HDF (UK) Holdings Limited

Annual Report and Group Financial Statements

31 March 2019

Contents

Directors

M Szczepaniak (Non-Executive Director)
O Schubert (Non-Executive Director)
S Jordan (Non-Executive Director)
R Drew (Non-Executive Director)

Company Secretary

N Truillet

Company's Bankers

HSBC Bank plc
60 Queen Victoria Street
London
EC4N 4TR

Company's Auditor

Deloitte LLP Statutory Auditor
Hill House
1 Little New Street
EC4A 3TR
London
United Kingdom

Registered Office

Rocfort Road
Snodland
Kent
ME6 5AH

Registered No. 05462865

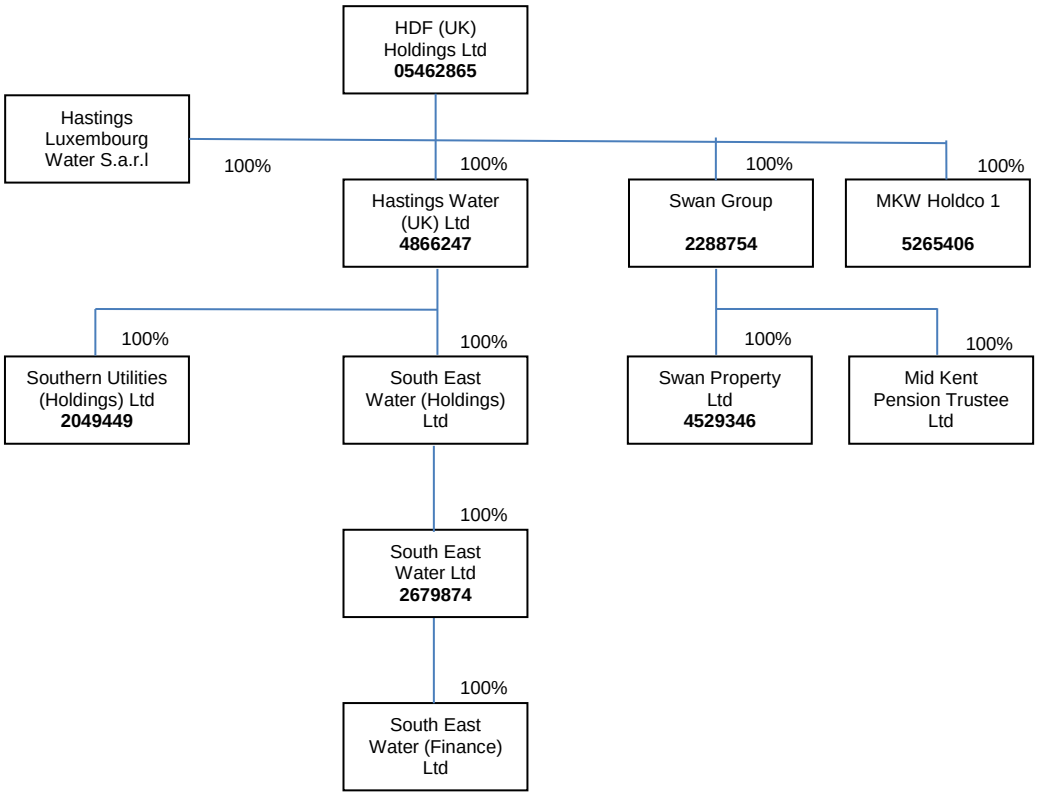
Country of domicile and registration: England and Wales

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 2019.

HDF (UK) Holdings Limited ("HDF") is the ultimate UK holding company of the group of companies which are 50% owned by Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia, which is resident in Australia and managed by Morrison & Co Utilities Management (Australia) Pty Limited, and 50% owned by a number of managed clients of Vantage Infrastructure Holdings Limited. 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.

Throughout the year, the group headed by HDF in the UK included South East Water Limited, which is the principal operating company within the group, Swan Property Limited and Invicta Water Limited until it was sold on 1 July 2018 to Castle Water (Holdings) Limited. The full structure of the group as at the balance sheet date is presented below.



This strategic report has been prepared to give you 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 2018/19. The risks and opportunities that our businesses face and how we manage them are also discussed in this report.

South East Water Limited

Our business

Our vision and strategy

Our vision for the future is to be the water company people want to be supplied by and want to work for. It puts both customers and our employees at the heart of what we do.

Strategic report

Our commitments - achieving our vision
To support the delivery of our vision, our 2015 to 2020 plan has five commitments which help us focus on how we run our business today and how we plan for the long term, with our employees ensuring that our customers are the priority in everything we do.

- Every customer counts – Our customers' priorities lie at the heart of everything we do
- Everyone counts – We inspire and motivate our people and partners
- Every action counts – Our operational performance is safe, effective and efficient
- Every drop counts – Our infrastructure delivers a reliable service to our customers
- Our future counts – We plan effectively for the long term

Our core values
Core values support our vision and commitments, and reflect what South East Water is all about.

Through workshops and interviews with employees talking about what it's like to work here, what our people stand for and what characterises the way we deliver our service, we created and defined our own set of core values:

Trust – Dependable, safe and sound, as a team always delivering on our commitments. Guardians of the environment
Passion – Dedicated to delivering a safe, reliable service, always caring for our customers and each other
Agility – Responsive, flexible and adapting quickly to change
Creativity – Fresh thinking, improving, never standing still
Excellence – Striving at all times to be the best and deliver the best

Our business strategy
Planning for water is a long-term business, which is why it is important we set out the opportunities and challenges we face in the future.

There are some considerable challenges for companies such as ours, which operate in a region which has been designated as being in serious water stress. The biggest of these is the need to meet the demand for water, from customers of today and the customers of tomorrow.

It is vital we look a long way ahead to anticipate the changes and challenges that could impact our work in the future. The challenges we face include:

- Rising numbers of homes and people
- Meeting customer demand for water
- Climate change
- Maintaining supplies
- Customers' changing expectations

We put customers centre stage of our business strategy, while ensuring we take account of all our other legal and financial obligations, which has meant we have a clear direction of travel; one which we believe is better signposted as a result of our innovative and holistic approach to measuring our future performance through outcomes.

To develop our 2015 to 2020 plan we consulted with more than 8,000 people with an interest in our business, from customers and employees, through to community leaders and investors, to ensure we had developed a strategy that met their expectations.

Their feedback helped us to develop our five year business plan and to develop our corporate plan. This has led to the development of the five commitments, each of which leads to our customer outcomes which we measure to assess our current performance.

Read more online at southeastwater.co.uk/businessplan2015

We have been building on this customer engagement to create our new 2020 to 2025 business plan which is our most ambitious plan yet.

Strategic report

2020 to 2025 business plan - customer satisfaction responsibly delivered
We believe customer satisfaction is the best yardstick for everything we do, which is why it is the core theme of our 2020 to 2025 business plan. We published the plan in September 2018 and following initial feedback from Ofwat as part of their Initial Assessment in January 2019 and the publication of the Draft Determination in July 2019, we are working with Ofwat to respond to their questions and concerns. We believe our plan is the right one for our customers, now and in the future.

We are driven by the same values of trust as our customers. We are a business made up of dedicated water people who want to make a difference – to customers, communities, the environment and society – so that everyone and everything thrives as a result of what we collectively do.

We are immensely proud of being a local water company with a passion for sharing our 'pure know $h_2$ow' – and we have used our customers' desire to know more about their water supply service to develop our 'resilient customer' concept.

The result is a plan which:

- remains **built around customer satisfaction**, but which has improved from measuring average satisfaction across seven service elements to measuring satisfaction by attitudinal segments so we meet the expectations of all our customers – whatever their needs or circumstances

- strengthens the link between satisfaction and resilience by making customers part of the solution by giving them targeted information, and as a result, greater control over their water use. We have used recent supply challenges in 2018 – such as the freeze/thaw and heatwave events – to develop this further through our **resilient customer concept**

- has a **focused innovation strategy** which targets our customers' and stakeholders' priorities; and where we can make the most difference to lead the industry, not least using our **toolboxes** to deliver greater customer satisfaction

- has **10 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 us to **deliver performance levels well beyond anything we have delivered before** and new ones too, such as our performance commitments relating to vulnerable customers, the environment and customer satisfaction

- when all the components are intrinsically linked as a package, **only four per cent of our customers did not find it acceptable**

The plan commits to all this at the same price as now, the challenge of doing more for less should not be underestimated. We have included 37 new performance commitments in our plan. To deliver those while keeping water bills stable has required us to make aggressive assumptions on our ability to reduce total expenditure, via bold efficiency and productivity improvements.

Our ambition to do more for less is what this plan is built upon and is what drives us to set a new tone of trust and transparency in the water sector. We will do this by evolving our use of satisfaction and introducing responsible business commitments.

Read our latest plan at corporate.southeastwater.co.uk/about us/our-plans/our-business-plan-2020-2025.

Water resources for the future
Every five years we update our water resources management plan (WRMP) which looks at how we will keep taps running while striking that delicate balance between protecting the environment and keeping bills affordable.

Strategic report

Since we published our previous plan in 2014 we have:

- reduced the amount of water lost through leaks, exceeding our target
- metered 90 per cent of our customers
- reached more than 22,000 people as part of our award-winning targeted behaviour change campaign

Previously these plans looked 25 years into the future, but because the south east faces a number of unique challenges, as detailed on page 5, we've taken the decision to look forward 60 years to 2080.

By doing this we can make sure the work we do now lays the best foundation for future generations.

Over the next 60 years the population in our supply area is set to increase by 53 per cent to 3.34 million. To ensure all existing and new customers continue to receive a reliable tap water supply we need to increase the amount of water available by an extra 294.2 million litres a day by 2080.

Our latest plan includes proposals for making what water we already have go further – by further reducing leaks on our pipes and developing water efficiency programmes.

Although this will help, these measures alone will not be enough to meet the predicted shortfall in water. Our larger scale proposals for 2020 to 2045 include:

2020 to 2045:

- building a new water treatment works at the former Aylesford Newsprint site, Kent by 2023
- upgrading existing water treatment works at Ford, Kent by 2027
- developing a water re-use scheme at Peacehaven, East Sussex by 2028
- building a new reservoir next to our existing Arlington Reservoir, East Sussex by 2032
- creating a new reservoir in Broad Oak, Kent by 2033
- developing a water re-use scheme at Aylesford, Kent by 2038
- developing a regional water transfer scheme with SES Water

Long term considerations between 2045 and 2080:

- desalination at Eastbourne, Reculver and the River Medway
- water re-use on the River Stour, East Kent
- a new reservoir in West Sussex
- a new raw water abstraction and treatment works from the River Thames near Maidenhead, Berkshire
- regional water transfers from Portsmouth and Thames Water
- a new groundwater resource near Farnborough, Hampshire

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

Read more online at corporate.southeastwater.co.uk/about-us/our-plans/water-resources-management-plan-2019.

Our objectives

We use outcome delivery incentives (ODIs) to measure our progress towards achieving our goals and priorities. We have published a summary of our performance against these ODIs in table 3A of our annual performance report. We have also published our Performance, People and Planet report 2018-19 which provides much more detail on each of the ODIs, the challenges we face and our future plans to ensure we continue to improve, and further develop our focus on customer and stakeholder outcomes.

Our business model

We deliver water to our customers. We do this by applying our pure know $h_2$ow to the process of collecting, storing, abstracting, treating and transporting water using the infrastructure (reservoirs, treatment works, pipes and pumps) that we build and maintain.

Strategic report

All our activities are regulated by Ofwat, our economic regulator, which has a duty to protect the interests of consumers. We operate under an instrument of appointment issued under the Water Industry Act 1991. Every five years under the terms of our licence and as part of the industry price review we submit a business plan to Ofwat. Our business plan sets out the costs that we expect will be incurred in running the water network and the capital investment we expect will be required to maintain a high quality of service to our customers.

Creating value by being a responsible business
Our business creates value in a variety of ways:

- Value for customers - maintaining and investing in our infrastructure to ensure current and future customer demand for water is met
- Value for the environment - protecting and enhancing the environment
- Value for employees – providing training and fulfilling jobs
- Value for our communities – enabling communities to develop and thrive thanks to a reliable water infrastructure
- Value for investors – providing stable returns by anticipating and managing emerging risks and identifying new business opportunities

We believe that by focusing on creating and delivering value across these different dimensions we will be able to achieve our ambition of being a responsible business, one that creates value for, and is valued by, our stakeholders and society.

Taking the long view
We have a rich history of taking a long-term view: making decisions that balance meeting the needs of customers today with ensuring we can provide a quality service for our customers of the future. We design and build our infrastructure to meet expected changes in demand and environmental conditions.

We raise money for our investment programme from financial institutions like pension funds who take a long-term view and seek steady, reliable and reasonable returns on their investment.

The price that we charge our customers is regulated by Ofwat and set for a five-year period at a level that reflects the expected cost of running our business and funding our investment programme. Customer bills are inflation linked and thus provide some protection from the impact of increased operating costs, but we have to think about how best to manage the risks to the business of events not included in the prices set by Ofwat.

The next five year price period runs from 2020 to 2025 and our business planning has been based on a good understanding of the medium to long term business and external environment.

Business environment

External environment

Political and regulatory
We operate within a strict regulatory environment and work closely with our regulators to strive to deliver a great service for our customers both now and in the future.

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

South East Water has worked collaboratively with water companies from across the country to prepare for the potential implications of the UK's exit from the European Union, this included preparations during the year for the potential risks if no deal was in place. We are working with our supply chain and putting measures in place to minimise any impact. We have been liaising with government, regulators and, on a local level, with Local Resilience Forums, keeping them updated on our planning.

Environmental
Our business clearly relies on a secure supply of our natural resource – water. We must ensure that we protect both the quantity and quality of our key resource.

Strategic report

Rainfall in the South East of England is lower than other parts of the country and is officially designated as an area of serious water stress. Our water resources management plan (see page 7 for details) is key to the management of our precious resource.

As well as ensuring we have the supplies we need, now and into the future, we can also protect the quality of that water and reduce energy use through more efficient treatment processes.

We recognise that good effective environmental management must be at the heart of all of our water supply operations, which is why it is embedded into all aspects of our work. It is something that we do every day through the management of our assets, delivery of our product and investment in the community in which we serve, live and work.

Our planning into the future includes considering the effects of climate change, working to protect the environment from pollution caused by others as well as our own activities and reducing our carbon footprint.

Our careful stewardship of the 2,000 hectares of land we own ensures our groundwater sources produce a top quality product as the natural filtering through underground aquifers means minimal additional treatment is needed.

Where our water is sourced from surface water, such as rivers and reservoirs, we are working with local communities to improve the quality of the water within the catchment. Our water and farming partnership sees us work together with Natural England to support farmers with the management of the water catchment in their areas.

Social

We have many people that care about our business, including our customers, our communities and our employees. Our Performance, People and Planet report for 2018/19 summarises how we are working to meet the different requirements of this diverse group.

An important development in our preparations for the business plan has been our focus on attitudinal customer segmentation. Historically, the water industry has tended to segment customers based on age, income or their metered or unmetered consumption of water.

Our engagement with customers shows us that this is too simplistic and therefore we have segmented our customers based on their attitudes to water. Successful retail businesses do this as a matter of course and we believe the results will enable us to develop better communications that meet the needs of these different groups for the future.

Thinking about future generations, the impact we have on them as a business and how we will ensure we are sustainable is important. We take our corporate social responsibility very seriously as we plan for the future. Clearly the drinking water we supply is fundamental to the health and quality of life of our customers. The quality of the drinking water we supply is monitored at every stage of the treatment process through to when it flows from our customers' taps.

Our communities also benefit from the provision of educational, recreational and amenity opportunities that come from being able to access our land and from the contributions we make through donations, organised charitable events and the support of our employees in their voluntary activities.

The average household water bill from 1 April 2019 rose by 0.5 per cent to £211 (including inflation), which works out at 58 pence a day for the average family. For this we supply safe, high quality water for everyday needs such as drinking, washing and cooking which represents great value for money.

We know the value of our employees and the importance of making individuals feel engaged in the running of the business. We firmly believe that engaged employees go the extra mile to deliver a great service.

How we do this is by embracing the Investors in People ethos of continuous improvement and measuring performance against our corporate objectives. This framework enables us to channel resources more effectively and harness the talent of our people towards achieving our company goals. We are proud to be accredited to the Silver Investors in People standard which was retained following assessment during the year.

Strategic report

Developments in our journey so far include improved training opportunities, better internal communications and ensuring all employees and contractors receive the living wage - the sum above the minimum wage and we are accredited by the Living Wage Foundation.

Technological
We work closely with our employees and supply chain to research and develop technological advances that can help us improve the quality of our service.

An example of this in action is a computer system invented by our leakage team which has helped stop millions of litres of water being lost to leaks every year. Aquanet has become a vital research and analysis tool, identifying pipes which are leaking as little as 0.05 litres a second by using advanced mathematical algorithms to compare flow rates in thousands of water meters throughout the company's network of 14,780 kms of pipes.

Embracing the latest digital technology is a vital business tool and we continue to invest heavily in our website to give customers a useful, comprehensive and instantaneous two-way communications channel simply by signing up for an online account.

This enables them to view bills, check their online balance, sign up for a direct debit, notify us when they move home, make a payment and submit a meter reading.

The website, which works seamlessly on desktop, tablet and mobile, can also talk to customers in more than 60 different languages.

Our investment in this new software underlines our commitment to providing a five-out-of-five service to all of our customers, including those for whom English is not their first language, and for anyone with additional needs.

Internal factors (key resources)

People
We know that we can only achieve our ambitions for customers with a thriving and creative team of people to deliver our promises. That is why we ensured our vision was as much about the people we work with as it is about those we work for.

Protecting the interests of our employees and partners and ensuring that they are respected, fairly treated and highly motivated is a key objective through our "everyone counts" commitment.

The health, safety and wellbeing of our employees is vital to our business. During the year we have built on our Thrive 365! Strategy, which sets out how health, safety and wellbeing is at the heart of everything that we do and supports our ambition to be the water company that people want to work for.

A number of activities are underway to improve diversity across the organisation, including ensuring our recruitment advertising is accessible to all, developing a "Women at Work" group to share experiences and knowledge and developing our in-house mentoring service.

Last year we launched a new employee performance management framework called iReview. This is a system created to support the business objective of employee self-assessment.

Our performance, people and planet report details the work we are doing to continue to ensure we are the water company people want to work for.

Assets
Keeping 14,780 kms of pipe, 83 treatment works, 86 boreholes and 254 pumping stations running efficiently requires the right investment at the right time. It is these assets that ensure we deliver a successful 24-hour water supply service for our customers. We use the latest technology and modelling capabilities to constantly assess the health of our assets which must be stable enough to deliver expected levels of service for many years ahead.

In September 2018 we were reaccredited with PAS55, the British Standard produced by the Institute of Asset Management and recognised as a benchmark for how physical assets and infrastructure are best managed.

Strategic report

Making sure we provide value for money to our customers, while maintaining our water supply and distribution systems is a complex job, and renewing our PAS55 certificate shows that we are getting our approach to asset management right.

Gross capital investment in the year was £104.7 million (2018: £96.0 million).

Business performance

We use a range of measures and targets to track our performance during our five year business plan. We call these “outcomes”. An outcome is our promise to customers, regulators and those with a stake in our business. It sets out what we are trying to achieve, rather than just what we will do. These include some innovative outcomes, relating to continuous assessments of our customers levels of satisfaction which will help us demonstrate how we keep our customers at the heart of everything we do.

Traditionally, water companies have focused on output based measures, for example the number of customer complaints, rather than focusing on how satisfied customers are and how they feel about the service they receive from their water company. In 2015/16 we introduced seven customer satisfaction measures where we contact customers at random on a monthly basis to understand how satisfied they are with elements of our service.

The outcomes that are surveyed are as follows:

- Customers consider the appearance of their water to be acceptable
- Customers consider the taste and odour of their water to be acceptable
- Customers consider the level of leakage to be acceptable
- Customers consider their direct interaction experience to be positive
- Customers consider their water supply is of sufficient pressure
- Customers consider the frequency and duration of supply interruptions is acceptable
- Customers consider the frequency of water use restrictions to be acceptable

Our customer satisfaction performance has remained stable for the majority of measures this year. The average score for the year is 4.3 out of five across our suite of measures. This means that the majority of our customers are either satisfied or very satisfied with the service we provide.

Customers can visit the website discoverwater.co.uk which gives everyone access to comparative information on the performance of water companies.

For further information on all of our outcomes and targets please refer to our performance, people and planet report and table 3A in our annual performance report.

Risk management

How we manage risks

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

In January 2019 Ofwat published its Company Monitoring Framework Assessment 2018 in which we were recognised for the quality of the information we provide in most areas, but had four areas with minor concerns. This resulted in South East Water being moved into the targeted category.

The report is an annual assessment on the quality of information and assurance all water companies provide customers about their performance and is intended to challenge them to publish information that can be trusted by their customers.

Strategic report

As a company in the targeted category we are required to publish a full analysis of the strengths, risks and weaknesses in relation to data and information provision and we need to publish a summary of the outcome of the assurance that has been carried out. In practice we have always published this for these elements, while self-assured (though not required to), and as a result the format of our company monitoring framework remains unchanged.

You can read our company monitoring framework for 2018/19 at southeastwater.co.uk/cmf

We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks. The board defines South East Water'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 also reviews monthly, quarterly and annual reports on performance which highlight risks and business or operational issues as they arise. The audit and risk committee monitors the effectiveness of our systems of risk management and internal controls on an ongoing basis.

Individual managers and heads of department are responsible for identifying risks relevant to their area of responsibility and defining and implementing mitigation. 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 each month ensuring that an in depth review of each department's risks is carried out at regular intervals.

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

For our latest annual review, we have compared our latest risk profile with the risk profile at our previous review. Our risk profile remained stable and there were no significant changes in the nature of the risks identified.

Risks relating to asset resilience and in particular the impact of large bursts on our performance on interruption were considered in the context of our ODIs, with an increased risk of penalty in respect of this measure due to exceptional incidents (such as the freeze/thaw in March 2018) and the impact of large bursts despite a good underlying performance.

We also monitor closely the risk of under-performance in respect of discoloration contacts and have implemented a number of mitigation measures, but the target remains tough.

Principal risks and uncertainties

Principal risks are those which due to their likelihood or magnitude can significantly impact on the long-term success of our company. We considered their impact on our business model, future performance, solvency and liquidity. We also reviewed the adequacy of the mitigation in place as recorded in our risk register.

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

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

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

Strategic report

Our Principal risks

Category	Risks description	Mitigation
Health & safety	Our activities and assets present risks to the health and safety of our employees, contractors and the public. 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.	We have comprehensive processes in place including policies, standard operating procedures, risks assessments and toolbox talks involving our employees, partners and contractors. We continuously take actions on training and awareness to ensure that our employees and contractors always adopt safe practices. This year we have continued to build on our Thrive 365! safety strategy designed to support the company vision and provide clear direction and a road map for continuous improvement of our health, safety and wellbeing performance. Our directors review health and safety performance at each board meeting.
Water quality	A water quality incident could lead to a failure to supply wholesome water and public health incidents which would significantly affect customer trust. This may also result in investigations and enforcement actions and potential prosecutions from the Drinking Water Inspectorate. Significant water quality events may also lead to significant costs being incurred and have a significant impact on our revenue. This could relate to our own water treatment facilities or to bulk supplies of treated water we receive from other water companies.	We control water quality risk through the operation of our treatment works and distribution network which are constantly monitored. We carry out extensive sampling of our water every day at our accredited laboratory. We follow the World Health Organisation (WHO) water safety plan approach which includes risk assessments and management of all aspects of our water supply chain from catchment to customers' taps. We invest in our treatment works to improve water quality and actively manage our catchments to reduce the discharge of chemicals by third parties. We have emergency plans for the deployment of alternative supplies if necessary. We have implemented a programme of flushing, network management and investment in our treatment works to meet our targets on discoloration contacts. We share lessons learnt with other companies which we use to update and improve our own practices and procedures.

Strategic report

Category	Risks description	Mitigation
Operational performance	Strategic asset failures and significant operational incidents (such as bursts, severe weather events or water quality events) may affect our ability to deliver a safe and uninterrupted water supply to a large number of customers or cause damage to third parties. This can lead to penalties and legal action and impact customers' perception and satisfaction. This also leads to additional compensation costs. These risks may affect our own water infrastructure or those of other water companies that provide us with a bulk supply of treated water.	We have established procedures and emergency plans for dealing with incidents and targeted investment to address specific operational risks when identified. We have put in place a dedicated operational steering group to identify potential risk and work on prevention and mitigation. We are putting particular emphasis on this area to improve our performance on interruption which was affected by a small number of large bursts at the beginning of the regulatory period and by the freeze/thaw in 2017/18 despite good underlying performance. Following the freeze/thaw, we used our report on lessons learnt to prepare a comprehensive action plan to improve our readiness, resilience and our response capabilities in case of future severe weather events.
Market reforms	The extension of competition on the non-household retail market, the evolution of the new connections market, the introduction of competition for water resources, demand management and leakage services and the introduction of direct procurement at PR19 as well as the potential introduction of competition for household retail customers in the future create new risks of disruption to our business model and operations. There are implementation risks in establishing new methods of working and processes. They could also create new business opportunities. We could face reputational damage and possible enforcement action if we do not demonstrate compliance with the new market arrangements. We must also ensure continued compliance with competition law as the environment in which we operate evolves.	We are keeping the proposals from Ofwat and government under review and contributing actively to ensure that risks are identified and taken into account in the definition of policy. We maintain our compliance processes up to date. We are reviewing and anticipating the potential impact of regulatory changes on our ability to secure finance at no less favourable terms. We keep our commercial strategy and the structure of our business under review to be able to adapt to changes and to take advantage of new opportunities.
Adverse changes to the regulatory framework and political risks	Decisions to change the approach to established aspects of the regulatory framework have an impact on our overall risk profile and on our medium and long-term planning. This included Ofwat's decision to reduce the RCV and introduce the use of CPI instead of RPI for the indexation of the RCV. Potential nationalisation (or renationalisation) of water companies has the potential to cause significant disruptions to our operations. It would potentially affect our existing financing structures. This creates uncertainty relating to our long term planning and our ability to maintain the investment required to meet our long term service obligations. Nationalisation could lead to the business being acquired below fair value.	We are assessing the implications of political risks including the risk of nationalisation. We work with the industry and stakeholders to anticipate the potential effects of the proposals and to contribute actively to the debate to ensure that risks are identified and taken into account in the definition of policy proposals.

Strategic report

Category	Risks description	Mitigation
Price determination	The current price review introduces separate water resources and network plus wholesale price controls. It maintains the use of totex and outcome delivery incentives (ODIs) with reference to upper quartile performance and with the introduction of in-period reward/penalty adjustments. The price review also introduced new customer satisfaction measures (C-Mex) and new developer services satisfaction measures (D-Mex). These changes bring new compliance requirements and related compliance risks and some uncertainty as all aspects of the new measures are not fully defined. Our business plan for 2020 to 25 has been submitted and Ofwat has carried out its initial assessment of our plan. The outcome of the price determination is not yet known.	We have detailed processes to ensure compliance with our price determination and to ensure that we operate within the assumptions of the price determination (including ODIs and investment). We have processes to monitor and report on our compliance with regulatory obligations. We are continuing to clarify and defend the strength of our business plan submission through the post initial assessment and draft determination process providing additional evidence and information where required. We are continuously assessing the deliverability and financeability of the determination and any risk it may create for the company for the next regulatory period.
Delivery of business plan and performance against ODIs	There are financial and reputational risks associated with a failure to deliver our business plan commitments and ODIs and our position at the next price determination may also be impacted. The introduction of in-period ODI adjustments could have an impact on our revenue during 2020 to 25. Our ODI performance could also be affected by incidents affecting other companies that provide us with a bulk supply of treated water.	We have taken a number of business improvement initiatives to deliver our ODIs and ensure customer and employee engagement. Dedicated steering groups monitor key measures such as interruption, water quality, customer services, customer perception and leakage. We are preparing our corporate plan throughout the preparation of our business plan and the price determination process to identify and start the early implementation of business changes required to deliver our performance commitments. We are developing resilience and innovation action plans to help achieve their stretching performance commitments.
Investment programme delivery	We need to ensure that we deliver the investment necessary to maintain and improve our services to customers. The risks affecting the delivery of our investment are internal, relating to the management of the delivery of our programme, and external such as extreme weather conditions, incidents affecting the works, or supply chain risks.	We have comprehensive processes involving our asset, engineering and operations functions to ensure that projects are planned and delivered on time and budget. Projects are reviewed by an investment committee and a programme management office. Project scopes and planned efficiencies are reviewed with our engineering partner and the early involvement of our framework contractors to identity risks and opportunities for innovation and savings.

Strategic report

Category	Risks description	Mitigation
Water resources and climate change	Failure to develop our infrastructure, to improve its resilience and to manage demand would mean that we would not be able to meet our statutory duties and future demand. Climate change will increase instances of severe flooding and drought which can affect the availability of resources and the operation of our infrastructure.	We operate in an area of serious water stress and manage demand through our metering programme which was completed in 2019. We have an ambitious programme to drive behavioural changes from customers for 2020 to 25. We have also consistently met our leakage targets and have committed to significant leakage reductions at PR19. Our water resources management plan is developed to take account of opportunities for cooperation between water companies in the south east. We also invest in flood protection at our operational sites and to improve our resilience to power outages, and manage drought risks through a dedicated team. We have a significant programme of environmental schemes including to manage the impact of our water abstraction.
Regulatory and legal compliance	Our business operates within a specific legislative and regulatory framework and many of our activities have an impact on the environment. Failure to ensure compliance with regulatory and legislative requirements may lead to criminal and civil liability, regulatory enforcement actions and disruption to the business and loss of management time. It would also affect the perception of South East Water by customers, regulators and others stakeholders and affect the trust they have placed in us as a provider of an essential public service.	We have a wide range of policies, processes and controls to ensure that we meet our duties and obligations. We also monitor compliance with our statutory obligations for the purpose of reporting on our performance and for the purpose of our ODIs. We review annually compliance performance and processes with the relevant department. We monitor changes to compliance requirements in order to adapt our processes and policies when required.

Strategic report

Category	Risks description	Mitigation
Security and information security	The security and resilience of our information infrastructure is essential to maintain our service to the public. We must protect ourselves from loss of data and systems and cyber-attacks and keep customers' data up-to-date and safe. Failure to protect personal data may lead to fines, enforcement actions and legal actions and would cause reputational damage. Loss or corruption of data would result in disruption to the business and additional costs. We must ensure compliance with the new requirements imposed by the General Data Protection Regulation and the EU Directive on the security of Network and Information Systems.	Our corporate security steering group continuously monitors all physical and data security aspects and data protection to identify new risks and the effectiveness of our security processes. We have department champions who are specially trained on these issues and we continuously promote awareness of risks, highlighting how unsafe behaviour could be exploited by external threats. We maintain disaster recovery systems and facilities which are regularly tested. We invested in security measures against unauthorised access to our systems and in software to help us monitor activity on our network. We achieved recognised cyber security certifications. We work with relevant external organisations to test the effectiveness of our resilience and security measures and review the maturity of our security systems and procedures. We maintain this risk at a high level due to the constant emergence of new threats and the risk of exploitation of vulnerabilities that may not have yet been fixed by software providers. We have implemented an extensive programme to achieve readiness for GDPR and continue to develop our GDPR compliance.
Financing	Unfavourable market conditions (including the impact of "Brexit") and regulatory changes may affect our ability to obtain financing or low interest rates. We must ensure that we comply with covenants in our agreements with our debt providers and maintain our credit rating.	We continuously monitor and report regularly to our board on compliance with our financial covenants. We have successfully completed the refinancing of a significant part of our debt and maintained our credit rating. Our refinancing has allowed us to reduce gearing and also gives us additional flexibility to further gearing reduction.
Bad debt	Customer bad debt and increased collection costs is an issue faced by all water companies which affects cash and liquidity and the cost incurred to recover income.	We maintain strict processes for the collection of debt and take steps to encourage payments through direct debits. We have maintained a good performance on collection of bad debt but keep the effectiveness of our recovery process under constant review. We also offer a social tariff and other similar tariffs to assist customers who may struggle to pay. We have reviewed our approach to customer engagement and are implementing a number of new initiatives on affordability and vulnerability led by a new dedicated team.

Strategic report

Category	Risks description	Mitigation
Human resources and culture changes	Employee retention and talent management is important to deliver performance and maintain company knowledge especially in operational areas with a more mature workforce and the need to manage planned retirements.	We have implemented a successful apprenticeship scheme in operations and the “steps to leadership” programme is developing managers over four levels. We have extensively communicated our values and objectives with employees to ensure their support and their involvement in cultural changes required to deliver the next step of performance improvements. Our people plan includes a number of initiatives on diversity, talent management and succession planning.
Economic environment and Brexit	Changes to the economic environment of the UK relating to “Brexit” will affect our business. We may see an increase in the cost of key inputs in our operations and rising inflation may affect customers’ ability to pay and the level of bad debt. Our supply chain may be affected as well as our ability to access skilled resource if unfavourable changes affect the circulation of persons. Uncertainties due to changes in legislation, tax law and regulation will affect our ability to plan for the medium and long term and may also affect our day to day operation and increase the complexity of our compliance activities. A “no-deal” Brexit would lead to disruption to our supply chains and our operations for a period of potentially several months after a “no-deal” Brexit. Our main risk in a “no-deal” scenario would be the disruption to our supplies of chemicals used in the treatment of water caused by changes to customs requirements as our chemicals are largely procured from the EU. Supplies to other equipment and materials from the EU would also be disrupted. Other risks include possible traffic disruptions and localised fuel shortages especially in the company’s area due to disruptions to Kent ports which could affect our operations. Additional costs have been and will be incurred for preparation and risk mitigation.	We are working to anticipate the impact of macro-economic changes on our business and the other impact on our operations. We are monitoring changes in the economic environment as well as considering the impact of future tax changes. We will consider the potential direct impact on our operation as more detailed information becomes available. The water industry has developed a national readiness and risk mitigation plan to prepare for a “no-deal” Brexit in consultation with Defra, the Drinking Water Inspectorate, the Environment Agency, public health bodies and other relevant authorities. An incident management manual for operating in these circumstances has been developed by the industry. Emergency planning exercises were also carried out. Weekly, then daily calls will take place if a “no-deal” scenario becomes more likely including chemical stock reporting. The industry and our own plans include the creation of additional stocks of chemicals by both companies and their suppliers to the extent permitted by shelf-life and safety requirements, the review of the suppliers’ supply chains and their readiness, and the creation of additional stocks of materials and equipment. Our preparation is integrated with our incident management plans and our preparation is managed by a specific incident management team. We have also worked with relevant local authorities to agree the support that we may receive in case of disruptions to traffic and fuel supplies especially in Kent that would be affected by disruptions to Kent ports and Operation Stack.

Strategic report

Invicta Water Limited

Invicta Water Limited's principal activity is the supply of water and sewerage retail services to non-domestic customers across England following the opening of the non-domestic water and sewerage markets to competition on 1 April 2017.

On 30 April 2018, Invicta Water Limited acquired the rights to the non-household customers from South East Water Limited ("SEWL") for £10.0 million. This transaction was funded by use of a £10.0 million loan facility provided by HDF (UK) Holdings Limited ("HDF") to acquire the customers and provide working capital. The consideration payable by Invicta for the non-domestic book of customers was based on market value.

On 1 July 2018, Swan Group, Invicta Water Limited's immediate parent company, sold the entire share capital of Invicta Water Limited to Castle Water (Holdings) Limited for £10.0 million. As part of the sale agreement, the assets and liabilities of Invicta Water Limited, excluding the rights to the non-domestic business of the company were transferred to Swan Group.

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 2018/19 financial year were 100% of the share capital of Swan Property Limited ("SPL"), a property management and investment company, and 100% of the share capital of Invicta Water Limited ("IWL"), which was sold on 1 July 2018, as noted above. Swan Group is a private company with an unlimited liability.

Swan Property Limited

Swan Property Limited is a private company limited by shares. The principal activity of SPL is buying land and properties from other members of the HDF (UK) Holdings Limited 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.

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 is the 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 South East Water (Finance) Limited received interest on loans made to other group undertakings and paid interest on loans raised from external sources.

South East Water (Finance) Limited's financial instruments comprise fixed and variable rate borrowings, an interest rate swap, loans and other amounts owed to and owed by group undertakings. The company interest rate swap links part of its fixed rate borrowings to movements in the retail price index.

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.

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.a.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. 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.

Other Group Companies

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

Group financial performance

Revenue
The group turnover for the year was £238.3 million compared to the previous year of £221.5 million, after allowing £3.5 million in the prior year which has been reported under discontinued operations (see note 13). Under the regulatory price control mechanism, our revenue is allowed to increase in line with RPI each year. In 2018/19 our tariffs increase was maintained under five per cent. Additional revenue generated from an increase in prices of £9.2 million, after allowing for the disposal of the non-household business, has been supplemented by an increased demand due to the hot summer weather of £1.4 million.

The increased turnover was offset by a loss of revenue from customers who switch from unmetered to metered supply of £4.5 million. As customers switch from unmetered to metered supply, we see a reduction in bills as customers use less water and therefore, in turn, revenue to the company reduces.

Additionally, changes in our accounting policies following the adoption of IFRS 15 have resulted in additional turnover in the income statement of £7.5 million in respect of new connections charges and infrastructure income.

Other income has also increased significantly in the year largely due to an expansion of our non-regulated business providing an extra £3.1 million of income.

Operating expenditure
Our operating costs for the year, including charges for doubtful debts, have increased from £155.5 million to £165.2 million, an increase in costs of £9.7 million. The most significant impact on costs in the year was the introduction of IFRS 15 which has resulted in the £2.3 million overhead recovery on new connections, previously offset against operating costs, now included in income. Other increases include additional depreciation of £1.5 million in respect of new fixed assets introduced to operations, £1.4 million of additional energy and bulk water supply charges due to increases in prices in the year and additional demand due to the hot summer and increased maintenance costs, again due to the summer heatwave.

Higher debt collection fees of £0.8 million have also been incurred in the year largely in respect of collection services following the exit from the non-household retail market. Additionally, we have seen other operational and inflationary pressures on our costs, particularly with respect to business rates and insurance.

Strategic report

Partly offsetting this were lower compensation payments of £1.1 million following the additional payments in respect of the freeze/thaw incident in 2017/18.

Operating profit
Operating profit has increased from £74.8 million to £86.2 million, an increase of £11.4 million. This increase in operating profit reflects the additional income in excess of additional costs, as detailed above.

Finance costs
Finance costs are incurred on our borrowings which include fixed rate and index linked bonds and index linked and variable rate loans. The maturity dates on our borrowings range from 2019 to 2045. The finance costs incurred in the year were £68.2 million compared to £63.4 million in the previous year. The increase of £4.8 million is a result of the costs incurred in replacing our £96.0 million bank loan and associated interest rate swap of £3.1 million and in higher charge as a result of the fair valuation of our swap instruments of £3.0. Cash interest on our borrowings has also shown an overall increase by £1.0 million in the year. This has been offset by reduced indexation charges in the year of £2.3 million. Further details in respect of the finance costs incurred in the year are set out in note 12.

Finance income was £0.9 million in the year, an increase of £0.5 million compared to the previous year.

Profit before tax
During the year the group sold its non-household retail business to Castle Water (Holdings) Ltd for £10.0 million, resulting in a profit on disposal of £7.9 million.

The improved operating performance detailed above together with the profit on disposal of the non-household retail business has resulted in an improved profit before tax of £26.9 million compared to £11.5 million in 2017/18.

Profit after tax
Profit after tax has increased from £5.4 million in the prior year to £21.9 million. Tax of £5.5 million has been charged in the year compared to a charge in the prior year of £6.2 million. The reduction in tax during the year is largely due to the treatment of deferred tax on the group's revaluation reserve being revised in the prior year. Further details on the current and deferred tax calculations are set out in note 14 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.

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 £3.8 million was paid to the South East Water scheme and £1.3 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 33 to the accounts. In addition the group operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year 1,000 employees contributed to the scheme and the company made payments of £2.1 million by way of employer contributions to this scheme.

Net Debt and cash flow
We use a combination of long term funding and short term working capital to finance the extensive capital programme and to fund the ongoing operations of the business. During the year the net operating cash generated was £124.8 million. Also, during the year, we drew an additional £35.0 million from our committed loan facilities, bringing the balance owing on this facility to £55.0 million. These funds were used to pay interest of £50.2 million and to pay capital expenditure of £90.7 million.

The group statement of cash flows on page 39 shows the cash balance has increased from £29.8 million at the beginning of the financial year to £33.5 million at the end of the year.

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 £10.0 million (2018: £10.0 million).

Taxation and tax policy
Our taxation policy is set out in the directors' report and SEWL's regulatory annual performance report. A more detailed explanation of our tax policy is available on our website. We have a significant capital programme and as such hold significant capital allowances to offset tax liability, coupled with losses generated within the group.

By order of the Board

M Szczepaniak
Director
25 September 2019

Corporate Governance

The directors of the company are committed to maintaining high standards of governance and leadership and demonstrating to all stakeholders how this is achieved. The directors of the company confirm that they are aware of and comply with the requirements of the instrument of appointment of South East Water Ltd (SEWL), in particular those set out in Condition P, Condition I and Condition K. They fully support the adoption by SEWL of its own corporate governance code ("SEW Code").

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, they have due regard to the requirements of SEWL's instrument of appointment and of the SEW Code which requires that SEWL is operated as if it were a separate public listed company.

In addition, some owners of the company are signatories to 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:

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

Group and finance structure

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

The ultimate owners of the company are Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia which holds 50% 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% of the shares in the company, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company which each hold 6.25% of the shares in the company), and RBS Pension Trustee Limited for the Royal Bank of Scotland Group Pension Fund, which holds 25% of the shares in the company.

Since 1 July 2018, the manager of Utilities Trust of Australia has been Morrison & Co Utilities Management (Australia) Pty Ltd, having previously been managed by Vantage Infrastructure Holdings Limited ("Vantage") (formerly known as Hastings Fund Managers Limited). Vantage is manager of the equity holdings of the remaining two shareholders. There are four directors on the board of the company who have been nominated by the managers of each of the shareholders.

The debt financing of SEWL is arranged by SEWL itself and by its only subsidiary, South East Water (Finance) Limited. South East Water (Finance) Limited is a company registered in the Cayman Islands but is resident for tax purposes in the UK. 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.

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

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

Swan Group holds a small participation in Landlord Tap, a company created by all UK water and sewerage companies to allow landlords to provide details of the occupiers of their properties to water and sewerage companies through a single national web portal. South East Water Ltd is also a member of Market Operator Services Ltd (MOSL), a company limited by guarantee created by water and sewerage companies and other market participants to prepare the central market systems for the opening of the non-household retail market.

Corporate Governance

Board composition
The current directors of the company are set out on page 3 of this annual report. Two directors of the company, Marissa Szczepaniak and Stephen Jordan, are also shareholder nominated directors of Hastings Water (UK) Limited, South East Water (Holdings) Limited, SEWL, 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 other commitments and directorships of the directors of SEWL are reviewed in accordance with the SEW Code.

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

Operation of the regulated business of SEWL
There are no matters relating to the business of SEWL which are reserved to the board of the company or of another holding company of SEWL.

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

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

The availability of financial resources and facilities may be affected by cross-default provisions in the financing documentation of SEWL and these provisions have received the required consent from Ofwat. The directors of SEWL monitor the main financial ratios required by its securitisation structure, and the investors report produced twice a year and the annual 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 SEWL. The need for information of the directors of SEWL is met when necessary through updates provided by the shareholder nominated directors on the board of SEWL or communication of specific information.

Long term decision making
The directors of the company fully support the adoption of the SEW Code which incorporates Ofwat's principles of leadership, transparency and governance including the principle that the regulated company is operated as if it was a public listed company and those relating to the composition of the board. SEWL reports on its compliance with the SEW Code in its corporate governance statement.

As shareholder nominated directors of SEWL, the relevant directors of the company must satisfy themselves, as must all other directors of SEWL, and certify in accordance with the requirements of Condition I of SEWL's instrument of appointment that SEWL has the necessary financial resources, management resources and systems of planning and internal control to carry out its regulated activities whether carried out by the non-household retail business or by the wholesale and household retail business.

The SEW Code provides that the board of SEWL will make strategic and sustainable decisions in the interests of SEWL for the long term and will endeavour to balance the needs of customers, the environment, the business and shareholders and will focus on South East Water's regulatory and statutory obligations.

M Szczepaniak
Director
25 September 2019

Directors' Report

The directors have pleasure in presenting the group directors' report relating to HDF (UK) Holdings Ltd ("HDF" or the "company") and its subsidiaries (together referred to as the "group") for the year ended 31 March 2019, together with the audited financial statements.

Principal activities

The principal activities of the group comprise the supply of water to a population of 2.2 million in an area of 5,657 square kilometers and the provision of certain ancillary services for customers, developers and other bodies within the constraints of the regulating statutes. The directors consider the performance of the business to be satisfactory and this is expected to continue in future.

The company acts as a holding company. At 31 March 2019, its principal subsidiaries included Hastings Water (UK) Limited ("HWUK"), South East Water (Holdings) Limited ("SEWH"), South East Water Limited ("SEWL"), South East Water (Finance) Limited ("SEWF"), Swan Property Limited ("SPL") and Hastings Luxembourg Water S.a.r.l. ("HLW"). Further details are given in note 20.

Business review and future developments

Turnover for the group was £238.3 million (2018: £221.5 million). Group operating profit was £86.2 million for the year (2018: £74.8 million). Profit before taxation for the year was £19.5 million (2018: £11.8 million).

The financial position at 31 March 2019 for the group and for the company is shown in the statements of financial position on pages 35 and 36. Further details of the group's financial performance can be found in the strategic report on page 20.

On 1 July 2018, the group sold the entire share capital of Invicta Water Limited (IWL) to Castle Water (Holdings) Limited for a consideration of £10.0 million. Under the terms of the sale, the assets and liabilities of IWL, excluding any interest and rights to that company's book of non-household water and sewerage customers, were transferred to IWL's immediate parent company, Swan Group.

The group is required to comply with the following financing covenants required as part of its financing:

- Regulatory Asset Ratio (RAR) with a default event of 95% and a distribution lock-up at 92.5%
- Adjusted ICR with a default event at 1.05 times cover

SEWL, is also required to comply with certain covenants which include:

- Regulatory Asset Ratio (RAR) with a trigger event of 90% and a distribution lock-up at 85%
- Interest Cover Ratio (ICR) with a default at 1.4 times cover
- Adjusted ICR with a trigger event at 1.1 times cover
- Average adjusted ICR with a trigger event at 1.2 times cover

In addition, SEWL is required to maintain liquid funds available to designated reserve accounts held by SEWL and SEWF of not less than the amount required to meet its interest liabilities for the twelve months after the balance sheet date. Also, SEWF is required to maintain a balance of available funds across its Operations and Maintenance Borrowing Facility and its Operations and Maintenance Reserve Account of not less than 10% of SEWL's operational and capital maintenance expenses for the twelve months after the balance sheet date.

The group was fully in compliance with its covenants at 31 March 2019.

Details of significant events since the balance sheet date are provided in note 34. An indication of likely future developments in the company and its subsidiaries is included in the strategic report.

Taxation

While the group makes profits through the performance of SEWL, the extensive investment programme currently being undertaken by that subsidiary typically means that any taxable profits are exceeded by available capital allowances. As tax losses are available elsewhere in the group, we utilise group relief before applying capital allowances, deferring excess capital allowances after satisfying any remaining tax charge. The calculation of group relief is made at the statutory rate for corporation tax so does not impact the effective tax rate.

Directors' Report

The group is committed to the effective, sustainable and active management of our tax affairs in support of our overall business performance and, as with all other aspects of our business, to maximise shareholder value.

We are committed to paying tax according to the law and conducting our tax affairs in accordance with transparent principles. We seek to maintain good working relationships with tax authorities, sharing our views either directly or through trade associations.

The group believes it is important to state our views on tax in the context of corporate responsibility. We believe our obligation is to pay the amount of tax legally due and observe all applicable rules and regulations relating to tax compliance. However, at the same time we also have an obligation to maximise shareholder value and to manage financial and reputational risk. This includes controlling our overall liability to taxation.

We do not condone either personal or corporate tax evasion under any circumstances and were such issues to be identified, full disclosure of the activities undertaken would be required to be made to the tax authorities.

Our aim is to have a constructive relationship with the tax authorities on an on-going basis. Nevertheless, we recognise that there may be some areas that are not free from doubt or differing legal interpretations may be possible. Where disputes arise with the tax authorities with regard to interpretation and application of tax law, we are committed to addressing the matter promptly and resolving it in a responsible manner.

Dividends

The directors have approved dividends totalling £10.0 million (2018: £10.0 million) for the year, paid in four equal instalments of £2.5 million in June, September and December 2018 and March 2019. Further details are given in note 15.

Capital expenditure

Capital investment for the group in the year was £104.7 million (2018: £96.0 million) which was mainly incurred by SEWL and demonstrates the group's continued commitment to invest in its operational assets. Further details are given in the group statement of financial position and notes 17 and 18.

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 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.

Employment policies

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 the group as an employer of choice through provision of a safe work environment, satisfying work, personal development and fair rewards.

Directors' Report

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.

Employee consultation

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 South East Water's intranet and its employee magazine. Employee representatives are consulted regularly through the Staff Council on a wide range of matters affecting their current and future interest.

Financial instruments

Information about the use of financial instruments by the company and its subsidiaries is given in note 25.

In December 2018, South East Water Limited entered into a £120.0 million, 7-year facility and in March 2019 two further agreements were entered into to raise £75.0 million and £100.0 million via US Private Placements (USPP). The two USPPs are for terms of 12 years and 23 years respectively. The new facilities will be utilised in September 2019 for the repayment of an existing £200.0 million bond plus related indexation being repaid at that time.

Going concern

The financial position of the group, its cash flows, liquidity position and borrowing facilities are described on pages 33 to 91.

The strategic report includes a description of the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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 operate within the level of its current financial resources and meet the group's future covenant requirements.

Therefore, the directors believe that the company and group 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.

Directors' statement on audit information

The directors who were members of the board at the time of approving the directors' report are listed on page 3. Having made enquiries of fellow directors, each of these directors confirms that:

- so far as the director is aware, there is no relevant audit information of which the group's auditor is unaware
- each director has taken all the steps a director ought to have taken to be aware of relevant audit information and to establish that the group's auditor is aware of that information

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

In the absence of a general meeting, Deloitte LLP has been re-appointed as auditor in accordance with the terms of their contract.

Directors' Report

Political donations

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

Approved by the board on 25 September 2019 and signed on its behalf by:

N Truillet
Company Secretary
25 September 2019

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 Financial Reporting Standards (IFR'S) as adopted by the European Union and Article 4 of the IAS Regulation and have also elected to prepare the parent company financial statements in accordance with IFRS. 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
- 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.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy

M Szczepaniak
Director
25 September 2019

R Drew
Director
25 September 2019

Independent auditor’s report to the members of HDF (UK) Holdings Limited

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 parent company’s affairs as at 31 March 2019 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the group and parent company income statements;
- the group statement of comprehensive income;
- the group and parent company statements of financial position;
- the group statements of changes in equity;
- the group and parent company cash flow statements;
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions 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
We are required by ISAs (UK) to report in respect of the following matters where:
- the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. 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 to the members of HDF (UK) Holdings Limited

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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.

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.

Independent auditor’s report to the members of HDF (UK) Holdings Limited

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.

William Farren, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 September 2019

Group income statement

for the year ended 31 march 2019

	Notes	2019 £000	2018 £000
Continuing operations			
Revenue	6	**238,281**	221,492
Bad debt	22	**(1,584)**	(1,199)
Group net operating costs	8	**(163,519)**	(154,348)
Other income	6	**12,997**	8,816
Group operating profit		**86,175**	74,761
Revaluation of property		**550**	-
Financing costs	12	**(68,154)**	(63,371)
Finance income	11	**920**	428
Profit before taxation		**19,491**	11,818
Taxation	14	**(5,539)**	(6,153)
Profit for the year from continuing operations		**13,952**	5,665
Discontinued operations			
Profit/(Loss) on discontinued operations	13	**7,938**	(302)
Profit for the year		**21,890**	5,363
Earnings per share			
Basic and diluted from continuing operations		**77.43p**	31.44p

Group statement of comprehensive income

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Profit for the year		**21,890**	**5,363**
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit liability	33	**(3,525)**	**9,355**
Deferred tax on defined benefit pension schemes	14	**600**	**(1,590)**
		(2,925)	**7,765**
Total comprehensive income for the year attributable to owners of the company		**18,965**	**13,128**

Registered number 05462865

Company income statement

for the year ended 31 March 2019

	Notes	**2019 £000**	2018 £000
Continuing operations			
Net operating costs	8	**(238)**	(208)
Income from shares in other group undertakings		**21,989**	15,458
Finance costs	12	**(11,321)**	(6,257)
Finance income	11	**105**	129
Profit before taxation		**10,535**	9,122
Taxation	14	**(262)**	(409)
Profit for the year from continuing operations		**10,273**	8,713
Discontinued operations			
Profit/(Loss) on discontinued operations	13	**(692)**	-
Profit for the year and total comprehensive income for the year attributable to owners of the company		**9,581**	8,713
Earnings per share			
Basic and diluted from continuing operations		**53.17p**	48.35p

Group statement of financial position

as at 31 March 2019

	Notes	**2019 £000**	2018 £000
Non-current assets			
Intangible assets	17	**10,501**	10,758
Property, plant and equipment	18	**1,555,123**	1,501,707
Investment property	19	**1,100**	550
Defined benefit pension surplus	33	**25,564**	24,510
		1,592,288	1,537,525
Current assets			
Inventories	21	**592**	236
Trade and other receivables	22	**86,268**	78,334
Cash and cash equivalents	23	**33,541**	29,756
		120,401	108,326
Total assets		**1,712,689**	1,645,851
Current liabilities			
Loans and borrowings	26	**(255,468)**	(20,000)
Derivative financial instruments	26	**(109,882)**	-
Trade and other payables	26	**(83,868)**	(85,475)
Deferred income	28	**(7,183)**	(7,593)
Provisions	27	**(3,972)**	(2,515)
		(460,373)	(115,583)
Non-current liabilities			
Loans and borrowings	24	**(905,145)**	(1,091,415)
Trade and other payables	24	**(5,379)**	(5,978)
Derivative financial instruments	24	**-**	(106,755)
Net deferred tax liabilities	14	**(145,217)**	(139,646)
Defined benefit pension liability	33	**(3,154)**	(3,281)
Deferred income	28	**(3,185)**	(74,471)
		(1,062,080)	(1,421,546)
Total liabilities		**(1,522,453)**	(1,537,129)
Net assets		**190,236**	108,722
Equity			
Ordinary share capital	29	**244,084**	244,084
Share premium account		**4,572**	4,572
Revaluation reserve		**251,928**	256,515
Retained earnings		**(310,348)**	(396,449)
Total equity		**190,236**	108,722

The accompanying notes are an integral part of these statements. The consolidated financial statements on pages 33 to 91 were approved and authorised for issue by the board of directors and were signed on its behalf by:

M Szczepaniak
Director
25 September 2019

R Drew
Director
25 September 2019

Company statement of financial position

as at 31 March 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Investments	20	**412,950**	**412,950**
Deferred tax assets	14	**178**	**440**
		413,128	**413,390**
Current assets			
Trade and other receivables	22	**3,281**	**3,621**
Cash and cash equivalents	23	**19,826**	**22,547**
		23,107	**26,168**
Total assets		**436,235**	**439,558**
Current liabilities			
Trade and other payables	26	**(3,211)**	**(4,650)**
Non-current liabilities			
Loans and borrowings	24	**(162,471)**	**(163,936)**
Total liabilities		**(165,682)**	**(168,586)**
Net assets		**270,553**	**270,972**
Equity			
Ordinary share capital	29	**244,084**	**244,084**
Share premium account		**4,572**	**4,572**
Retained earnings		**21,897**	**22,316**
Total equity		**270,553**	**270,972**

The notes on pages 41 to 91 are an integral part of these financial statements.

The financial statements of HDF (UK) Holdings Limited (company number 05462865) on pages 33 to 91 were approved by the board of directors and authorised for issue on 25 September 2019 and were signed on its behalf by:

M Szczepaniak
Director
25 September 2018

R Drew
Director
25 September 2019

Group statement of changes in equity

for the year ended 31 March 2019

	Issued share capital £000	Share premium account £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	244,084	4,572	261,668	(404,730)	105,594
Profit for the year	-	-	-	5,363	5,363
Other comprehensive income:					
Remeasurement of defined benefit asset/liability	-	-	-	9,355	9,355
Deferred tax on defined benefit pension schemes	-	-	-	(1,590)	(1,590)
Total other comprehensive income	-	-	-	7,765	7,765
Total comprehensive income	-	-	-	13,128	13,128
Dividends (see note 15)	-	-	-	(10,000)	(10,000)
Amortise revaluation reserve	-	-	(6,129)	6,129	-
Release revaluation reserve on disposals	-	-	(70)	70	-
Deferred tax on reserve releases	-	-	1,046	(1,046)	-
Balance at 31 March 2018	**244,084**	**4,572**	**256,515**	**(396,449)**	**108,722**
Change in accounting policy IFRS 15 (see note 5)	**-**	**-**	**-**	72,548	72,548
At 1 April 2018	244,084	4,572	256,515	(323,900)	181,271
Profit for the year	-	-	-	21,340	21,340
Other comprehensive income:					
Remeasurement of defined benefit asset/liability	-	-	-	(3,525)	(3,525)
Deferred tax on defined benefit pension schemes	-	-	-	600	600
Total other comprehensive income	-	-	-	(2,925)	(2,925)
Total comprehensive income	-	-	-	18,415	18,415
Dividends (see note 15)	-	-	-	(10,000)	(10,000)
Amortise revaluation reserve	-	-	(6,127)	6,127	-
Revaluation of investment property	-	-	550	-	550
Release revaluation reserve on disposals	-	-	(51)	51	-
Deferred tax on reserve releases	-	-	1,041	(1,041)	-
Balance at 31 March 2019	**244,084**	**4,572**	**251,928**	**(310,348)**	**190,236**

Company statement of changes in equity

for the year ended 31 March 2019

	Issued share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	244,084	4,572	23,603	272,259
Profit for the year	-	-	8,713	8,713
Dividends (see note 15)	-	-	(10,000)	(10,000)
Balance at 31 March 2018	**244,084**	**4,572**	**22,316**	**270,972**
Profit for the year	-	-	9,581	9,581
Dividends (see note 15)	-	-	(10,000)	(10,000)
Balance at 31 March 2019	**244,084**	**4,572**	**21,897**	**270,553**

Group statement of cash flows

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating activities			
Net cash flow from operating activities		**124,796**	**122,694**
Interest received		**212**	**170**
Interest paid		**(50,223)**	**(46,830)**
UK corporation tax paid		**-**	**-**
Foreign tax paid		**(4)**	**(4)**
Net cash flow before investing and financing activities		**74,781**	**76,030**
Investing activities			
Proceeds from sale of property, plant and equipment		**736**	**264**
Proceeds from sale of intangible assets		**8,682**	**-**
Proceeds from sale of investment properties		**50**	**-**
Purchase of property, plant and equipment		**(97,132)**	**(93,763)**
Purchase of intangible assets		**(2,997)**	**(3,106)**
Fixed asset contributions received		**-**	**1,758**
Net cash flow used in investing activities		**(90,661)**	**(94,847)**
Financing activities			
Proceeds of new loan		**35,000**	**20,000**
Issue costs of new loans		**(5,335)**	**-**
Dividends paid to shareholders	15	**(10,000)**	**(10,000)**
Net cash flow used in financing activities		**19,665**	**10,000**
Increase/(decrease) in cash and cash equivalents		**3,785**	**(8,817)**
Cash and cash equivalents at the beginning of the year		**29,756**	**38,573**
Cash and cash equivalents at the year end	23	**33,541**	**29,756**

	2019 £000	2018 £000
Profit for the year	**21,890**	**5,363**
Adjustments for:		
Income tax expense/income	**5,539**	**6,137**
Finance income	**(920)**	**(427)**
Finance costs	**68,154**	**63,385**
Depreciation and impairment of property, plant and equipment	**48,046**	**46,253**
Amortisation and impairment of intangible assets	**3,254**	**3,405**
Profit on disposal of property, plant and equipment	**(430)**	**(120)**
Profit on disposal of intangible asset	**(7,938)**	**-**
Increase in value of investment property	**(550)**	**-**
Difference between pension contributions paid and amounts recognised in the income statement	**(4,086)**	**(3,861)**
Changes in working capital:		
Increase in trade and other receivables	**(5,398)**	**(6,057)**
Increase in inventory	**(356)**	**(22)**
Increase/(decrease) in trade and other payables	**(2,409)**	**8,638**
Net cash generated from operations	**124,796**	**122,694**

Company statement of cash flows

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating activities			
Net cash flow from operating activities		**22,216**	15,146
Interest received		**296**	131
Interest paid		**(11,689)**	(9,430)
Loan to subsidiary company		**(10,000)**	-
Repayment of the loan by subsidiary company		**9,098**	-
Net cash flow before financing activities		**9,921**	5,847
Financing activities			
Issue cost of new loan		**(2,642)**	-
Dividends paid to shareholder	15	**(10,000)**	(10,000)
Net cash flow used in financing activities		**(12,642)**	(10,000)
Decrease in cash and cash equivalents		**(2,721)**	(4,153)
Cash and cash equivalents at the beginning of the year		**22,547**	26,700
Cash and cash equivalents at the year end	23	**19,826**	22,547

Company	2019 £000	2018 £000
Profit for the year	**9,581**	8,713
Adjustments for:		
Income tax expense/income	**262**	409
Loss on loan to subsidiary	**902**	-
Finance income	**(315)**	(129)
Financing costs	**11,321**	6,257
Changes in working capital:		
Increase in trade and other receivables	**359**	(43)
Increase/(decrease) in trade and other payables	**106**	(61)
Net cash generated from operations	**22,216**	15,146

Notes to the Group financial statements
as at 31 March 2019

1. Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of HDF (UK) Holdings Limited and its subsidiaries (the "group") for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 25 September 2019 and the Statement of Financial Position was signed on the Board's behalf by Marisa Szczepaniak and Rachel Drew. HDF UK (Holdings) Limited is a limited liability company incorporated in the United Kingdom and domiciled in England and Wales.

2. Basis of preparation

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the Companies Act 2006.

The financial statements are prepared under the historical cost convention except for pension assets and liabilities and certain financial instruments that have been measured at fair value and property, plant and equipment which was recognised at 1 April 2014, being the date of transition to IFRS, at deemed cost by reference to fair value.

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

Basis of consolidation

These financial statements incorporate the financial information of HDF (UK) Holdings Limited (the "company") and its subsidiaries (see note 20).

Transactions and balances between the company and its subsidiaries and between subsidiaries 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. Key judgements and sources of estimation uncertainty

Key judgements

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

The most significant judgements and assumptions for the group are set out below:

- *revenue:* the adoption of IFRS 15 has required an assessment of performance obligations in our contracts with customers for new or diverted mains and new connections to our mains network. For contracts where contributions are made for the laying of new mains or the diversion of existing mains, the performance obligation is the completion of the mains project and the acceptance by the customer that the main is available for use and meets the required standards. For contracts with customers for connection to the mains network, the performance obligation is the completion of the connections of the relevant properties or housing development to the mains network and the successful testing and acceptance of the connections by the customer;
- *the useful lives of infrastructure and non-infrastructure assets:* the group's asset lives: the group's and Company's asset lives represent a key judgement which impacts the value of depreciation charged to the income statement. The useful lives of the asset categories which determine the value of depreciation charged to the income statement are reviewed annually and are based on management's judgement and experience. An impairment review of assets is also undertaken annually to write down the value of assets where it is considered appropriate to do so; and

Notes to the Group financial statements
as at 31 March 2019

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

- *the capitalisation of employee and other directly attributable costs:* 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 £11.7 million of employee and other directly attributable costs have been capitalised (2018: £11.8 million).

In considering the judgements above, we have assessed the impact of the prospect of the UK leaving the European Union and we do not consider the impact to be material.

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.

The most significant estimates included in the group's financial statements are set out below.

- *Unbilled water income at the year-end (household customers):* metered customers are billed on a six monthly cycle. This means that at the yearend 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 2019 is estimated to be £32.4 million (2018: £34.7 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 two per cent of our previous estimates of the value of unbilled consumption.

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

	31 March 2019	Sensitivity			
		+1%	+3%	-1%	-3%
Unbilled water income	£32.4m	+£0.3m	+£1.0m	-£0.3m	-£1.0m

  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 2019, the level of unbilled revenue was estimated to be £4.6 million.

	31 March 2019	Sensitivity			
		+1%	+3%	-1%	-3%
Unbilled water income	£4.6m	+£0.05m	+£0.14m	-£0.05m	-£0.14m

- *The provision for doubtful trade receivables:* management estimates the provision for doubtful debts or expected credit loss by applying expected recovery rates to aged debt. The value of the provision for doubtful debts as at 31 March 2019 was £25.9 million (2018: £28.1 million).

Notes to the Group financial statements
as at 31 March 2019

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

The company employs the practical expedient allowed under IFRS 9 when calculating the lifetime expected credit loss for trade receivable. The methodology for determining the expected credit loss at the year-end incorporates the identifications of customer debt categories and the estimation of cash collection percentages for different customer categories. The estimated cash collection percentages take into account historical performance and current and expected future environmental and economic conditions. Debts over 4 years old are regarded as credit impaired and fully provided as, based on experience, our best estimate is that debt over four years old is not recoverable. Therefore, the estimated cash collection percentages are only applicable to debt which is less than 4 years old.

The sensitivity of the bad debt provision is illustrated in the table below where the impact of fluctuations in estimated future cash collections of one per cent and three per cent have been set out. The sensitivity analysis of one per cent and three per cent has been set based on commercial judgement and considers a range of economic, socio-economic, environmental and commercial factors.

	31 March 2019	Sensitivity			
		+1%	+3%	-1%	-3%
Bad debt provision estimate	£25.9m	+£0.3m	+£0.8m	-£0.3m	-£0.8m

- *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 33. Pension increases are based on expected future inflation rates. The net defined benefit pension scheme asset at 31 March 2019 was £22.4 million (2018: asset of £21.2 million). 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 winding-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 schemes 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 in discount rate	£4.0m	1.5%
0.1% increase in inflation	£4.0m	1.5%
One year increase in life expectancy	£10.5m	3.8%

In considering the sources of uncertainty above, we have assessed the impact of the prospect of the UK leaving the European Union and we do not consider the impact to be material.

The directors have formed the opinion that there are no material key judgements and sources of estimation uncertainty in respect of the company's financial statements.

4. Accounting policies

The principal accounting policies adopted by the group are set out below. These policies have been consistently applied in both the current and prior years, except for those changes required due to the mandatory adoption of new reporting standards, specifically IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers.*

Notes to the Group financial statements
as at 31 March 2019

4. **Accounting policies** *(continued)*

New standards and interpretations adopted

In the current year, the group has applied a number of amendments to IFRS's issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for accounting periods beginning on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

On 1 April 2018, the group adopted IFRS 9 *Financial Instruments* ("IFRS 9"). IFRS 9 specifies how the group should classify and measure financial assets and liabilities.

When considering the classification of financial instruments, IFRS 9 has three classifications for financial assets, being:

- Amortised cost - an asset is measured at amortised cost if:
  - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

IFRS 9 does not change the classifications of financial liabilities from the current IAS 39 requirements. IFRS 9 requires all financial liabilities to be measured at amortised costs, except for financial liabilities through profit or loss. Liabilities measured at fair value through profit or loss include:

- Derivative financial instruments;
- Liabilities held for trading and
- Liabilities an entity designates as fair value through profit or loss.

An entity may, at initial recognition, designate a liability at fair value through profit or loss if doing so would eliminate or substantially reduce a measurement or recognition inconsistency. After initial recognition, an entity cannot reclassify a financial liability.

When measuring a financial asset, any impairment of the asset should be recognised in stages:

- On initial recognition of a financial instrument, 12-month expected credit losses are recognised in profit or loss and a provision for the loss is established. This serves as a proxy for the initial expectations of credit losses. Interest revenue is calculated on the original amount of the asset.
- Where the credit risk significantly increases on an asset and is no longer considered low, full lifetime expected credit losses are recognised in profit or loss. Interest revenue is calculated on the original amount of the asset.
- Where the credit risk increases to the point that an asset is considered impaired, full lifetime expected credit losses are recognised in the profit or loss. Interest revenue is calculated on the amortised cost being the original value of the asset less the provision for expected credit losses.

In adopting the Standard, the group has assessed the classification of its financial instruments and reclassified its financial assets as follows:

Financial asset	IAS 39 classification	IFRS 9 classification
Trade receivables	Loans and receivables	Measured at amortised cost
Accrued income	Loans and receivables	Measured at amortised cost
Amounts due from subsidiary undertakings due within one year	Loans and receivables	Measured at amortised cost

There were no changes to the classification of the company's financial liabilities.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

The group has considered the credit risk of its financial assets and concluded that the policy for provision for doubtful trade debts should be updated to include allowance for future environmental and economic conditions. In making this change management has concluded that no adjustment is required or has been recorded to the provision previously calculated under their old accounting policy following the adoption of IFRS 9.

Also on 1 April 2018, the group adopted IFRS 15 *Revenue from Contracts with Customers (*"IFRS 15"). IFRS 15 establishes the principles the group applies when reporting information about revenue and the cash flows arising from contracts with customers. In adopting the standard the group has applied the steps for recognising revenue from customers. IFRS 15 has been adopted using the modified retrospective method which has led to the accumulated historical adjustments being made to the opening balances at 1 April 2018. A detailed explanation of the adoption of IFRS 15 and the impact on the financial statements is provided in note 5.

New standards and interpretations not applied

As the group prepares their financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the group's discretion regarding early adoption of the standards.

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 EU) and have not been applied to these Financial Statements:

IFRS 3 (amended)	Business Combinations
IFRS 9 (amended)	Financial Instruments
IFRS 16	Leases
IFRS 17	Insurance contracts (replaces IFRS 4)
IAS 1 (amended)	Presentation of Financial Statements
IAS 19 (amended)	Employee Benefits
IAS 28 (amended)	Investments in Associates and Joint ventures
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the group in future periods with the exception of IFRS 16 *Leases*, the impact of which is explained below.

IFRS 16 Leases

IFRS 16 is effective for periods commencing on or after 1 January 2019 and therefore will first be adopted by the Group for the year ending 31 March 2020. For lessees, IFRS 16 removes the distinction between operating and finance leases and requires the recognition of a right of use asset and corresponding liability, equating to the present value of the future lease payments. The Group currently holds the following operating leases under IAS 17 which meet the criteria under IFRS 16 for such recognition.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

Leased asset	Start date	End date	Annual rent £000	Values of assets and liabilities on adoption £000
Laboratory at Farnborough	22 May 2015	21 May 2035	195	2,467
Unit at Brooke House, Larkfield	8 Aug 2018	7 Aug 2021	19	43
Water Tower at Blackhill, Camberley	19 Jan 2004	14 Jun 2022	17	206
Offices at Leithrim House, Aylesford	4 Apr 2018	4 Apr 2028	67	536
			298	3,252

The annual rents for these leases are currently charged to the income statement as operating costs under IAS 17. On adoption of IFRS 16, rights of use assets will be recognised under property, plant and equipment at an initial value of £3.3 million and the corresponding lease liabilities will be recognised as financial liabilities of the same value.

The initial values of the right of use assets and corresponding liabilities on adoption of IFRS 16 equate to the present value of future lease payments under the relevant lease contracts. Under the modified approach adopted by the group, the discount rates used reflect the interest rates at which the group would currently be able to borrow in order to finance similar assets to those under the leases affected by transition (the incremental borrowing rate).

The company has recently entered into loan facilities at fixed rates and with weighted average repayment maturities comparable with the lengths of the leases affected by transition. It was, therefore, decided that the interest rates attached to the new facilities were appropriate proxies for the incremental borrowing rates to be applied in calculating the present value of the future leases liabilities, as follows:

- lease length of zero to ten years remaining on transition – 2.94%
- lease length of ten to twenty years remaining on transition – 3.22%

Revenue

Revenue is recognised by applying the five criteria detailed in *IFRS 15 Revenue from Contracts with Customers*. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group, the performance obligations in the contracts with “named” customers have been met and the revenue can be reliably measured. All revenue arises within the United Kingdom and is recorded net of VAT. The company only recognises revenue in respect of “named” customers.

Metered and unmetered income
The performance obligation of the company 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 2018/19 on 1 April 2018 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, instead being recognised as payments received in advance within creditors.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

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 company. 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.

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 method.

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 liability 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.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

Dividends

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

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.

Investment in properties

The group's properties classified as investment property are held for long-term investment. Investment properties are measured initially at cost, including transaction cost, and thereafter stated at fair value, which reflects market value at the balance sheet date.

Where directors consider the market value to be materially different to net book value, the group's properties have been revalued with the surplus or deficit credited or charged to equity through the income statement and subsequently transferred to the revaluation reserve, except that of a deficit which is expected to be permanent, and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, where the amount charged or credited remains in retained earnings. Assessments are based on professional valuations by chartered surveyors and the considered opinion of the directors.

Investment properties are derecognised when either they are disposed of or when no future economic benefit is expected from the disposal of the investment property. On derecognition of the property, any restated balance remaining in the revaluation reserve is transferred to the income statement as a movement on reserves.

Any gain or loss on disposal is treated as operating income, as Swan Property Limited exists to hold properties, upgrade them and sell them on, and therefore any profit made on the sale of an investment property is in the nature of their business and not exceptional.

Intangible assets

Software
Software 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.

Derecognition
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.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

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 and 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 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:

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

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

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

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

Leased assets
Property, plant and equipment held under finance 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.

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 12 for further details.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

Inventory

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 of purchase.

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

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.

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 and associated swap payments falling due in respect of listed debt and other long-term borrowings.

Trade payables

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

Financial instruments

The group's financial instruments comprise fixed and variable rate borrowings, index linked loans, fixed rate debentures, an interest rate swap, finance leases, a loan to its parent undertaking, 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.

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

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.

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

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.

Revaluation reserve

The revaluation reserve was created on the adoption of IFRS when the company 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.

Leases

Finance leases, which substantially transfer to the group all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease with a corresponding liability being recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Provisions

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

Notes to the Group financial statements
as at 31 March 2019

4. Accounting policies *(continued)*

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.

Pension and other post-employment benefits

The group accounts for pensions and other post-employment benefits under IAS 19(R). The group operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

Defined contribution plans
Contributions to defined contribution plans are recognised as an expense in the income statement when the contributions fall due.

Defined benefit plans
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 current and deferred taxation are recognised in the statement of recognised income and expense.

5. Adoption of IFRS 15

The group adopted IFRS 15 on 1 April 2018 using the modified retrospective method. IFRS 15 delivers its core principles of revenue recognition in a five step framework as follows:

1. Identify the contracts with customers.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue as and when performance obligations are met.

The group has a number of different income streams that need to be considered in the context of IFRS 15.

Income from the supply of water services is currently recognised as the service is supplied. Under IFRS 15 there is no significant judgment required in identifying the customer in these contracts with customers. The performance obligations are the supply of the water services and revenue is recognised as these obligations are satisfied over time. The adoption of the new standard has had no material impact on the timing and amount of revenue recognised in these services.

Notes to the Group financial statements
as at 31 March 2019

5. Adoption of IFRS 15 *(continued)*

Other income, including billing and collections services and laboratory services, involve similarly readily identifiable contracts with customers with clearly defined performance obligations to which prices are allocated.

The performance obligations on contracts for the billing and collection services are

- to produce bills for mutual customers of both parties to the contract, either monthly, six monthly or annually, as required, which includes the potable water charges levied by the company and the sewerage charges levied by the other party to the contract and
- to collect payment for the joint bills from customers in line with the company's collection processes and to pay the cash collected in respect of the sewerage element of the joint bills to the other parties on agreed terms.

The performance obligations for the laboratory services contracts are the completion of scientific analysis of samples provided by the third party to ensure their compliance with their regulatory responsibilities.

Revenue is recognised as the contracts are completed and the performance obligations satisfied. This is in line with the existing accounting policies for these income streams under IFRS 18 *Revenue*.

Income from transactions relating to the group's network assets in providing a network connection and on-going access to the network ("capital income") requires significantly more judgment in identifying contracts with customers and the related performance obligations.

Capital income can be categorised under the following headings:

- Infrastructure charges;
- New connections income and
- Developer contributions to new mains and mains diversions.

Infrastructure charges were previously recognised in the income statement when access to the mains supply is granted. This treatment is consistent with the principles of IFRS 15 and no change is required for this income stream.

New connections income, to the extent it relates to the cost of the new connection, and developer contributions were previously held as deferred income on the statement of financial position and released to the income statement over the life of the underlying assets.

These activities relate to the establishing of a connection to the water network and are performed for developers. Each of these activities are performed as separate contracts with the developers as required and on request from developers. Not all developments require all of these activities to be performed. The overall result from these contracts is that properties are allowed access to the network prior to the properties being sold. These activities are part of the group's ordinary activities associated with the operation, maintenance and expansion of a water network and, because they are deemed to result in an exchange transaction, we have determined that they fall within the scope of IFRS 15 as transactions arising from contracts with customers, i.e. the developers who request the services.

The performance obligations in contracts for the different capital related income streams are recognised as:

- Infrastructure charges – the provision of access to the network.
- New connections income – the connection of individual properties via a communication pipe to the mains supplying the development.
- Developer contributions to new mains and mains diversions – the completion of the laying of a new main or replacement main, as defined by the contract.

The prices attaching to these contracts and relating to these performance obligations are set in line with the guidance provided by Ofwat. In the case of infrastructure charges and new connections a number of properties are aggregated together in determining when performance obligations are completed and the price relating to the obligation.

Notes to the Group financial statements
as at 31 March 2019

5. Adoption of IFRS 15 *(continued)*

Revenue is recognised on each of these capital income streams on completion of the performance as described above.

Applying IFRS 15 has resulted in a significant change to the accounting policy for new connections income and developer contributions to new and diverted mains.

At the date of adoption of IFRS 15, the group had £75.7 million of deferred income in respect of infrastructure charges, new connection charges and developer contributions to new and diverted mains. Of this amount, £71.9 million related to contracts that have been completed and where the assets are in current use. An adjustment has been made to deferred income upon adoption of IFRS 15 for the contributions on completed jobs and retained earnings has increased by £71.9 million accordingly.

In addition, non-current trade and other payables included amounts received from developers for self-lay, discounted aggregate deficit and relevant deficit schemes of £5.4 million at 1 April 2018. Of this amount, £0.5 million related to projects that have been completed in prior years and are not refundable to the developers.

An adjustment has been made to non-current trade and other payables for the amounts received in respect of completed jobs and retained earnings has increased by £0.5 million accordingly.

The remaining amounts received from developers at 1 April 2018, being £3.8 million in respect of contributions and £4.9 million in respect of self-lay and similar schemes, relate to contracts where the performance obligations have not yet been satisfied. These will be recognised in the income statement on completion of the respective performance obligation under each contract.

	£000
Non-current trade and other payables	543
Deferred Tax	107
Non-current deferred income	71,898
Increase in net assets	72,548
Increase in retained earnings	72,548

The adjustments to non-current trade and other payables and non-current deferred income reflect the release of deposits and contributions from developers for contracts that have been completed in prior years. The revenue from these contracts has previously been amortised over the lives of the assets to which they relate.

Notes to the Group financial statements
as at 31 March 2019

5. Adoption of IFRS 15 *(continued)*

The impact of the adoption of IFRS 15 on the group's income statement and statement of financial position in the year are disclosed in the following table together with an explanation of each adjustment value.

Group income statement	31 March 2019 pre IFRS 15 £000	Adoption of IFRS 15 £000	31 March 2019 Post IFRS 15 £000
Revenue			
Water income	224,229	-	224,229
Other sales	7,610	6,442	14,052
Total revenue	**231,839**	**6,442**	**238,281**
Bad debt	(1,584)	-	(1,584)
Group net operating costs	(161,580)	(1,939)	(163,519)
Other income	12,997	-	12,997
Group operating profit	**81,672**	**4,503**	**86,175**
Revaluation of property	550	-	550
Net finance costs	(67,234)	-	(67,234)
Profit before taxation	**14,988**	**4,503**	**19,491**
Taxation	(5,539)	-	(5,539)
Profit for the year from continued operation	**9,439**	**4,503**	**13,952**
Profit on discontinued operation	7,938	-	7,938
Profit for the year	**17,387**	**4,503**	**21,890**

- Other sales have increased by £6.4 million. The increase is due to the deposits and contributions received from developers for completed contracts in the year being released to the income statement. Previously, an amount for the amortisation of contributions would have been released. The adjustment is made up as follows:

	£000
Release of contributions	805
Release of new connections income	4,771
Release of deposits	154
Total deferred income released	**5,730**
Reduction in amortisation of contributions	(1,227)
Net increase in profit for the year	**4,503**

Notes to the Group financial statements
as at 31 March 2019

5. Adoption of IFRS 15 *(continued)*

- Group net operating costs have increased by £1.9 million. The increase reflects the overhead recovery on new connections that was previously offset against operating costs and is now included in other sales above.

Group statement of financial position	31 March 2019 pre IFRS 15 £000	Adoption of IFRS 15 £000	31 March 2019 Post IFRS 15 £000
Non-current assets	**1,592,288**	**-**	**1,592,288**
Current assets	**120,401**	**-**	**120,401**
Total assets	**1,712,689**	**-**	**1,712,689**
Current liabilities			
Loans and borrowings	(255,468)	-	(255,468)
Derivative financial instruments	(109,882)	-	(109,882)
Trade and other payables	(83,868)	-	(83,868)
Deferred income	(7,183)	-	(7,183)
Provisions	(3,972)	-	(3,972)
Non-current liabilities			
Loans and borrowings	(905,145)	-	(905,145)
Trade and other payables	(6,076)	697	(5,379)
Net deferred tax liabilities	(145,324)	107	(145,217)
Defined benefit pension liability	(3,154)	-	(3,154)
Deferred income	(79,432)	76,247	(3,185)
Total liabilities	**(1,599,504)**	**77,051**	**(1,522,453)**
Net assets	**113,185**	**77,051**	**190,236**
Equity			
Ordinary share capital	248,656	-	248,656
Revaluation reserve	251,928	-	251,928
Retained earnings	(387,399)	77,051	(310,348)
Total equity	**113,185**	**77,051**	**190,236**

- Current and non-current deferred income has decreased by £76.2 million reflecting the additional release of contributions and new connections income over the amortisation of contributions previously released.
- Non-current trade and other payables has reduced by £0.7 million being the release of deposits to other sales.

The adoption of IFRS 15 has had no impact on the group statement of changes in equity in the year other than to adjust the opening balances on retained earnings and total equity and those changes to retained earnings and total equity for the year as detailed in this note.

The adoption of IFRS 15 has had no impact on the group statement of cash flows.

Notes to the Group financial statements
as at 31 March 2019

6. Total Income

	2019	2018
	£000	£000
Revenue		
Unmetered water income	**24,966**	**34,870**
Metered water income	**199,278**	**180,361**
Metered sewerage income	**(15)**	**-**
Other sales	**14,052**	**6,261**
Total revenue	**238,281**	**221,492**
Other income		
Rental income	**1,233**	**1,178**
Sundry income	**11,764**	**7,638**
Total other income	**12,997**	**8,816**
Total income	**251,278**	**230,308**

All revenue is from customers within the United Kingdom.

Other sales includes new connections income of £7.7 million (2018: £nil), infrastructure income of £5.2 million (2018: £4.1 million) and capital contributions of £1.0 million (2018: £nil).

Sundry income includes charges for billing and cash collection services amounting to £8.1 million (2018: £4.8 million), and laboratory income of £2.3 million (2018: £2.0 million).

Notes to the Group financial statements
as at 31 March 2019

7. 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 basis, the supply of potable water and waste water services on a retail basis, both of which are governed by the Water Act 2014, and related non-regulated activities.

Year ended 31 March 2019	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Total income	217,705	21,379	12,194	251,278
Operating profit	76,996	4,901	4,278	86,175
Revaluation of investment property				550
Finance costs				(68,154)
Finance income				920
Profit before taxation				19,491
Taxation				(5,539)
Profit from continued operations				13,952
Profit from discontinued operations				7,938
Profit for the year				**21,890**

Year ended 31 March 2018	Wholesale activities £000	Retail activities £000	Other activities £000	Total £000
Total income	200,438	21,986	7,884	230,308
Operating profit	66,903	6,061	1,797	74,761
Finance costs				(63,371)
Finance income				428
Profit before taxation				11,818
Taxation				(6,153)
Profit from continued operations				5,665
Loss from discontinued operations				(302)
Profit for the year				5,363

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 Group financial statements
as at 31 March 2019

8. Operating costs

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Employee benefits expense (See note 9)	**30,202**	28,541	**124**	51
Asset expense/(income):				
Depreciation – owned assets	**47,457**	45,655	**-**	-
Depreciation – leased assets	**579**	579	**-**	-
Impairment of fixed assets	**10**	19	**-**	-
Amortisation of intangible assets	**3,128**	3,399	**-**	-
Impairment of intangible assets	**126**	6	**-**	-
(Profit)/loss on disposal of non-current assets	**(427)**	(120)	**-**	-
	50,873	49,538	**-**	-
Other operating expenses:				
Operating lease rentals:				
vehicles and office equipment	**211**	121	**-**	-
land and buildings	**287**	286	**-**	-
Fees payable to the Group's auditor (see below)	**356**	306	**56**	76
Other expenses (see below)	**87,301**	80,832	**58**	81
Other operating expenses charged to capital projects	**(5,711)**	(5,276)	**-**	-
	82,444	76,269	**114**	157
	163,519	154,348	**238**	208
Fees payable to the Group's auditor in respect of:				
Audit of the Group and Company financial statements	**46**	63	**46**	76
Audit of subsidiaries	**235**	182	**10**	-
Total audit	**281**	245	**56**	76
Regulatory accounts	**50**	36	**-**	-
Other assurance services	**15**	15	**-**	-
	65	51	**-**	-
Services relating to taxation	**10**	10	**-**	-
Total non-audit services	**75**	61	**-**	-
Total fees charged to income statement	**356**	306	**56**	76
Other expenses comprise:				
Energy costs	**16,440**	15,474		
Rates	**17,770**	17,244		
Contractors	**23,768**	19,726		
Bulk water supplies and abstraction licences	**9,195**	8,666		
Chemicals	**3,300**	3,077	**-**	-
Insurance	**3,113**	2,839	**30**	36
Other	**13,715**	13,806	**28**	45
	87,301	80,832	**58**	81

Notes to the Group financial statements
as at 31 March 2019

9. Directors and employees

The company had no employees during the current or the prior year.

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

	Group		Company	
	2019 Number	2018 Number	**2019 Number**	2018 Number
Operations	**440**	515	**-**	-
Management and administration	**510**	460	**1**	1
	950	975	**1**	1
	£000	£000	**£000**	£000
The aggregate payroll costs of these persons are as follows:				
Wages and salaries	**30,295**	**28,586**	**103**	30
Social security costs	**3,061**	**2,878**	**12**	12
Defined benefit scheme pension costs	**1,067**	**1,090**	**9**	9
Pension costs for unfunded pensions	**266**	**521**	**-**	-
Defined contribution scheme pension costs	**2,153**	**1,940**	**-**	-
	36,842	35,015	**124**	51
Less: direct salary costs charged to capital projects and infrastructure renewals schemes	**(6,640)**	(6,474)	**-**	-
	30,202	28,541	**124**	51

10. Investment Income

Company	**2019 £000**	2018 £000
Investment income from Hastings Water (UK) Limited	**20,300**	13,950
Investment income from Swan Group	**1,689**	1,508
	21,989	15,458

11. Interest receivable and similar income

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Interest receivable on bank balances and short term deposits	**284**	180	**105**	129
Pension fund finance income (see note 33)	**636**	248	**-**	-
	920	428	**105**	129

Notes to the Group financial statements
as at 31 March 2019

12. Interest payable and similar charges

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Debenture interest	**42**	42	**-**	
Effective interest on listed debt	**22,843**	22,401	**-**	
Fair value movements on interest rate swap	**3,126**	122	**(1,541)**	(3,131)
Indexation on variable rate bonds	**4,564**	5,680	**-**	
Bank interest and other finance charges	**8,075**	5,636	**-**	
Financing guarantee fees	**1,289**	1,158	**22**	38
Interest payable on index linked loans	**12,173**	11,767	**-**	
Interest payable to shareholders	**6,115**	5,767	**-**	
Interest payable on finance leases	**22**	22	**-**	
Amortisation of the revaluation of liabilities	**(934)**	(717)	**-**	
Indexation on index linked loans	**11,487**	12,644	**-**	
Interest payable on group company loans	**-**	-	**11,663**	9,137
Other interest payable and similar charges	**1,260**	214	**1,177**	213
Amortisation of loan issue costs	**569**	761		
Interest and related fees payable	**70,631**	65,497	**11,321**	6,257
Interest capitalised	**(2,477)**	(2,126)	**-**	-
	68,154	63,371	**11,321**	6,257

13. Discontinued operations

On 1 May 2018, the group sold its rights to the non-household customer base to its fellow wholly owned subsidiary, Invicta Water Limited, for a consideration of £10.0 million which has resulted in a profit on disposal of £9.2 million. The rights to the non-household customer base are an internally generated intangible asset and, as per IAS 38, these were not recognised on the group's statement of financial position.

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Revenue	**22**	3,528	**-**	-
Operating costs	**(266)**	(3,843)	**(902)**	-
Operating profit/(loss)	**(244)**	(315)	**(902)**	-
Finance costs	**-**	(3)	**210**	-
Profit/(loss) before tax	**(244)**	(318)	**(692)**	-
Proceed from disposal	**10,000**	-	**-**	-
Cost of disposal	**(837)**	-	**-**	-
Loss novated on disposal	**(237)**	-	**-**	-
Tax	**(744)**	16	**-**	-
Profit/(loss) from discontinued operation	**7,938**	(302)	**(692)**	-

Notes to the Group financial statements
as at 31 March 2019

14. Taxation

Major components of the group's tax expense for the years ended 31 March 2019 and 2018 are:

	Group		Company	
Continuing operation	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Group income statement				
Current tax:				
Current UK tax charge	**(744)**	**-**	**-**	(123)
Foreign tax	**4**	4	**-**	-
Total current tax charge	**(740)**	4	**-**	(123)
Deferred tax:				
Relating to origination and reversal of temporary differences	**6,279**	6,149	**-**	655
Tax charge reported in the Group income statement	**5,539**	6,153	**262**	532
Tax (credit)/charge to equity				
Deferred tax on defined benefit pension schemes	**(600)**	1,590	**-**	-
Tax charge/(credit) reported in comprehensive income statement	**(600)**	1,590	**-**	-
Factors affecting tax for the year				
Profit on continuing operation before taxation	**19,491**	11,818	**10,536**	9,122
Profit on ordinary activities before taxation multiplied by the standard rate of tax of 19% (2018: 19%)	**3,703**	2,245	**2,002**	1,733
Effects of:				
Expenses not deductible for tax purposes	**393**	337	**40**	-
Income not taxable	**(77)**	-	**(4,178)**	(2,937)
Adjustments to deferred tax charge in respect of previous years	**(472)**	2,459	**(21)**	(62)
Fair value movements not subject to current tax	**(104)**	-	**-**	-
Other timing differences for which no DTA is recognised	**1,162**	1,112	**1,162**	1,111
Group relief losses surrendered at no cost	**934**	-	**1,257**	564
Total tax charge reported in the group income statement	**5,539**	6,153	**262**	409

The adjustments to current and deferred tax in respect of previous years represents the changes made between the year end and submitted computations. The expenses not deductible for tax purposes are made up of the movement on general provisions, entertainment expenses and depreciation on non-qualifying capital expenditure. The rate change reduction is caused by tax rates from 1 April 2020 reducing from 18% to 17%.

Notes to the Group financial statements
as at 31 March 2019

14. Taxation *(continued)*

Discontinued operations	**Group**		**Company**	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Group income statement				
Current tax:				
UK Corporation tax charge/(credit)	**744**	(16)	-	-
Factors affecting current tax:				
Profit/(loss) on discontinued activities before tax	**8,682**	(318)	**(692)**	-
Tax charged/(credit) @19% (2018: 19%)	**1,649**	(60)	**(132)**	-
Expenses not deductible for tax purposes	**29**	44	**132**	-
Group relief surrender/(claim) at no cost	**(934)**	-	**-**	-
	744	(16)	**-**	-

Deferred tax
The movement on the net deferred tax liability is as shown below:

	Group		**Company**	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
At 1 April	**139,646**	131,923	**(440)**	(972)
Chargeto the income statement	**6,278**	6,133	**262**	532
(credit)/chargeto equity	**(600)**	1,590	**-**	-
Credit to reserves	**(107)**	**-**	**-**	**-**
At 31 March	**145,217**	139,646	**(178)**	(440)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered by giving relief against future taxable profits.

Notes to the Group financial statements
as at 31 March 2019

14. Taxation *(continued)*

The movements in deferred tax assets and liabilities during the year are shown below:

Group	Accelerated tax depreciation £000	Pension provision £000	Total £000
Deferred tax liabilities			
At 1 April 2016	140,320	1,355	141,675
(Credit)/charge to the income statement	(3,600)	385	(3,215)
Credit to equity	-	(422)	(422)
Credit to reserves	(2,347)	-	(2,347)
At 1 April 2017	134,373	1,318	135,691
Charge to the income statement	3,866	699	4,565
Charge to equity	-	1,590	1,590
Charge to reserves	-	-	-
At 1 April 2018	138,239	3,607	141,846
Charge to the income statement	4,034	800	4,834
Charge to equity	-	(600)	(600)
At 31 March 2019	**142,273**	**3,807**	**146,080**

Group	Fair value swap £000	Other provision £000	Total £000
Deferred tax assets			
At 1 April 2016	1,817	291	2,108
Credit/(charge) to the income statement	1,702	(42)	1,660
At 1 April 2017	3,519	249	3,768
(Charge)/credit to the income statement	(1,578)	10	(1,568)
At 1 April 2018	1,941	259	2,200
(Charge)/credit to the income statement	(1,362)	24	(1,338)
At 31 March 2019	**579**	**283**	**862**

Company			
Deferred tax assets			
At 1 April 2016	967	-	967
Credit/(charge) to the income statement	5	-	5
At 1 April 2017	972	-	972
(Charge)/credit to the income statement	(532)	-	(532)
At 1 April 2018	440	-	440
(Charge)/credit to the income statement	(262)	-	(262)
At 31 March 2019	**178**	**-**	**178**

Notes to the Group financial statements
as at 31 March 2019

14. Taxation *(continued)*

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 2019 was £145.2 million (2018: £139.6 million).

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 Limited group of companies.

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent, changing to 17 per cent from 1 April 2020. (2018: 19 per cent changing to 17 per cent from 1 April 2020).

For the year ended 31 March 2019 a UK corporation tax rate of 19 per cent has been used as enacted by Finance Act 2013. A reduction in the UK corporation tax rate to 17 per cent (effective 1 April 2020) was substantively enacted in September 2016. The deferred tax on temporary differences as at 31 March 2019 has been calculated at the rate applicable to the year in which the temporary differences are expected to reverse.

We have assessed the impact of the prospect of the UK leaving the European Union on our current tax charge and our deferred tax assets and liabilities and we do not consider the impact to be material.
The legislation relating to the Organisation for Economic Co-operation and Development (OECD) Action 4 on interest restriction has been incorporated in the Finance (No.2) Act 2017. The group has assessed the impact of this legislation but it has no impact on the group's debt interest for the year.

15. Dividends

	2019 £000	2018 £000
Equity dividends paid during the year:		
First interim dividend of 13.87p per redeemable share (2018: 13.87p per ordinary share)	**2,500**	**2,500**
Second interim dividend of 13.87p per redeemable share (2018: 13.87p per ordinary share)	**2,500**	**2,500**
Third interim dividend of 13.87p per redeemable share (2018: 13.87p per ordinary share)	**2,500**	**2,500**
Final dividend of 13.87p per redeemable share (2018: 13.87p per ordinary share)	**2,500**	**2,500**
	10,000	**10,000**

Notes to the Group financial statements
as at 31 March 2019

16. 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	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Profit for the year from continued operation	**13,952**	5,665	**10,273**	8,713
Profit/(loss) for the year from discontinued operation	**7,938**	(302)	**(692)**	-
	2019 Number	2018 Number	**2019 Number**	2018 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 per share from continued operation	**77.43p**	31.44p	**57.01p**	48.35p

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 Group financial statements
as at 31 March 2019

17. Intangible assets

Group and company	Computer software £000	Assets in the course of construction £000	Total £000
Cost			
At 1 April 2018	22,406	296	22,702
Additions	-	4,067	4,067
Transfers	2,619	(2,619)	-
Reclassifications	(573)	(496)	(1,069)
Disposals	(365)	-	(365)
At 31 March 2019	**24,087**	**1,248**	**25,335**
Accumulated amortisation and impairment			
At 1 April 2018	(11,944)	-	(11,944)
Charge for the year	(3,129)	-	(3,129)
Eliminated on disposals	365	-	365
Impairment	(126)	-	(126)
At 31 March 2019	**(14,834)**	**-**	**(14,834)**
Net book amount at 31 March 2019	**9,253**	**1,248**	**10,501**
Cost			
At 1 April 2017	16,842	3,067	19,909
Additions	-	3,554	3,554
Transfers	5,710	(5,710)	-
Reclassifications	167	(615)	(448)
Disposals	(313)	-	(313)
At 31 March 2018	22,406	296	22,702
Accumulated amortisation and impairment			
At 1 April 2017	(8,851)	-	(8,851)
Charge for the year	(3,399)	-	(3,399)
Eliminated on disposals	312	-	312
Impairment	(6)	-	(6)
At 31 March 2018	(11,944)	-	(11,944)
Net book amount at 31 March 2018	10,462	296	10,758

Notes to the Group financial statements
as at 31 March 2019

18. Property, plant and equipment

Group and company	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 2018	231,158	1,048,217	332,818	59,908	1,672,101
Additions	-	-	-	100,621	100,621
Transfers	8,004	48,140	62,188	(118,332)	-
Reclassifications	-	-	573	496	1,069
Disposals	(106)	(1,474)	(878)	-	(2,458)
At 31 March 2019	**239,056**	**1,094,883**	**394,701**	**42,693**	**1,771,333**
Accumulated depreciation and impairment					
At 1 April 2018	(16,123)	(69,128)	(85,143)	-	(170,394)
Charge for the year	(4,313)	(19,963)	(23,759)	-	(48,035)
Eliminated on disposals	8	1,357	865	-	2,230
Impairment	-	-	(11)	-	(11)
At 31 March 2019	**(20,428)**	**(87,734)**	**(108,048)**	**-**	**(216,210)**
Net book amount at 31 March 2019	**218,628**	**1,007,149**	**286,653**	**42,693**	**1,555,123**
Net book amount of leased assets included above	4,095	-	5,038	-	9,133
Assets under construction relate to the following categories	752	18,385	23,920	-	43,057
Deemed cost					
At 1 April 2017	227,272	998,456	293,430	61,021	1,580,179
Additions	-	-	-	92,410	92,410
Transfers	3,957	49,966	40,215	(94,138)	-
Reclassifications	-	-	(167)	615	448
Disposals	(71)	(205)	(660)	-	(936)
At 31 March 2018	231,158	1,048,217	332,818	59,908	1,672,101
Accumulated depreciation and impairment					
At 1 April 2017	(11,862)	(50,651)	(62,286)	-	(124,799)
Charge for the year	(4,267)	(18,487)	(23,479)	-	(46,233)
Eliminated on disposals	6	10	641	-	657
Impairment	-	-	(19)	-	(19)
At 31 March 2018	(16,123)	(69,128)	(85,143)	-	(170,394)
Net book amount at 31 March 2018	215,035	979,089	247,675	59,908	1,501,707
Net book amount of leased assets included above	4,255	-	5,457	-	9,712
Assets under construction relate to the following categories	4,807	19,362	35,739	-	59,908

Notes to the Group financial statements
as at 31 March 2019

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

Plant, equipment and vehicles have been impaired in respect of sampling equipment in our laboratory which is obsolete. There is no recoverable value on any of these impaired assets.

The group's index linked loans and listed bonds are secured on certain assets of the group (see note 25).

We have assessed the impact of the prospect of the UK leaving the European Union on our property, plant and equipment and we do not consider the impact to be material.

19. Investment properties

	£000
Valuation	
At 1 April 2018	550
Revaluation of investment properties	550
At 31 March 2019	**1,100**
Valuation	
At 1 April 2017 and 31 March 2018	550

The group's properties classified as investment property are held for long term investment. Investment property is measured initially at cost, including transaction cost, and thereafter stated at fair value, which reflects market value at the balance sheet date. The land at Henwood has been fair valued for £0.65 million at the year-end compared to the value on the books of £0.55 million.

An agreement of sale for the land at Hermitage lane has been signed for £0.5 million, this property was previously not recognised on the group balance sheet as the value was £nil. Receipt of a non-refundable £50,000.00 has been recognised on the income statement and the remaining value of £450,000.00 has been taken to the revaluation reserve.

20. 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 in England and Wales except Hastings Luxembourg Water S.a.r.l., which is incorporated in Luxembourg, and South East Water (Finance) Limited, which is incorporated and registered in the Cayman Islands.

	£000
Cost and net book amount	
At 1 April 2018 and at 31 March 2019	**412,950**

On 1 July 2018, the group sold its investment in Invicta Water Limited for a total consideration of £10.0 million.

Notes to the Group financial statements
as at 31 March 2019

21. Inventories

Group	2019 £000	2018 £000
Consumables	531	201
Work in progress	61	35
	592	236

The company does not have any inventory at the end of the current or prior years.

22. Trade and other receivables

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Financial asset receivables				
Trade receivables	38,562	34,463	-	-
Accrued income	37,835	35,561	-	-
Amounts due from parent and fellow subsidiary undertakings	-	-	3,234	3,586
	76,397	70,024	3,234	3,586
Non-financial asset receivables				
Prepayments and accrued income	3,871	3,705	15	23
Other receivables	6,000	4,605	32	12
	9,871	8,310	47	35
Total trade and other receivables	86,268	78,334	3,281	3,621

Trade receivables are stated after provision for doubtful debts of £26.0 million (2018: £28.0 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:

	2019 £000	2018 £000
At 1 April	28,054	28,443
Charge for the year from continues operation	1,584	1,199
Charge for the year from discontinued operation	43	751
Provision for legacy debt	502	-
Amounts utilised	(4,246)	(2,339)
At 31 March	25,937	28,054

Notes to the Group financial statements
as at 31 March 2019

22. Trade and other receivables *(continued)*

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

	Total £000	Current £000	<30 days £000	30-60 days £000	60-90 days £000	90-120 days £000	120-365 days £000	>365 days £000
2019	**38,562**	**9,368**	**3,863**	**2,702**	**1,610**	**1,683**	**9,930**	**9,406**
2018	**34,463**	**7,372**	**4,581**	**2,698**	**1,647**	**1,480**	**9,455**	**7,230**

23. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 March:

	Group		Company	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Cash at bank and in hand	**14,541**	**10,658**	**826**	**3,449**
Short term bank deposits	**19,000**	**19,098**	**19,000**	**19,098**
	33,541	**29,756**	**19,826**	**22,547**

Included in the group cash at bank and in hand balance at 31 March 2019 was £19.0 million (2018: £7.4 million) held on an on demand deposit account.

At 31 March 2019, £0.2 million (2018: £0.3 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 24).

24. Non-current financial liabilities

Group		**2019 £000**	2018 £000
Loans and borrowings	(i)	**905,145**	**1,091,415**
Trade and other payables	(ii)	**5,379**	**5,978**
Derivative financial instruments – Inflation swap	(iii)	**-**	**106,755**
		910,524	**1,204,148**

		2019 £000	2018 £000
(i) Loans and borrowings			
Irredeemable debenture stock	(a)	**935**	**928**
Listed bonds	(b)	**337,960**	**534,429**
Index linked loans	(c)	**382,226**	**370,569**
Other term loans and creditors	(d)	**93,629**	**95,094**
Amounts due to shareholders	(e)	**90,395**	**90,395**
		905,145	**1,091,415**

Notes to the Group financial statements
as at 31 March 2019

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

	2019	2018
	£000	£000
(a) Irredeemable debenture stock		
3 % perpetual stock	**25**	**24**
3 ½ % perpetual stock	**358**	**357**
4 % perpetual stock	**171**	**170**
5 % perpetual stock	**337**	**336**
5 ½ % perpetual stock	**3**	**2**
6 % perpetual stock	**41**	**39**
	935	**928**

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 (2018: £496 million), with effective terms, having taken account of a related interest rate swap, 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 2019 £000	Loan due 2029 £000	Loan due 2041 £000	Total £000
2019				
Original loan consideration	-	166,000	130,000	296,000
Unamortised revaluations	-	3,573		3,573
	-	169,573	130,000	299,573
Indexation on bonds	-	-	40,608	40,608
Less: unamortised issue costs	-	(1,106)	(1,115)	(2,221)
	-			
Listed bonds		**168,467**	**169,493**	**337,960**
2018				
Original loan consideration	200,000	166,000	130,000	496,000
Unamortised revaluations	1,162	3,930	-	5,092
	201,162	169,930	130,000	501,092
Indexation on bonds	-	-	36,045	36,045
Less: unamortised issue costs	(326)	(1,217)	(1,165)	(2,708)
Listed bonds	**200,836**	**168,713**	**164,880**	**534,429**

Notes to the Group financial statements
as at 31 March 2019

24. 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 (taken out during the prior year), 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
2019				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	82,508	16,809	16,638	115,955
Less: unamortised issue costs	(1,116)	(209)	(1,404)	(2,729)
Loans due	**216,392**	**50,600**	**115,234**	**382,226**
2018				
Original loan amounts	135,000	34,000	100,000	269,000
Indexation on bonds	75,714	15,223	13,530	104,467
Less: unamortised issue costs	(1,197)	(222)	(1,479)	(2,898)
Loans due	**209,517**	**49,001**	**112,051**	**370,569**

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 of subordinated term loans totalling £96.0 million (2018: £96.0 million) from The Royal Bank of Scotland, Commonwealth Bank of Australia and Bayern, at a rate of 2.007% maturing on 22 July 2022 was replaced by a new loan facility of £150 million in December 2018. £96 million draw down from the facility has been utilised to settle the loan. Loan has been facilitated by National Westminster, ING, Credit Agricole and Canadian Imperial , 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 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 Group financial statements
as at 31 March 2019

24. 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 (2018: £45.2 million) from UTA International Holdings 1 Pty Limited at an interest rate of LIBOR plus 6% falling due for repayment on 16 October 2026 (or earlier at the option of the group);
- unsecured loan notes of £22.6 million (2018: £22.6) from RBS Pensions Trustees Limited as Trustee for The Royal Bank of Scotland Group Pension Fund – Group Fund Section at an interest rate of LIBOR plus 6% falling due for repayment on 16 October 2026 (or earlier at the option of the group);
- unsecured loan notes of £11.3 million (2018: £11.3) from Régime de Rentes du Mouvement Desjardins at an interest rate of LIBOR plus 6% falling due for repayment on 16 October 2026 (or earlier at the option of the group);
- unsecured loan notes of £5.6 million (2018: £5.6) from Desjardins Financial Security Life Assurance Company at an interest rate of LIBOR plus 6% falling due for repayment on 16 October 2026 (or earlier at the option of the group);
- unsecured loan notes of £5.6 million (2018: £5.6) from Certas Home and Auto Insurance Company at an interest rate of LIBOR plus 6% falling due for repayment on 16 October 2026 (or earlier at the option of the group);

(ii) Trade and other payables

Trade and other payables comprise financing guarantee fees of £nil (2018: £20,000) and deposits payable to developers of £5.4 million (2018: £6.0 million).

Deposits payable to developers have been adjusted at 1 April 2018 upon the adoption of IFRS 15 using the modified retrospective method (see note 5). This has given rise to a transfer of £0.5 million from trade and other payables to retained earnings for the balance of deposits received where the performance obligations in the contracts have been completed and there is no requirement to refund the deposits.

(iii) Derivative financial instruments – Inflation swap
The company has entered into an interest rate swap arrangement in respect of the £200 million intercompany loan with its subsidiary company. This mirrors South East Water (Finance) Limited's arrangement with Deutsche Bank AG. This arrangement swaps the fixed rate of interest on the bond for a variable rate of interest which is linked to inflation as reported by the Retail Price Index.

As at 31 March 2018 the interest rate swap is stated at its fair value of a liability of £104.2 million. The principle and interest swap is due to be paid on maturity of the bond on 30 September 2019.

	2019 **£000**	2018 £000
Amounts due to subsidiary undertakings	**-**	104,169

Company	**2019** **£000**	2018 £000
Amounts due to group undertakings	**164,842**	164,842
Issue costs on loans due to shareholders (see (e) above)	**(2,371)**	(906)
	162,471	163,936

Notes to the Group financial statements
as at 31 March 2019

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

Amounts due to group undertakings comprise:

- an unsecured loan from Hastings Luxembourg Water S.a.r.l. of £22.6 million (2018: £22.6 million) at an interest rate of LIBOR plus 4.62% falling due for repayment on 16 October 2026;
- an unsecured loan from Hastings Luxembourg Water S.a.r.l. of £60.6 million (2018: £60.6 million) at an interest rate of LIBOR plus 4.62% falling due for repayment on 16 October 2026;
- an unsecured loan from Hastings Luxembourg Water S.a.r.l. of £40.2 million (2018: £40.2 million) at an interest rate of LIBOR plus 4.62% falling due for repayment on 16 October 2026; and
- an unsecured loan from Swan Group of £41.6 million (2018: £41.6 million) at an interest rate of LIBOR plus 3.25% falling due for repayment on 30 September 2032.

25. 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 and trade receivables and trade and other payables. The main purpose of the group's financial instruments other than the interest rate swaps is to raise finance for the group's operations.

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

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

Liquidity risk
The group aims to maintain a balance between continuity of funding and flexibility. Continuity of funding has been guaranteed throughout the period by the existence of long-term funding facilities. Short-term flexibility is achieved by varying the drawdown amounts under these 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, debenture loans, long-term bonds and long-term index linked loans. Debentures are long-term fixed rate loans. Bonds comprise long-term fixed rate loans and long-term variable rate loans which have been linked to inflation, partly through the use of an interest rate swap. The interest rate swap is used in order to reflect movements in the expected future income of the group. 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 2019 there was a net inflow of £35.0 million from financing activities within the group (excluding dividend payments) (2018: £20.0 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.

Credit risk
The group's financial assets are cash 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. An estimate for the provision for doubtful debts is calculated by the group's management based on applying expected recovery rates to an aged debt profile and an assessment of current socio-economic conditions. The group has no significant concentration of credit risk, with exposure spread over a large number of domestic and commercial customers.

Notes to the Group financial statements
as at 31 March 2019

25. Group financial instruments *(continued)*

Inflation risk
The group manages its inflation risk on financial liabilities through the use of an interest rate swap, 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.

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
2019			
Sterling	+300	25,212	20,170
Sterling	-100	8,404	6,723
2018			
Sterling	+300	24,162	19,330
Sterling	-100	8,054	6,443

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.

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 2019 £000	**Fair Value 2019 £000**	Book Value 2018 £000	Fair Value 2018 £000
Loans and receivables				
Trade receivables	**76,397**	**76,397**	**70,024**	**70,024**
Cash and short term investments	**33,541**	**33,541**	**29,756**	**29,756**
	109,938	**109,938**	**99,780**	**99,780**
Financial liabilities at amortised cost				
Trade and other payables	**51,144**	**50,530**	**49,357**	**48,765**
Irredeemable debentures	**991**	**862**	**928**	**862**
Listed bonds	**548,557**	**672,137**	**548,578**	**672,137**
Index linked loans	**371,247**	**499,703**	**370,570**	**494,338**
Other long-term financial liabilities	**186,395**	**230,203**	**185,489**	**234,463**
	1,158,334	**1,453,435**	**1,154,922**	**1,450,565**
Financial liabilities at fair value through income statement				
Interest rate swaps	**109,882**	**109,882**	**106,756**	**106,756**

Notes to the Group financial statements
as at 31 March 2019

25. Group financial instruments *(continued)*

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.

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.

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

31 March 2019	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial liabilities at fair value through income statement				
Interest rate swap	**109,882**	**-**	**109,882**	**-**
31 March 2018				
Financial liabilities at fair value through income statement				
Interest rate swap	**106,756**	**-**	**106,756**	**-**

Notes to the Group financial statements
as at 31 March 2019

25. Group financial instruments *(continued)*

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

31 March 2019	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
Fair value of financial liabilities at amortised cost				
Trade and other payables	(50,530)	-	(50,530)	-
Irredeemable debentures	(862)	-	(862)	-
Listed bonds	(672,137)	(672,137)	-	-
Index linked loans	(499,703)	-	(499,703)	-
Other long term financial liabilities	(230,203)	-	(230,203)	-
Total fair value of financial liabilities at amortised cost	**(1,453,435)**	**(672,137)**	**(781,298)**	**-**
31 March 2018				
Fair value of financial liabilities at amortised cost				
Trade and other payables	(48,765)	-	(48,765)	-
Irredeemable debentures	(862)	-	(862)	-
Listed bonds	(672,137)	(672,137)	-	-
Index linked loans	(494,338)	-	(494,338)	-
Amounts due to parent and group undertakings	(234,463)	-	(234,463)	-
Total fair value of financial liabilities at amortised cost	**(1,450,565)**	**(672,137)**	**(778,428)**	**-**

During the reporting period ended 31 March 2018, 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 Group financial statements
as at 31 March 2019

25. 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 2019	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	126	1,130	1,340
Listed bond	9,268	9,268	27,805	221,611	267,952
Other long-term financial liabilities	1,927	1,927	99,853	-	103,707
Total fixed rate financial liabilities	**11,237**	**11,237**	**127,784**	**222,741**	**372,999**
Floating rate					
Floating rate financial assets:					
Short-term financial assets	**76,397**	**-**	**-**	**-**	**76,397**
Floating rate financial liabilities:					
Short-term financial liabilities	62,112	-	-	-	62,112
Listed bond	13,423	326,918	13,875	364,806	719,022
Index linked loans	-	12,322	38,570	683,782	734,674
Other long-term financial liabilities	6,352	6,352	19,056	109,451	141,211
Total floating rate financial liabilities	**81,887**	**345,592**	**71,501**	**1,158,039**	**1,657,019**
Year ended 31 March 2018					
Fixed rate					
Fixed rate financial liabilities:					
Irredeemable debentures	42	42	126	1,088	1,298
Listed bond	9,268	9,268	27,805	230,879	277,220
Other long-term financial liabilities	1,927	1,927	101,780	-	105,634
Total fixed rate financial liabilities	**11,237**	**11,237**	**129,711**	**231,967**	**384,152**
Floating rate					
Floating rate financial assets:					
Short-term financial assets	**69,275**	**-**	**-**	**-**	**69,275**
Floating rate financial liabilities:					
Short-term financial liabilities	60,325	-	-	-	60,325
Listed bond	13,286	326,782	13,466	367,715	721,249
Index linked loans	11,958	12,225	38,280	680,244	742,707
Other long-term financial liabilities	6,352	6,352	19,056	115,803	147,563
Total floating rate financial liabilities	**91,921**	**345,359**	**70,802**	**1,163,762**	**1,671,844**

The £200 million fixed rate instrument is classified as a floating rate financial liability due to the associated interest rate swap arrangement. The £96 million floating rate instrument is classified as a fixed rate financial liability due to the associated interest rate swap arrangement.

Notes to the Group financial statements
as at 31 March 2019

25. Group financial instruments *(continued)*

Borrowing facilities
The group has committed borrowing facilities of £144.0 million (2018: £144.0 million), of which £nil (2017: £nil) 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:

	2019 **£000**	2018 £000
Financial assets, loans and receivables (see note 11)	**284**	**180**
Financial liabilities at amortised cost (see note 12)	**(65,962)**	**(63,966)**
Financial liabilities at fair value through profit or loss (see note 12)	**(3,126)**	**(122)**
Financial assets due to impairment (see note 24)	**(1,627)**	**(1,950)**

26. Trade and other payables

Group	**2019** **£000**	2018 £000
Financial liability payables		
Loans & Borrowings	**255,468**	**20,000**
Swap	**109,882**	**-**
Trade payables	**13,920**	**13,640**
Other payables	**2,303**	**1,902**
Accruals	**33,914**	**32,803**
	50,137	**48,345**
Non-financial liability payables		
Payments received in advance	**32,724**	**36,118**
Other taxes and social security	**1,007**	**1,012**
	33,731	**37,130**
Trade and other payable	**83,868**	**85,475**
	449,218	**105,475**
Company		
Financial liability payables		
Amounts due to group undertakings	**3,027**	**4,611**
Accruals	**184**	**39**
	3,211	**4,650**

As at 31 March 2019 and 2018, amounts due to parent and fellow subsidiary undertakings represent unsecured non-interest bearing balances relating to, for the group, the surrender of group tax relief and for the company the surrender of group tax relief and interest due on debt with the subsidiary company.

Notes to the Group financial statements
as at 31 March 2019

27. Provisions

Group **31 March 2019**	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2018	**1,988**	**527**	**-**	**2,515**
Additional provisions	**1,406**	**3,825**	**-**	**5,231**
Amounts utilised	**(1,250)**	**(2,524)**	**-**	**(3,774)**
	2,144	**1,828**	**-**	**3,972**
31 March 2018				
As at 1 April 2017	1,789	553	130	2,472
Additional provisions	1,004	2,252	-	3,256
Amounts utilised	(805)	(2,278)	(130)	(3,213)
	1,988	**527**	**-**	**2,515**

It is anticipated that all provisions will be utilised within the next year.

28. Deferred income

The group adopted IFRS 15 on 1 April 2018 using the modified retrospective method. This has given rise to accumulated historic adjustments being made to the opening balances at 1 April 2018 as detailed below.

Group	**2019 £000**	2018 £000
As at 1 April	**82,064**	76,511
Transfer to retained earnings on adoption of IFRS 15 (See note 5)	**(71,898)**	-
As at 1 April adjusted	**10,166**	76,511
Received in the year	**9,099**	14,676
Released during the year	**(8,897)**	(9,123)
As at 31 March	**10,368**	82,064
Non-current	**3,185**	74,471
Current	**7,183**	7,593
	10,368	82,064

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 Group financial statements

as at 31 March 2019

29. Issued Share Capital

	2019	2018
	£000	£000
Called up, allotted and fully paid		
13,514,844 A class ordinary shares of £0.125 (2018: 13,514,844)	**1,688**	**1,688**
2,252,474 B class ordinary shares of £0.125 (2018: 2,252,474)	**282**	**282**
2,252,474 C class ordinary shares of £0.125 (2018: 2,252,474)	**282**	**282**
241,831,558 non-voting redeemable preference shares of £1 (2018: 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 Group financial statements
as at 31 March 2019

30. Movements in liabilities arising from financing activities

Group non-current loans and borrowings	Irredeemable debenture stock £000	Shareholder loans £000	Bank loan £000	Listed bonds £000	Indexed linked loans £000	Non-current loans and borrowing £000
Balance 1 April 2017	921	90,395	94,881	529,097	357,753	1,073,047
Changes from other financing activities:						
Indexation on index linked instruments	-	-	-	5,680	12,644	18,324
Amortisation of issue costs	-	-	213	376	172	761
Amortisation of revaluation reserves	7	-	-	(724)	-	(717)
Balance at 31 March 2018	928	90,395	95,094	534,429	370,569	1,091,415
Balance 1 April 2018	928	90,395	95,094	534,429	370,569	1,091,415
Changes from cash flow activities:						
Issue costs paid	-	-	(2,371)	-	-	(2,371)
Loan repayment	-	-	96,000	-	-	96,000
New loan facility	-	-	(96,000)	-	-	(96,000)
Changes from other financing activities:						
Indexation on index linked instruments	-	-	-	4,564	11,487	16,051
Loan transfer to current liabilities	-	-	-	(200,468)	-	(200,468)
Amortisation of issue costs	-	-	906	376	170	1,452
Amortisation of revaluation reserves	7	-	-	(941)	-	(934)
Balance at 31 March 2019	**935**	**90,395**	**93,629**	**337,960**	**382,226**	**905,145**

Notes to the Group financial statements
as at 31 March 2019

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

Group current loans and borrowings	**2019 £000**	2018 £000
Balance 1 April	**20,000**	-
Changes from financing cash flows:		
New loans received during the period	**35,000**	20,000
Changes from other financing activities:		
Transfer of Loan from long term	**200,000**	-
Amortisation of issue cost	**(110)**	
Unamortised cost	**578**	-
Balance 31 March	**255,468**	20,000

Group derivative financial instruments	**2019 £000**	2018 £000
Balance 1 April	**106,756**	100,916
Changes in fair values:		
Movement in fair value of interest rate swap	**3,126**	5,840
Balance 31 March	**109,882**	106,756

31. Commitments and contingent liabilities

Capital commitments

Group and company	**2019 £000**	2018 £000
Contracts placed for future capital expenditure not provided in the financial statements	**33,780**	47,288

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

32. Obligations under operating leases

Group and company	**2019 £000**	2018 £000
Minimum lease payments under operating leases recognised as an expense in the year (see note 8)	**498**	408

Future minimum lease payments under non-cancellable operating leases are as follows:

Group and company	**Land and buildings 2019 £000**	Land and buildings 2018 £000
Amounts for the following periods:		
- within one year	**195**	195
- in the first to second	**195**	195
- in the second to fifth years	**585**	585
- after five years	**2,145**	2,340
	3,120	3,315

Notes to the Group financial statements
as at 31 March 2019

33. Retirement benefit schemes

Group and company (hereafter referred to as "group" in this note)

The South East Water pension scheme provides benefits to group 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 have removed the option for schemes to contract-out via a Protected Rights basis. From 6 April 2012, the group has 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 scheme took place as at 31 March 2017.

The group contribution rate was nil (2018: nil) of pensionable remuneration during the year plus an annual contribution of £3.8 million (2018: £3.8 million). The group's future annual contribution is expected to be £3.7 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 the scheme took place as at 31 March 2017.

The group contributed nil (2018: nil) of pensionable remuneration plus £1.27 million (2018: £1.25 million) in respect of the deficit as at 31 March 2019 to the scheme during the year. The group's future annual contribution is expected to be £1.3 million.

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 and charged directly to the income statement each year. The value of future obligations has been valued and the liability is recognised on the statement of financial position.

On 26 October 2018, the High Court issued a judgment involving the Lloyds Banking Group's defined benefit pension schemes in relation to Guaranteed Minimum Pension (GMP) benefits being calculated differently for men and women. The judgment concluded that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. This issue has been treated as a plan amendment and the impact has been recognised as a past service cost in these accounts.

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

	2019 **£000**	2018 £000
Defined contribution scheme	**2,149**	2,007

Notes to the Group financial statements
as at 31 March 2019

33. Retirement benefit schemes *(continued)*

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2019 %	SEW Pensions 2018 %	**MKW Pensions 2019 %**	MKW Pensions 2018 %
Main assumptions:				
Rate of increase in pensions in payment	**2.25**	2.15	**2.25**	2.15
Rate of increase in deferred pensions	**2.25**	2.15	**2.25**	2.15
Discount rate	**2.55**	2.70	**2.55**	2.70
RPI assumption	**3.25**	3.15	**3.25**	3.15
CPI assumption	**2.25**	2.15	**2.25**	2.15
Post-retirement mortality (in years)				
Current pensioners at 65 – male	**21.5**	21.6	**21.5**	21.6
Current pensioners at 65 – female	**23.3**	23.4	**23.3**	23.4
Future pensioners at 65 – male	**22.6**	22.8	**22.6**	22.8
Future pensioners at 65 – female	**25.4**	25.5	**25.4**	25.5

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	4,000	1.4
One year increase in life expectancy	10,500	3.8

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
2019			
Equities	32,111	15,675	47,786
Corporate bonds	87,219	64,426	151,645
Government bonds	42,630	34,622	77,252
Property	-	-	-
Cash	4,608	5,044	9,652
Insured persons	5,326	4,850	10,176
Total fair value of assets	171,894	124,617	296,511
Present value of funded obligations	(161,451)	(109,496)	(270,947)
Surplus in the schemes	10,443	15,121	25,564

	£000
Unfunded obligation 2019	
Present value of unfunded obligations	**(3,154)**

Notes to the Group financial statements
as at 31 March 2019

33. Retirement benefit schemes *(continued)*

	SEW Pensions £000	MKW Pensions £000	Total £000
2018			
Equities	35,890	25,064	60,954
Corporate bonds	76,571	50,154	126,725
Government bonds	41,508	32,906	74,414
Property	8,458	6,071	14,529
Cash	1,746	3,901	5,647
Insured persons	5,296	4,827	10,123
Total fair value of assets	169,469	122,923	292,392
Present value of funded obligations	(160,169)	(107,713)	(267,882)
Surplus in the schemes	9,300	15,210	24,510

	£000
Unfunded obligation 2018	
Present value of unfunded obligations	(3,281)

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	Total £000
2019			
Net interest on defined liability/(asset)	(212)	(424)	(636)
Past service costs	164	109	273
Administrative expenses	423	371	794
Total amount charged to income statement	**375**	**56**	**431**
2018			
Net interest on defined liability/(asset)	8	(256)	(248)
Administrative expenses	642	448	1,090
Total amount charged to income statement	650	192	842

Notes to the Group financial statements
as at 31 March 2019

33. 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
2019				
Return on schemes' assets excluding interest income	2,343	2,084	-	4,427
Actuarial losses due to changes in financial assumptions	(5,732)	(4,170)	140	(9,762)
Actuarial gain due to changes in demographic assumptions	1,092	731	-	1,823
Experience loss on obligation	-	-	(13)	(13)
Actuarial gains recognised in the statement of comprehensive income	**(2,297)**	**(1,355)**	**127**	**(3,525)**
Cumulative actuarial losses	**(6,114)**	**(13,435)**	**(3,154)**	**(22,703)**
2018				
Return on schemes' assets excluding interest income	(1,544)	(1,536)	-	(3,080)
Actuarial gains due to changes in financial assumptions	3,811	5,186	-	8,997
Actuarial gains due to changes in demographic assumptions	(967)	(338)	-	(1,305)
Experience gain on obligation	4,782	1,200	(1,239)	4,743
Actuarial losses recognised in the statement of comprehensive income	6,082	4,512	(1,239)	9,355
Cumulative actuarial losses	(3,817)	(12,080)	(3,281)	(19,178)

Reconciliation of defined benefit obligations:

	SEW Pensions £000	MKW Pensions £000	Unfunded pensions £000	Total £000
2019				
Opening defined benefit obligations	160,169	107,713	3,281	271,163
Interest cost	4,304	2,846	-	7,150
Actuarial gain	4,640	3,439	(127)	7,952
Past service cost	164	109	-	273
Benefits paid	(7,826)	(4,611)	-	(12,437)
Closing defined benefit obligations	**161,451**	**109,496**	**3,154**	**274,101**
2018				
Opening defined benefit obligations	170,485	116,436	4,520	291,441
Interest cost	4,341	2,898	-	7,239
Actuarial losses	(5,148)	(6,048)	(1,239)	(12,435)
Benefits paid	(9,509)	(5,573)	-	(15,082)
Closing defined benefit obligations	160,169	107,713	3,281	271,163

Notes to the Group financial statements
as at 31 March 2019

33. Retirement benefit schemes *(continued)*

Reconciliation of fair value of plans' assets:

	SEW Pensions £000	MKW Pensions £000	Total £000
2019			
Opening fair values of schemes' assets	169,469	122,923	292,392
Interest income on assets	4,516	3,270	7,786
Return on scheme assets excluding interest income	2,343	2,084	4,427
Contributions by employer	3,815	1,322	5,137
Administrative expenses	(423)	(371)	(794)
Benefits paid	(7,826)	(4,611)	(12,437)
Closing fair values of schemes' assets	**171,894**	**124,617**	**296,511**
2018			
Opening fair values of schemes' assets	173,154	126,052	299,206
Interest income on assets	4,333	3,154	7,487
Return on scheme assets excluding interest income	(1,544)	(1,536)	(3,080)
Contributions by employer	3,677	1,274	4,951
Administrative expenses	(642)	(448)	(1,090)
Benefits paid	(9,509)	(5,573)	(15,082)
Closing fair values of schemes' assets	169,469	122,923	292,392

Notes to the Group financial statements
as at 31 March 2019

33. Retirement benefit schemes *(continued)*

The five year history of the schemes is as follows:

	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
SEW Pensions					
Fair value of scheme assets	**171,894**	169,469	173,154	152,659	156,844
Present value of defined benefit obligation	**(161,451)**	(160,169)	(175,005)	(154,125)	(166,627)
Surplus/(deficit) in the scheme	**10,443**	9,300	(1,851)	(1,466)	(9,783)
Experience adjustment on schemes' assets:					
Amount	**6,859**	2,789	25,464	1,558	18,108
Percentage of scheme's assets (%)	**4.0%**	1.6%	14.7%	1.0%	11.5%
Experience adjustment on schemes' liabilities:					
Amount	**(4,513)**	6,387	(23,734)	(8,928)	1,400
Percentage of the scheme's liabilities (%)	**2.8%**	(4.0)%	13.6%	5.8%	(0.8)%
MKW Pensions					
Fair value of plan assets	**124,617**	122,923	126,052	111,558	113,948
Present value of defined benefit obligation	**(109,496)**	(107,713)	(116,436)	(102,555)	(111,154)
Surplus/(deficit) in the scheme	**15,121**	15,210	9,616	9,003	2,794
Experience adjustment on schemes' assets:					
Amount	**5,354**	1,618	19,165	2,477	14,813
Percentage of schemes' assets (%)	**4.3%**	1.3%	15.2%	2.2%	13.0%
Experience adjustment on schemes' liabilities:					
Amount	**(3,439)**	6,048	(16,008)	(6,521)	(2,903)
Percentage of the schemes' liabilities (%)	**3.1%**	(5.6)%	13.7%	6.4%	2.6%

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.

34. Subsequent events

The Group is due to repay part of its long term funding on 30 September 2019 with the maturity of its £200 million listed bond. The bond was originally issued at a fixed interest rate and swapped to an index linked rate via a derivative transaction, also maturing on 30 September 2019. The total amount repayable on both the original loan and the derivative is approximately £311.5 million.

Notes to the Group financial statements
as at 31 March 2019

34. Subsequent events *(continued)*

The Group has arranged new funding to finance the repayment of the above financial instruments by way of:

- A fixed rate loan of £75million to be drawn down on 16 September 2019. The Interest rate applicable to this loan is 2.94%, being LIBOR plus a margin of 1.3%. This loan matures on 16 September 2031
- A fixed rate loan of £100million to be drawn down on 16 September 2019. The Interest rate applicable to this loan is 3.22%, being LIBOR plus a margin of 1.52%. This loan matures on 16 September 2042
- A variable rate loan of £120million to be drawn down on 30 September 2019. Interest on this loan, which varies annually in line with LIBOR, has been budgeted at 2.2429% for the initial year, being LIBOR plus a margin plus a margin of 1.2%. This loan matures on 19 December 2025.

Additionally, Group will draw down a further £54 million from the existing loan commitment of £190 million in place.

35. Related party transactions

The group has loans from each of its shareholders totaling £90.4 million (2018: £90.4 million) as detailed in notes 24 and 25. Interest costs of £6.1 million (2018: £5.8 million) are disclosed in note 12.

The company has received unsecured loans totalling £123.5 million (2018: £123.5 million) from its subsidiary, Hastings Water (Luxembourg) S.a.r.l and an unsecured loan of £41.6 million (2018: £41.6 million) from its subsidiary Swan Group. These loans are disclosed in note 24. Interest of £9.6 million (2018: £6.3 million) was paid to Hastings Water (Luxembourg) S.a.r.l. and of £1.7 million (2018: £1.5 million) to Swan Group.

36. Parent company and ultimate controlling Parties

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia (“UTA”), RBS Pensions Trustees Limited as Trustee for The Royal Bank of Scotland Group Pension Fund – Group Fund Section (“RBSPF”), Régime de Rentes du Mouvement Desjardins (“RRMD”), Desjardins Financial Security Life Assurance Company (“DFSL”) and Certas Home and Auto Insurance Company (“Certas”) are the company’s joint ultimate holding companies. UTA is resident in Australia. RBSPF is resident in the United Kingdom, RRMD, DFSL and Certas are resident in Canada. It is the directors’ belief that there is no single ultimate controlling party and that the joint ultimate holding companies control the company jointly.

The immediate parent companies are UTA International Holdings 1 Pty Limited, a holding company resident in Australia, RBSPF, RRMD, DFSL and Certas.