757**	8,663
Other operating expenses charged to capital projects	**(2,874)**	(2,169)
	115,370	107,857

9. Finance income and expense

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Finance income		
Interest receivable on bank balances and short-term deposits	**247**	140
Net interest income on defined benefit assets	**541**	750
Total finance income	**788**	890
Finance expense		
Effective interest on listed debt	**7,498**	7,231
Indexation on listed debt	**8,383**	12,559
Interest on index linked loans	**7,890**	6,958
Indexation on index linked loans	**22,395**	15,338
Variable rate loan	**3,632**	1,483
Fixed rate loan note	**3,231**	3,231
Other finance costs	**2,506**	1,419
Interest capitalised	**(710)**	(825)
Total finance expense	**54,825**	47,394

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 4.67 per cent (2022: 3.9 per cent).

Notes to the condensed group financial statements

for the six months ended 30 September 2023

10. Taxation

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Current taxation credit	**(87)**	(79)
Deferred taxation credit	**(5,115)**	(4,415)
	(5,202)	(4,494)

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

The total deferred tax credit is estimated to be £5.1 million. This is due mainly to the deferred tax on the deferral of capital allowances.

The rate of corporation tax used for calculation of current and deferred tax is 25 per cent, the corporation tax rate as enacted by the Finance Act 2021 and further endorsed under section 5 (2) of the Finance Act 2023.

Factors that may affect future tax charges

The UK Government's March 2023 budget announcement as enacted by Finance Act (No. 2) 2023 grants 100 per cent first year full expensing capital allowances for qualifying plant and machinery; and 50 per cent allowance for special rate assets expenditure, from 1 April 2023 to 31 March 2026. As announced in the November 2023 autumn statement, this capital allowance incentive has been made permanent beyond the enacted expiry date of 31 March 2026, and so, it provides greater incentive to boost capital allowance availability to mitigate future tax charges.

11. Dividends

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Interim dividend of 4.6 pence (2022: 4.6 pence) per ordinary share paid during the six months	**2,250**	2,250
Interim dividend of nil pence (2022: 4.6 pence) per ordinary share paid during the six months	**-**	2,250
	2,250	4,500

Notes to the condensed group financial statements

for the six months ended 30 September 2023

12. Earnings per share

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000
Loss for the six months from continuing operations	**(12,907)**	(8,208)

	Six months ended 30 September 2023	Six months ended 30 September 2022
Basic and diluted weighted average number of shares (number)	**49,312,354**	49,312,354
Basic and diluted loss per share from continuing operations (pence)	**(26.17p)**	(16.64p)

13. Intangible assets

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Net book amount			
At 1 April	**7,768**	8,294	8,294
Additions	**3,076**	2,461	1,329
Reclassifications of assets	**-**	(30)	16
Amortisation charge	**(1,316)**	(2,934)	(1,487)
Disposals	**-**	(23)	-
Closing balance as at	**9,528**	7,768	8,152

Notes to the condensed group financial statements

for the six months ended 30 September 2023

14. Property, plant and equipment

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Net book amount			
At 1 April	**1,729,757**	1,689,127	1,689,127
Additions	**58,860**	99,563	42,654
Reclassifications of assets	**-**	30	(16)
Depreciation charge	**(29,970)**	(58,541)	(28,995)
Disposals	**(72)**	(422)	(32)
Closing balance as at	**1,758,575**	1,729,757	1,702,738

14.1 Assets held under leases

The net book value of owned and leased assets included in the consolidated condensed statement of financial position is as follows:

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Property, plant and equipment owned	**1,747,979**	1,718,604	1,692,091
Right-of-use-assets, excluding investment property	**10,596**	11,153	10,647
	1,758,575	1,729,757	1,702,738

15. Trade and other receivables

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Financial asset receivables			
Trade receivables	**38,303**	34,974	35,984
Accrued income	**56,652**	49,309	51,547
Amounts due from parent and fellow subsidiary undertakings	**-**	21	-
Sundry debtors	**3,075**	2,752	1,646
	98,030	87,056	89,177
Non-financial asset receivables			
Prepayments	**7,987**	5,319	4,927
	106,017	92,375	94,104

Notes to the condensed group financial statements

for the six months ended 30 September 2023

16. Trade and other payables

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Current liabilities			
Financial liability payables			
Trade payables	**23,293**	13,071	12,858
Amounts due to parent and fellow subsidiary undertakings	**6,657**	9,803	10,609
Other payables	**16,066**	4,950	11,092
Accruals	**46,059**	43,188	44,921
	92,075	71,012	79,480
Non-financial liability payables			
Payments received in advance	**45,359**	48,087	42,281
Other taxes and social security	**1,320**	1,172	1,232
	46,679	49,259	43,513
Total trade and other payables	**138,754**	120,271	122,993
Non-current liabilities			
Financial liability payables			
Deposits payable to developers	**4,005**	4,104	4,284

17. Loans and borrowings

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Current			
Revolving credit facility	**52,968**	29,962	-
Lease liabilities	**467**	558	409
	53,435	30,520	409
Non-current			
Irredeemable debenture stock	**981**	981	984
Listed bonds	**388,924**	380,461	367,833
Index linked loans	**492,638**	470,159	433,897
Variable rate loan	**119,271**	119,149	119,026
Fixed rate loan notes	**223,843**	223,810	223,777
Lease liabilities	**3,688**	3,941	3,170
	1,229,345	1,198,501	1,148,687

Notes to the condensed group financial statements

for the six months ended 30 September 2023

18. Financial instruments

Fair values of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. In the opinion of the directors, the fair values of the financial assets and liabilities of the group (apart from the specific items shown in the fair value table below) are not materially different from the book values.

The following tables provide comparison by category of the carrying amount and the fair values of the group's financial assets and financial liabilities at 30 September 2023.

	Book value 30 September 2023 £000	**Fair value 30 September 2023 £000**	Book value 31 March 2023 £000	Fair value 31 March 2023 £000	Book value 30 September 2022 £000	Fair value 30 September 2022 £000
Financial assets at amortised cost						
Trade and other receivables	**98,208**	**98,208**	87,056	87,056	89,177	89,177
Cash	**7,759**	**7,759**	4,002	4,002	21,261	21,261
	105,967	**105,967**	91,058	91,058	110,438	110,438
Financial liabilities at amortised cost						
Trade and other payables	**85,418**	**84,991**	61,209	60,903	68,871	68,492
Revolving credit facility	**52,968**	**53,075**	29,962	30,031	-	-
Irredeemable debentures	**981**	**680**	981	807	984	680
Listed bonds	**388,924**	**361,103**	380,461	388,995	367,833	501,736
Index linked loans	**492,638**	**488,830**	470,159	475,527	433,897	628,618
Variable rate loan	**119,271**	**120,111**	119,149	119,790	119,026	116,240
Fixed rate loan notes	**223,843**	**151,156**	223,810	163,228	223,777	224,156
Lease liability	**4,155**	**3,824**	4,499	4,500	3,579	3,559
Amounts due to parent and group undertakings	**6,657**	**6,624**	9,803	9,754	10,609	10,551
Trade and other payables over 1 year	**4,005**	**3,985**	4,104	4,083	4,284	4,260
	1,378,860	**1,274,379**	1,304,137	1,257,618	1,232,860	1,558,292

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

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

Notes to the condensed group financial statements

for the six months ended 30 September 2023

18. Financial instruments continued

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 with a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

30 September 2023	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	**84,991**	-	**84,991**	-
Revolving credit facility	**53,075**	-	**53,075**	-
Irredeemable debentures	**680**	-	**680**	-
Listed bonds	**361,103**	-	**361,103**	-
Index linked loans	**488,830**	-	**488,830**	-
Variable loan rate	**120,111**	-	**120,111**	-
Fixed rate loan notes	**151,156**	-	**151,156**	-
Lease liability	**3,824**	-	**3,824**	-
Amounts due to parent and group undertakings	**6,624**	-	**6,624**	-
Trade and other payables over 1 year	**3,985**	-	**3,985**	-
Total fair value of financial liabilities at amortised cost	**1,274,379**	-	**1,274,379**	-

31 March 2023	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	60,903	-	60,903	-
Revolving credit facility	30,031	-	30,031	-
Irredeemable debentures	807	-	807	-
Listed bonds	388,995	-	388,995	-
Index linked loans	475,527	-	475,527	-
Variable rate loan	119,790	-	119,790	-
Fixed rate loan notes	163,228	-	163,228	-
Lease liability	4,500	-	4,500	-
Amounts due to parent and group undertakings	9,754	-	9,754	-
Trade and other payables over 1 year	4,083	-	4,083	-
Total fair value of financial liabilities at amortised cost	1,257,618	-	1,257,618	-

Notes to the condensed group financial statements
for the six months ended 30 September 2023

18. Financial instruments continued

30 September 2022	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	68,492	-	68,492	-
Irredeemable debentures	680	-	680	-
Listed bonds	501,736	-	501,736	-
Index linked loans	628,618	-	628,618	-
Variable loan rate	116,240	-	116,240	-
Fixed rate loan notes	224,156	-	224,156	-
Lease liability	3,559	-	3,559	-
Amounts due to parent and group undertakings	10,551	-	10,551	-
Trade and other payables over 1 year	4,260	-	4,260	-
Total fair value of financial liabilities at amortised cost	1,558,292	-	1,558,292	-

No transfers between level 1 and level 2 were made in the reporting periods ended 30 September 2022 and 2023 or the reporting year ended 31 March 2023. No transfers into or out of level 3 fair value measurements were made in the reporting periods ended 30 September 2022 and 2023 or the reporting year ended 31 March 2023.

19. Capital commitments

	30 September 2023 £000	31 March 2023 £000	30 September 2022 £000
Contracts placed for future capital expenditure not provided in the financial statements	**54,510**	60,559	33,582

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

Contingent liabilities

Through the ordinary course of operations, the group 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 group's results from operations, cash flows or financial position.

Notes to the condensed group financial statements

for the six months ended 30 September 2023

20. Events after the reporting date

There are no post balance sheet events.

21. Parent company and ultimate controlling parties

The immediate parent company is South East Water (Holdings) Limited. The largest and smallest group of companies into which results of the company are consolidated is that headed by HDF (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of HDF may be obtained from the Company Secretary at the company's registered office at Rocfort Road, Snodland, Kent, ME6 5AH.

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 shareholders. 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 shareholders control the company jointly.