Company registration number 02660370 (England and Wales)

EAST SURREY HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

EAST SURREY HOLDINGS LIMITED

COMPANY INFORMATION

Director	I Cain	
	P Kerr	
	G Holman	
	K Oida	
	M Kusuno	(Resigned 21 March 2023)
	K Kageyama	
	D Shemmans	
	Y Yamamoto	(Appointed 21 March 2023)
Company number	02660370	
Registered office	66-74 London Road Redhill Surrey RH1 1LJ	
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London United Kingdom SE1 2RT	

EAST SURREY HOLDINGS LIMITED

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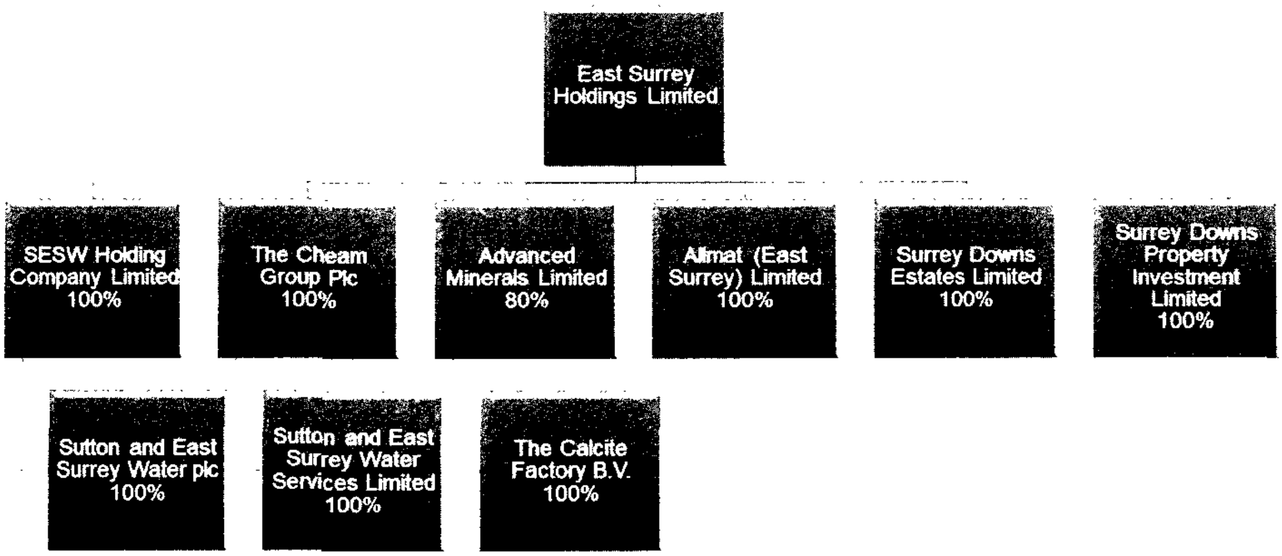
EAST SURREY HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The Directors present the strategic report of East Surrey Holdings Limited for the year ended 31 March 2023.

East Surrey Holdings Limited ("the Company" or "ESH") operates as a holding company, and together with its subsidiaries (collectively referred to as the "Group") invests in the water industry across both Household and Non Household markets, as well as in other trading businesses and property investment and development.



Note: only the active companies are shown in the group chart above.

The primary activities within the Group are to both supply water to domestic customers through Sutton and East Surrey Water plc ("SESW" or "SES Water"), a regulated public water supply company and to act as a retailer within the water and sewerage retail market for eligible non-household customers through Sutton and East Surrey Water Services Limited ("SESWS") (trading as SES Business Water and SES Home Services). The Home Services division provides plumbing and heating services, which covers domestic water and gas heating systems. The other smaller subsidiaries include Advanced Minerals Limited ("AML") which sources and processes materials and minerals and Allmat (East Surrey) Limited ("Allmat"), a locally based builder merchant in Kenley.

SESW, the largest company within the Group, supplies 160 million litres of clean water each day to more than 750,000 people in East Surrey, and parts of West Sussex, West Kent and South London.

ESH key highlights:

Our shareholders have engaged financial advisors to undertake a strategic review of the ESH Group's business, including SESW. While the strategic review is ongoing our focus remains on delivering for our customers, our communities and our people.

To strengthen our financial resilience our shareholders have committed in writing to provide support including £22m in aggregate in the form of equity injections to ESH, and from ESH down to SESW in the period up to 31 March 2024. We expect the majority of the committed equity (over 75% of the £22m) to be received on or prior to 1 December 2023, with the first and second instalment of £2m and £5m already received as at the date of this report. These equity injections allow SESW to deliver its capital investment programme for the next 12 months and meet its liquidity and financial covenant requirements. The shareholders have committed support to cover further funds if needed for additional operating or refinancing costs.

In the event that the ongoing strategic review results in the sale of the Company within the next 12 months, the Board expect that a new owner would be required as part of taking on SESW's water supply licence to confirm appropriate ongoing funding arrangements.

SESW key highlights:

SESW's operational performance for the year ended 31 March 2023 has been strong. SESW has been fully focused on delivering and improving upon the promises it has made to its customers in its Business Plan 2020-2025, which includes achieving its leakage reduction target this year.

Key achievements include:

- Maintained its excellent water quality performance and is one of the top-ranking companies in the Drinking Water Inspectorate's sector-wide report, published in July 2023.
- Ensured no restriction or hosepipe ban was imposed on its customers' use of water.
- Achieved its greenhouse gas emissions targets.
- Ensured that supply interruptions for its customers have been minimal and below targeted levels, despite the challenges posed by the severe summer drought and winter freeze/thaw conditions. Unfortunately, SESW missed its target for minimising bursts.
- Enhanced the resilience of its water network, with more than 180,000 further customers now connected to two water treatment works.
- Won the Utility Week Innovation Award for the SESW's fully smart network, which allows SESW to monitor and repair leaks in near real-time.
- Achieved its highest ever ranking of 10th for customer satisfaction and experience (C-MeX) for the period of January to March 2023. For the full year, SESW finished 13th, an improvement of two places from prior year.
- Continued to ensure its customers benefit from SESW's Water Support Scheme, with 19,476 eligible customers now receiving a 50% bill reduction.
- Retained The Wildlife Trusts' Biodiversity Benchmark Award for the third year at Elmer Treatment Works and a second year at Fetcham Springs in Leatherhead. SESW remains the only water company to currently hold the accreditation.

Community Activities:

SESW has continued to go beyond providing its essential public service and played an active part in the local communities it serves. This has included:

- Welcoming more than 2,825 people to the state-of-the-art education centre at Bough Beech Treatment Works in the past year, continuing to inspire future generations. SESW's education programme has reached a total of 4,118 people, including in-school talks.
- Visiting 140 vulnerable customers a week, to make sure the members of the community who need it most benefit from SESW's support. This includes contact over telephone and attending local food banks.
- Partnering with Run Series to support both Run Gatwick and Run Reigate as the events' official water provider, avoiding more than 48,000 single-use plastic water bottles from being given out at each event.
- Continuing to work with Bore Place, a charity local to its Bough Beech site, and a number of other partners to assess the opportunity to develop biodiversity net gain on a landscape scale.

As well as delivering strong operational performance, SESW has continued to go beyond providing its essential public service and has played an active part in the local communities it serves.

Water plays a role in all our lives and our customers rightly expect their supply to be clean and plentiful. As we have continued to respond to the global pandemic SESW's performance has been tested, especially against some of SESW's challenging targets. However, SESW have remained focused on delivering what matters most to its customers. That is the aim of its business plan as it was built around its customers' priorities. Delivering against its five pledges will not only improve the lives of its customers but will also enhance the environment and ensure SESW is playing its part in making it better.

SESW has 5 pledges that each of its employees strives to deliver through their roles within the company. More details can be found in the SES Water annual performance report here: https://seswater.co.uk/about-us/publications/our-annual-performance-report.

SESWS key highlights:

SESWS operates as two separate trading divisions: SES Business Water and SES Home Services. The retail market that SES Business Water operates in remains challenging however the business was successful in increasing margins on existing customers in its forward order book due to better management. The business also re-engineered debt collection processes and improved customer service levels both of which should assist cash collection. In current year, SES Business Water changes its focus this year on forward contracted margin delivered improvement throughout the year and targets new acquisitions of more profitable customers and exit of some less profitable customers within the portfolio.

SES Home Services persisted in its efforts to broaden its sources of income beyond its conventional insurance operations. SESWS established fresh connections with claims managers who catered to clients of alternate insurance firms, and it also extended its services to the emerging business water sector.

On 9 February 2023, SES Home Services within SESWS established a contractual arrangement with HomeServe Membership Ltd (HomeServe), one of the UK's leading home repair companies, which took effect on 1 April 2023. Under this agreement, SESWS is selling its renewal rights to an existing Home Emergency insurance policy book held by 9,000 SESW customers to HomeServe for total cash consideration up to £900,000 (comprised of a fixed portion of £500k and a variable portion of £400k based on the number of policy successfully migrated) and launched an affinity partnership between SES Home Services and HomeServe, which will allow SESWS to promote a range of plumbing, gas, and electrics services to its customers.

Principal benchmarks for the Home Services division encompass gross profit, the quantity of insurance policies vended, and operating expenditures.

As for the Business Water division, crucial metrics encompass gross margin spanning diverse segments, overhead expenditure, and the collection of cash.

Additional existing pivotal performance indicators encompass:

Home Services
- The initial repair success rate for plumbing and heating service tasks
- Call abandonment rate for incoming calls from customers at the contact centre of SES Home Services

Business Water
- Expansion in sales

SESWS is strategically poised to further its expansion within the non-residential water retail sector in England and Scotland. It envisions diversification beyond mere water supply to encompass innovative digital services. The Home Services segment anticipates leveraging its implemented changes to achieve substantial growth in the Southeast region, increasing both service offerings and job execution.

Other ESH Group highlights:

- Allmat's revenue dropped slightly by £136k due to the impact of the cost-of-living crisis. However, its operating loss reduced significantly by over 50% as a result of its cost saving exercise.
- Advanced Minerals Limited continued to record a slight increase in revenue this year but with a decline in gross profit margin given increasing competitiveness within its industry.
- We have continued to put the health and wellbeing of our employees and customers first, whilst striving to do the right thing across all of the industries that we operate within.

Climate change

We have established multiple workstreams to ensure we are assessing the potential areas of challenge and risk in relation to climate change and preparing for the additional workload and investment needed, including the requirement to appoint appropriately qualified resources to plan for and respond to the potential risk of water resource availability and ability to supply and meet regulatory and customer expectations on maintaining biodiversity and reducing energy and carbon use.

Cost of living

Whilst considered as an overriding contributory factor in the most recent review of the relevant risks in the register, further significant rises in inflation and the cost-of-living warrant specific consideration and mitigation strategies.

ESH Risks

The principal risks and uncertainties facing the Group include:

- Interest rate and liquidity risks - The majority of the interest rate risks are associated with SESW and its index-linked bond. SESW managed its principal interest rate risk by issuing an Index-Linked Bond, the interest rate on this Bond is 2.874% in addition to index-linking of the capital value. SESW manages its liquidity risk through the borrowing facilities with the Royal Bank of Scotland and National Westminster Bank. The impact of inflation continues to be a significant risk to SESW's cost of debt.

- Cash Collection – increased risk of bad debt driven by poor cash collection as household customers suffer financial hardship amid cost-of-living crisis and also within the non-household retail market that SES Business Water operates within as businesses continue to recover from the impact of closures and downturn in the economy. Both are mitigated through regular reviews, credit control review, prompt and accurate billing, use of technology to customer billing and settlement records, implementation of cash collection procedures and bad debt recovery via collection agencies.

- Regulatory risk on resetting regulatory target and returns in PR24 Business Plan (covering 2025-2030).

- Failure to comply with legal and regulatory obligations, mitigated by formal processes for compliance with market codes (e.g. MOSL), dedicated resources and independent assurance.

- Failure of economic regulation within SESW where it has insufficient funding to fulfil its duties mitigated by having a stable and transparent regulatory regime, detailed business planning process, including consultation with customers, and an effective relationship with Ofwat.

- Cyber Attacks causing interference with operational controls or loss of personal data, mitigated through multiple layer security, controls and employee awareness training.

- Failure of the billing systems and other core applications across SESW and SESWS – full disaster recovery arrangements in place and adequate liquidity for temporary loss of billing capability to make the core systems more resilient and retrievable in case of major failure.

- Operational risks across the Group particularly within the operational areas of SESW and SES Home Services which employs gas and plumbing engineers who work closely with gas on a regular basis. The risk of harm or injury is mitigated by strong health and safety protocol and training.

- SES Business Water continues to operate under a difficult trading environment with thin gross profit margin being achieved in current year. The aim to grow its customer base and maintain its gross margin remains difficult under current market situation.

- Financial risk – given the current strategic review, despite management's assessment and shareholder support, there is uncertainty on the outcome of the strategic review and also associated financing solutions dependent upon the outcome. Management is continuing to work on financing strategies alongside the ongoing review.

Other risks that are closely monitored include:

- Investment risk - The key factor for the ESH Group managing this risk is to maintain and enhance the close relationship with its customers and suppliers. The subsidiary undertakings continue to develop and provide innovative value-added services at every stage of the supply chain.

- As at 31 March 2023, SESW has a £50 million five-year and a £25 million three-year revolving credit facility and a £15 million overdraft facility which were fully drawn down. During the current year, SESW and SESWS also secured and drew down loans of £7m and £4m from the immediate parent company of ESH, Sumisho Osaka Gas Water UK Limited ("SOGWUK"), for their operational needs and for the purpose of managing the financial covenants ratio (including the Adjusted Interest Cover Ratio Requirement) at the year-end date. Other group companies manage their own liquidity risk through overdraft facilities and are supported by East Surrey Holdings Limited as parent entity with loans if necessary. Please refer to note 19 and note 22 (c) for details.

- Currency risks – The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate risks in the normal course of its business. The Group has minimal exposure to currency risk since nearly all activities are conducted in the UK and all borrowings are denominated in £ sterling.

- Financial risk management – please refer to note 22 (d) for details.

Financial Performance and Position

The financial performance of the Group has remained challenging this year with some improvement in the retail non-household market from Covid-19 despite the impact of the cost-of-living crisis on customers, upward cost pressures on supply chain, and the impact of rising inflation. The Group's revenue for the year ended 31 March 2023 was £125.2m (2022: £114.0m), an increase of 9.8%. Operating costs increased to £125.5m (2022: £109.7m) that led to an operating loss of £1.6m, representing a decrease of £9.6m compared to an operating profit of £8.1m in 2022.

Finance costs increased by 86.2% to £32.0m (2022: £17.2m). This increase is driven by the significant increase in indexation charge by £15.5m in SESW relating to the indexation of its £100m index-linked bond as a result of high inflation rate in the current year.

The Group's loss before taxation was £32.6m (2022: £8.7m) and loss after tax was £26.2m (2022: £20.7m), this is primarily due to the impact of surging operating costs and indexation charge on the £100m index-linked bond under high inflation environment in the current year.

The Group's total assets increased by £15.2m to £498.0m (2022: £482.8m). This is mainly due to the capital investments made by SESW in current year and increase in cash and cash equivalents by £14.6m to £42.5m.

Environmental Improvements

Protecting and enhancing the environment is a pledge within SESW's Business Plan and a long-term necessity because SESW is reliant on the chalk aquifer beneath the North Downs and a number of local rivers for the water it supplies. SESW is working with its neighbouring water companies to understand how it can use these chalk sources more sustainably and to identify alternative sources where needed so it has resilient water supplies for the future.

SESW continued its great work this year and retained the Wildlife Trusts' Biodiversity Benchmark Award (at its Elmer Treatment Works for two years in a row, and now also hold one for its Fetcham Springs site), demonstrating its commitment to making its sites more attractive to plants and animals and the ability for operational activity to work alongside biodiversity. SESW is also working towards achieving a third Biodiversity Benchmark Award for the Bough Beech Water Treatment in 2024.

In addition, SESW reduced its carbon impact and increased the number of electric vehicles in its fleet. Its vehicle fleet now comprises 30% electric and hybrid vehicles and the aim is to reach 100% by 2030, with each electric car helping to save 2-3 tonnes of CO_2e per year, as well as reducing the impact on local air quality. For more information on SESW's total carbon emission, please see "SESW Greenhouse gas emissions" in the Directors' Report.

Helping to guide its long-term environmental strategy is its Environmental Scrutiny Panel (ESP) which has operated since April 2020 and is a group of experienced and passionate environmental champions who want to see it put environmental sustainability at the heart of its decision-making.

Capital Investment

During the third year of AMP 7 SESW invested £25.3m (2022: £27.0m) in its capital investment programme. Within SESW key projects include:

- Investment in the ongoing replacement of pipes in its distribution network £5.8m (2022: £6.7m) enabling targeting replacement based on age, condition and performance of our network.
- A further £1.9m (2022: £1.8m) to improve its resilience mains (to ensure water can be efficiently moved around its supply area now, and in the future).
- £0.3m (2022: £0.8m) was spent on extending its network into new housing developments.
- £7.7m (2022: £8.9m) was invested on replacing and upgrading its treatment works, pumping stations, service reservoirs and other operational sites, including SESW's final phase of refurbishment at Bough Beech.
- A further £3.5m (2022: £3.2m) was invested into its ongoing metering programme to ensure SESW can accurately bill and monitor water usage and predict future demand trends.
- £1.4m (2022: £3.1m) was invested in IT, including replacing its billing system that went live in October 2021.
- Other expenditure on capex including facilities and its laboratories totalled £4.2m (2022: £2.5m).

Other capex expenditure in the Group of £4.1m (2022: £5.4m) included £3.3m (2022: £4.3m) on the billing system development in SES Business Water and Home Services.

Net Debt

Total debt for the Group is £335.4m, an increase of £64.5m (2022: £270.9m). The increase represented £22.1m RPI indexation on the index-linked bond, additional borrowings of RCF loan of £16.0m, short-term bank loan of £15m and loans from immediate parent company of £11m for operational needs of the Group and for the purpose of meeting the financial covenants (including the Adjusted Interest Cover Ratio Requirement) at year-end date.

Cash and liquid resources increased by £14.6m in current year to £42.5m (2022: £28.0m) which comprised a restricted cash of £8.7m (2022: £5.8m) in relation to the secured index-linked bond.

The level of gearing is a key ratio under the covenants associated with the £36m private placement and is measured by the ratio of total net indebtedness to regulated asset value. The ratio as defined by the £36m private placement agreement was 89% at 31 March 2023 which is within the 95% covenant level. Interest cover ratio was 2.96 which is within the Group's permitted range of greater than 1.1:1.0.

For the ratios under financial covenants associated with the £100m index-linked bond of SESW, SESW have restrictions on its gearing and interest cover ratios. The gearing ratio is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. The gearing ratio as defined by the bond was 77% (2022: 72%) within the 80% permitted covenant level as at 31 March 2023. The interest cover ratio was 4.5x (2022: 2.3x) and adjusted interest cover ratio was 1.3x (2022: 1.1x) as defined in the bond agreement, which are also within the minimum levels required of 1.1x and 1.0x respectively.

Dividends to immediate parent company

During the year, the Company paid no dividend to its immediate parent company, SOGWUK (2022: £3.5m).

Dividend income received from SESW

During 2022/23, ESH received dividends of £1,940,000, £1,000,000, £3,400,000 and £1,760,000 from Sutton and East Surrey Water plc via SESW Holding Company Limited in May 2022, July 2022, November 2022 and December 2022, respectively.

In respect of the year ended 31 March 2023, the appointed dividend payable by SESW comprised only the interim appointed dividend, declared in November 2022 (and paid in December 2022), of £1.46m. In May 2023, SESW's board determined that no final appointed dividend would be payable for the year. The dividend yield for the year was 1.9% on a dividend payable basis.

Due to the timing of appointed dividends declared and paid by SESW, the appointed dividend paid in the year ended 31 March 2023 comprised the final appointed dividend from the year ended 31 March 2022 (£1.64m paid in May 2022) and the interim appointed dividend payable in respect of the year ended 31 March 2023 (£1.46m paid in December 2022). The total appointed dividends paid in the year ended 31 March 2023 of £3.1m (2022: £2.9m) represents, on this mixed year basis, a dividend yield for the year ended 31 March 2023 of 4.0% (2022: 3.5%).

Non-appointed dividends were paid to ESH from the accumulated profits and cash generated by the non-appointed business of SESW (accumulated over a number of years from non-appointed activities such as billing on behalf of Thames Water and not distributed in recent years). Dividends paid by SESW in 2022/23 by the non-appointed business were £5.0m (2022: £0.6m). Non-appointed dividends are not governed by the appointed dividend policy but are assessed separately based on the overall operational and financial performance of SESW's non-appointed business.

Statement of the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006

For each company that operates within the Group, the Directors have acted in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to:

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

The Directors fulfils their statutory duties by following the same standards and good practices as in SESW. The Directors demonstrate good governance and leadership by taking up their responsibilities toward each group entity within the ESH Group. This is being achieved by considering their cultures and interests during the decision making process in the Group.

More details can be found in the SES Water annual performance report here: https //seswater co.uk/about-us/publications/our-annual-performance-report.

An overview of engagement with stakeholders by SESW, which enables the Directors to comply with their legal duty under s.172 of the Companies Act 2006, is shown as below:

Stakeholder group	How we engage	Impact of engagement
Customers	• Regular SES Water updates by direct email to customers and social media • Our dedicated 'Voice of the Customer' programme which includes a range of activity to better inform the decisions and improvements that we make. • Online 'Talk on Water' community. • Our education programme. • Attendance at community events. • Our independent Customer Scrutiny Panel. • Dedicated research via focus group for customers with particular needs and young people. • 'Your water, your say' meeting with customers.	SESW Business Plan targets reflect customer priorities including: • 15% leakage reduction. • 25,000 people on our Water Support Scheme. • 100% of people will be served by more than one treatment works. • 90% of our customers on a meter. • Significant investment being made in its digital capability to better serve customers • Offering excellent customer service through different channels such as telephone and face-to-face, as well as digital.
Employees	• Regular employee engagement survey. • Open forums involving all employees and the directors and senior management. • Dedicated Board member responsible for employee engagement. • Senior leader visibility and accessibility. • Structured development and appraisal programme. • Ongoing programme of internal communications, and regular one-to-one meetings for employee and line manager.	• Investors in People silver accreditation. • Performance management system and skills strategy in place. • Employee volunteering scheme. • Employee Referral Scheme. • Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a pay deal. • More flexible working practices going forwards. • A team of 28 Mental Health First Aiders across the business to support employee.
Regulators	• Regular meetings with all our regulators including by our non-executive directors. • Regulator attendance at Board meetings. • Responding to consultations and information requests. • Participation in national campaigns. • Sharing our expertise and perspective through industry-wide forums.	• For SESW - maintaining our gearing at a level that is acceptable to Ofwat. • Updating dividend payout and executive pay policies. • Pledged to make £9m of efficiency savings between 2020 and 2025. • Leading the industry's research and innovation programme to reduce leakage. • Participation in Ofwat's innovation competitions.

Communities	• Targeted communications for charities and community partners. • Membership of local business forums. • Working with organisations that help vulnerable customers. • Supporting worthy local causes with volunteering time and financial donations. • Our education programme.	• More than £28k of community grants provided through the Community Foundation for Surrey. • Extending our education programme to reach more schools, young people, business and community groups. • Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme.
Local Authorities	• Meetings with council Chief Executives and directors. • Supporting local economic prosperity initiatives. • Project-specific department engagement such as highways. • Participation in local resilience forums.	• Planned for a 50% increase in the number of people living in our area by 2080. • Delaying some of our mains upgrading work to minimise further disruption to local businesses.
Environmental organisations	• Involvement in our local catchment partnerships. • Regular meetings with environmental groups. • Independent Environmental Scrutiny Panel. • Involved in producing out Net Zero Carbon routemap. • We engage on a regular basis on key environmental matters and listen to priorities from outside of our organisation.	Specific targets in our Business Plan to: • cause no pollution. • Increase biodiversity at our sites. • Reduce abstraction from two sources during low flows. • Reduce our carbon emissions. • Achieving prestigious Biodiversity Benchmark Awards for several of our sites.
Our suppliers	• Dedicated relationships depending on the scope and nature of the arrangement. • Our procurement team and supplier forums. • Annual performance reviews with critical suppliers. • Regular planning and performance sessions.	• Productive and stable working relationships. • Agile decision-making as a small company. • Participation in joint industry award entries. • Provide testimonials in publicity campaigns and support supplier promotional work.

Approved by the Board of Directors and signed on behalf of the Board

P Kerr

Director

4 September 2023

EAST SURREY HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2023

The Directors present their annual report and audited consolidated financial statements for the year ended 31 March 2023.

Results and Dividends
The results for the year are set out on page 20.

Ordinary dividends were paid amounting to £nil (2022: £3.5m). The directors do not recommend a payment of any further dividend.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

I Cain
P Kerr
GD Holman
K Oida
M Kusuno (Resigned 21 March 2023)
K Kageyama
D Shemmans
Y *Yamamoto* *(Appointed 21 March 2023)*

Business Review and Future Prospects
The Group's performance and results are set out in the Strategic Report.

SESW's revenue increased to £67.4m (2022: £63.0m), Operating costs increased to £62.8m (2022: £56.6m) driven by raw materials and consumables increased by 23% due to the increased supply chain pressure across the industry and depreciation increased by 5% as the business continues to invest in its capital programme. As a consequence, operating profit decreased to £4.3m (2022: £10.1m).

Within SESW, its future plans are set out in our business plan for 2020 to 2025. SESW continues to monitor against that and work within our TOTEX targets across the 5-year AMP programme. Within our other commercial entities, SESW plans to continue to grow its customer base, increasing sales and being key players in each business's respective markets.

SESWS's revenue increased to £58.7m (2022: £51.7m) but made a loss before tax of £4.8m (2022: £2.5m). SESWS had net liabilities of £6.1m ((2022: £1.5m).

SESWS, the second most substantial entity in the Group, is currently aiming to expand its customer base in the retail market. On 9 February 2023, SES Home Services within SESWS established a contractual arrangement with HomeServe Membership Ltd (HomeServe), which took effect on 1 April 2023, to sell its renewal rights to an existing Home Emergency insurance policy book to HomeServe for total cash consideration up to £900,000 (comprised of a fixed portion of £500k and a variable portion of £400k based on the number of policy successfully migrated), and to launch an affinity partnership between SES Home Services and HomeServe.

SES Home Service's revenue decreased to £3.0m (2022: £4.3m) and SES Business Water's revenue increased to £55.6m (2022: £47.3m) for the year ended 31 March 2023.

The rise in revenue can be attributed to heightened consumption as the retail sectors make a recovery from the impacts of Covid-19 pandemic. In order to accommodate the heightened demands of customers resulting from increased consumption, operational costs had to be raised. Additionally, interest costs saw an increase as result of servicing elevated borrowing necessities stemming from the Covid-19 situation.

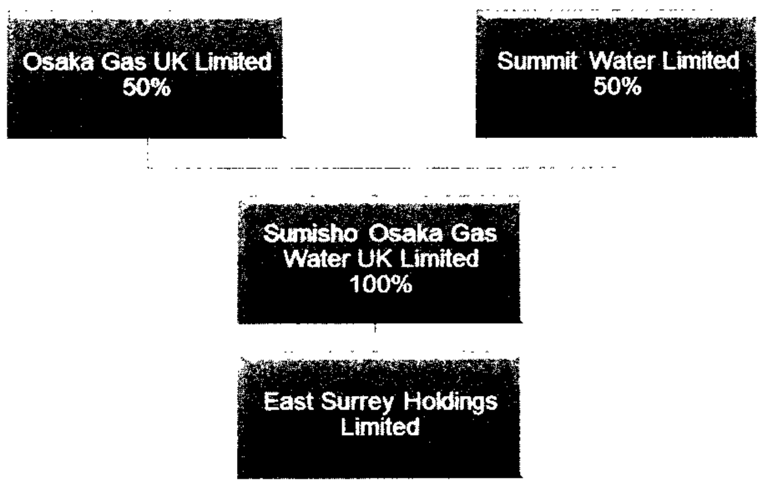
Service Contracts
All current executive directors have service contracts and notice periods.

Contracts of Significance
There were no contracts of significance (including provision of services) existing in the year between the Company and controlling shareholders, or to which the Company is a party and in which a director of the Company is, or was, materially interested.

Group Overview
The primary activities within the Group are to both supply water to domestic customers through Sutton and East Surrey Water plc (SESW), a regulated public water supply company and to act as a retailer within the water and sewerage retail market for eligible non-household customers through SESWS (trading as SES Business Water and SES Home Services). The other smaller subsidiaries include Advanced Minerals Limited which sources and process materials and minerals, The Calcite Factory B.V, a subsidiary of Advanced Minerals Limited, which performs similar activity in the Netherlands and Allmat, a locally based builders merchant in Kenley.

Ownership of the Company
The Company is 100% owned by SOGWUK, a company incorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ.

SOGWUK is 50% owned by Summit Water Limited ("SWL"), a company incorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ; and 50% by Osaka Gas UK Limited ("OGUK"), a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE.



Qualifying third party indemnity provisions
There are contractual entitlements in place for the directors of the Company to claim indemnification by the Company in respect of certain liabilities, which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third-party indemnity provisions, have been established in compliance with the relevant provisions of the Companies Act 2006 and have been in force throughout the financial year and up to the date of approval of these financial statements. They include provision for the Company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the Company.

The Company also maintains an appropriate level of directors' and officers' liability insurance.

Supplier Payment Policy
Settlement terms are agreed with suppliers as part of the contract terms and it is the Group's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Within SESW, the largest company within the Group, creditor days in the year has increased to approximately 36 days (2022: 17 days) as a result of a review of supplier payment terms in current year.

Research and Development
While the Group does not have a specific research and development function, SESW develops and deploys award-winning innovative solutions and contributed significantly to the national water industry innovation agenda. SESW is applying the learning it has gained regarding the Internet of Things and Artificial Intelligence into its above ground asset solution based on its smart water network expertise. SESW is participating in six Ofwat innovation funded projects run by other water companies, and it has successfully secured its own innovation funding from Ofwat to develop a universal access point for water. SESW was awarded the Innovation Award at the Utility Week Awards for its smart network and has been shortlisted for the Asset Management Initiative of the year Award at this year's Water Industry Awards.

Disabled Persons
As part of the Group's principle of equal opportunities in employment, full and fair consideration is provided to all applications for employment that disabled people make to the Group. The Group's consideration of such equal opportunity is also provided to the employment, training, development and promotion of disabled people within the business, and any personnel who become disabled during employment.

Employees
The Group's employees are fundamental to the success of the business, and our achievements to date are a result of their hard work and determination. We are confident that their ongoing commitment will ensure we are able to meet future challenges. We aim to be a responsible employer for whom people choose to work, and to ensure that our employees are well trained, competent and motivated, while being appropriately rewarded for their efforts. We recognise that the health and safety of everyone who works for us or is affected by our activities is critical to the success of our business. The executive directors have significant daily interactions with the workforce of each company within the Group. Non-executive directors also have regular engagement via visits to site and regular presentations at our Board meetings from members of the workforce. Regular communications are made within each of the Companies within the Group via the directors or Group functions on key matters, such as HR, Finance and IT.

Events after Reporting Period
On 30 June 2023, The Calcite Factory B.V.'s factory in the Netherlands ceased operation, where assets assessed as likely to have value were shipped to Advanced Minerals Limited in the UK. The closure of the factory will not have significant impact to the Group's future financial performance due to its low level of business activity and profit contribution to the Group in prior years.

On 12 July 2023 and 11 August 2023 ESH received the first and second instalment of committed equity injection from the shareholder with £2 million and £5 million equity then being injected to Sutton and East Surrey Water plc via SESW Holding Company Limited respectively.

Future Developments
Particulars of future developments and financial risks are disclosed in the Strategic Report.

Charitable and Political Donations
During the year, the Group made charitable donations amounting to £32k (2022: £34k). This included a £31k donation to the Community Foundation for Surrey. There were no political donations in current year (2022: nil).

Audit Committee
In financial year 22/23, ESH continued to hold audit committee meetings following SESW audit committee meetings. These were chaired by Murray Legg who also chaired SESW audit committee. The main focus of the committee has been supporting and challenging management on its financial resilience and liquidity, ensuring that appropriately resilient plans are in place. These are in addition to the core activities of the committee ensuring compliance with statutory requirements, review of key accounting judgements as well as working alongside PwC, the Company's auditors.

Going Concern

The Group's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic Report. The financial position of the Group is set out on page 21. Note 22 of the financial statements sets out the Group's position in relation to risks associated with financial instruments, credit and interest rates and describes the Group's risk mitigation measures. The going concem basis has been adopted for preparing the financial statements.

The Directors have considered the financial position of the Group and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements (the Going Concern Period). The Directors' conclusions on the going concern basis reflect the commitment from the Company's controlling shareholders (in the form of written letters of support up to December 2024) on making available any necessary funding support to the Group for meeting its liquidity needs and financial covenant requirements under ESH and SESW. The funding commitment from the Company's controlling shareholders includes £22 million in aggregate in the form of equity injections to the Company and then to SESW over the next 12 months. Such equity injections allow the Company to further support SESW to deliver its capital programme of investment for the next 12 months.

The Directors have assessed – and are satisfied with – the shareholders' ability to make such funds available in the form of equity injections and the first and second instalment of £2m and £5m has been received. No repayments of SESW's long-dated bond are due within the next 12 months. The Directors have also considered plausible downside scenarios having regard to the ongoing high inflationary environment, forecast liquidity of each of the group entities, refinancing of SESW's £50m (of the aggregate £75m) revolving credit facility (RCF) due July 2024 and the long-term bond covenants. If required, the Group has a number of mitigating actions to deal with liquidity issues, including future RCF and debt financing, re-scoping and deferral of capital projects and written commitments from shareholders through the aforementioned letters of support to address such downside scenarios.

SESW – the Appointee – is the only entity within the regulatory ring-fence required by Appointee's licence. The Directors have considered the financing of other entities outside of the regulatory ring-fence and within the wider ESH Group, and are not aware of any entity's external debt that would result in an issue with respect to SESW's going concern status. In accordance with SESW's licence none of the debt outside the ring-fence is guaranteed by SESW and there is no cross-default in SESW's debt to the debt outside the ring-fence. In the event that the ongoing strategic review results in the sale of the Company within the Going Concern Period, the Directors expect that as part of the process of transferring SESW's water supply licence a new owner would be required to confirm appropriate ongoing funding arrangements.

Within ESH, the £36m Private Placement includes a change of control clause in the Notes Purchase Agreement which assumes the debt would be repaid should a new shareholder purchase the group. The HSBC facility within SESWS is uncommitted and it is assumed that this is repayable on change of ownership as it is guaranteed by the current shareholder. All other debts are assumed to remain in the Group subject to the outcome of the strategic review.

During the current year, ESH's immediate parent company, SOGWUK, supported SESWS, the water retail division of the Group, with shareholder's loans of £4m and provided a shareholder's loan of £7m to SESW to meet its operational needs and financial covenants at the year-end date, of which the £7m loan has now been fully repaid.

Statement of Disclosure to the Independent Auditors

Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent Auditors
PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue in office.

SESW Greenhouse Gas Emissions
SESW continues to take action to reduce its carbon footprint resulting from its operational activities and have again met its performance commitment, with emissions of 41 $kgCO_2e/Ml$, compared with 47 $kgCO_2e/Ml$ last year, the first result under this methodology that was not unduly influenced by suppressed operational activity during the Covid-19 pandemic.

Greenhouse gas emissions are calculated using the UK Water Industry Research Carbon Accounting Workbook which is updated annually to reflect changes to emission factors and carbon reporting guidance from the UK Government.

Net operational greenhouse gas emissions in 2022/23 were 2,289 tonnes of carbon dioxide equivalent (tCO_2e) (2021/22: 2,800 tCO_2e), a 18% decrease on the previous year. This equates to operational emissions of 37 $kgCO_2e$ per million litres of treated water (2021/22: 46 $kgCO_2e$). Using 2021/22 emissions factors, operational emissions for 2022/23 would be equivalent to 45 $kgCO_2e$ per million litres of treated water.

Operational greenhouse gas emissions for 2022/23 for SESW include (2021/22 emissions are in brackets):
- Gas consumption: 947,045 kWh and 173 tCO_2e (1,244,341 kWh and 228 tCO_2e)
- Consumption of travel fuels: 1,679,218 kWh and 424 tCO_2e (4,603,677 kWh and 427 tCO_2e)
- Purchase of electricity by the company for its own use, including for transport: 54,332,386 kWh and 0 tCO_2e (52,506,268kWh and 0 tCO_2e).

Note: all conversions are using the relevant greenhouse gas reporting figures on a net calorific value basis. The data for consumption of transport fuels covers vehicles for which SESW is responsible for the purchase of fuel. It does not include business miles in company cars which are refunded through expenses. This is because the information is not practical to obtain and SESW is exploring options to digitise the expenses process to make this information more accessible.

SESW has continued the decarbonisation of its vehicle fleet, with now over 30% of its cars and light goods vehicles fleet being pure electric. Alongside this, work to remove the burning of fossil fuels has been mixed over the last year: SESW has further reduced its dependency on natural gas for space heating and have proven the ability of its standby generator sets to run on pure biofuel. However, supply difficulties and escalating costs owing to the war in Ukraine have prevented a full switch-over to biofuel at this time.

In 2022/23 SESW continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. SESW has 42 charging points across 100% of its operational treatment works and head office. SESW has solar panels installed at five treatment works and at its Redhill head office. In 2022/23 these generated 336,548 kWh (2022: 290,024 kWh).

This year there was a reduction in natural gas usage at its treatment works following investment in insulation improvements, which are completed in 2022/23. A programme to remove fossil fuel boilers also commenced during the reporting period. Fuel oil use fell because SESW did not take part in Triad avoidance, so its generators were not run as regularly.

Approved and signed on behalf of the board

P Kerr

Director

4 September 2023

EAST SURREY HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the members of East Surrey Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- East Surrey Holdings Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2023 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and parent company statement of financial position as at 31 March 2023; the group statement of comprehensive income, the group and parent company statement of changes in equity, the group statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions under the Water Industry Act 1991, and UK Corporation Tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries of management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's control to prevent and detect irregularities;
- Reviewing minutes of meetings of those charged with governance;
- Identifying and testing journal entries, in particular: any journal entries with unusual credits to revenue; journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with unusual words, and
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 September 2023

EAST SURREY HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2022 £000
Revenue	3	125,244	114,026
Operating costs	4	(125,528)	(109,738)
Other operating income	5	1,108	3,359
Net impairment (losses)/write-backs on financial and contract assets	16	(2,376)	437
Operating (loss)/profit	4	(1,552)	8,084
Finance income	8	891	382
Finance costs	9	(31,978)	(17,178)
Loss before taxation		(32,639)	(8,712)
Income tax credit/(expense)	10	6,451	(11,960)
Loss for the year		(26,188)	(20,672)
Other comprehensive (expenses)/income:			
Actuarial (losses)/gains on defined benefit pension schemes	20	(17,248)	5,658
Movements on deferred tax relating to net pension asset	14	4,312	(983)
Total other comprehensive (expense)/income for the year		(12,936)	4,675
Total comprehensive loss for the year		(39,124)	(15,997)
(Loss)/profit for the year is attributable to:			
- Owners of the parent company		(26,221)	(20,723)
- Non-controlling interests		33	51
		(26,188)	(20,672)
Total comprehensive loss for the year is attributable to:			
- Owners of the parent company		(39,157)	(16,048)
- Non-controlling interests		33	51
		(39,124)	(15,997)

The notes on pages 25 to 64 form part of these group financial statements.

EAST SURREY HOLDINGS LIMITED

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Intangible assets	**11**	17,540	14,499
Property, plant and equipment	**12**	372,709	361,110
Investment property	**13**	2,643	2,670
Pension scheme assets	**20**	9,211	26,265
		402,163	404,544
Current assets			
Inventories	**15**	1,453	1,382
Trade and other receivables	**16**	51,280	47,136
Corporation tax receivables		590	1,723
Cash and cash equivalents	**17**	42,549	27,998
		95,872	78,239
Current liabilities			
Trade and other payables	**18**	71,640	70,707
Interest-bearing loans and borrowings	**19**	26,000	-
		97,640	70,707
Net current (liabilities)/assets		(1,768)	7,532
Total assets less current liabilities		400,395	412,076
Non-current liabilities			
Dilapidation provisions		464	464
Interest-bearing loans and borrowings	**19**	308,728	270,129
Lease liabilities	**23**	680	766
Deferred tax liabilities	**14**	44,118	54,980
Retirement benefit obligations	**20**	802	973
		354,792	327,312
Net assets		45,603	84,764
Equity			
Called up share capital	**21**	73,079	73,079
Capital redemption reserve		75	75
(Accumulated losses)/retained earnings		(28,079)	11,078
Equity attributable to owners of the parent company		45,075	84,232
Non-controlling interests		528	532
Total equity		45,603	84,764

The financial statements were approved by the board of directors and authorised for issue on 4 September 2023 and are signed on its behalf by:

P Kerr
Director

EAST SURREY HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Share capital £000	Capital redemption reserve £000	Retained earnings/ (accumulated losses) £000	Sub-total £000	Non-controlling interest £000	Total £000
Balance at 1 April 2021		73,079	75	30,626	103,780	648	104,428
Loss for the year		-	-	(20,723)	(20,723)	51	(20,672)
Other comprehensive income/(expense):							
Actuarial gain on pension scheme	20	-	-	5,658	5,658	-	5,658
Movements on deferred tax relating to net pension asset	14	-	-	(983)	(983)	-	(983)
		-	-	4,675	4,675	-	4,675
Total comprehensive (loss)/income for the year		-	-	(16,048)	(16,048)	51	(15,997)
Transactions with owners in their capacity as owners:							
Dividends		-	-	(3,500)	(3,500)	(167)	(3,667)
Balance at 31 March 2022 and 1 April 2022		73,079	75	11,078	84,232	532	84,764
Loss for the year		-	-	(26,221)	(26,221)	33	(26,188)
Other comprehensive income/(expense):							
Actuarial loss on pension scheme	20	-	-	(17,248)	(17,248)	-	(17,248)
Movements on deferred tax relating to net pension asset	14	-	-	4,312	4,312	-	4,312
		-	-	(12,936)	(12,936)	-	(12,936)
Total comprehensive (loss)/income for the year		-	-	(39,157)	(39,157)	33	(39,124)
Transactions with owners in their capacity as owners:							
Dividends		-	-	-	-	(37)	(37)
Balance at 31 March 2023		73,079	75	(28,079)	45,075	528	45,603

The notes on pages 25 to 64 form part of these group financial statements.

EAST SURREY HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Operating activities					
Loss for the year			(26,188)		(20,672)
Adjustments for:					
Depreciation of property, plant and equipment	12	13,108		12,440	
Amortisation of intangible assets	11	949		773	
Impairment of intangible assets	11	141		-	
Depreciation of investment properties	13	27		27	
Proceeds from insurance claims		-		(1,970)	
Amortisation of bond costs	9	619		444	
Interest receivables and similar income	8	(891)		(382)	
Interest payable and similar charges	9	31,359		16,734	
Profit on sale of property, plant and equipment	5	(91)		(1,283)	
Provision movements		-		20	
Impairment losses/(write backs) on financial and contract assets, net	16	2,376		(437)	
Taxation	10	(6,451)		11,960	
			14,958		17,654
Movements in working capital					
(Increase)/decrease in inventories		(71)		6	
Increase in trade and other receivables		(6,522)		(3,764)	
Increase in trade and other payables		2,904		7,037	
Decrease in provisions and employee benefits		(362)		(165)	
Cash generated from operations			10,907		20,768
Interest paid		(9,187)		(10,111)	
Income taxes refunded/(paid)		1,035		(100)	
Net cash generated from operating activities			2,755		10,557
Investing activities					
Purchase of intangible assets	11	(4,228)		(7,593)	
Proceeds on disposal of intangible assets		-		78	
Purchase of property, plant and equipment	12	(25,152)		(24,797)	
Proceeds on disposal of property, plant and equipment		121		1,562	
Proceeds from insurance claims		-		1,970	
Interest received	8	891		382	
Net cash used in investing activities			(28,368)		(28,398)

EAST SURREY HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Financing activities					
Proceeds from loans	19	20,000		14,825	
Proceeds from shareholders' loans	19	11,000			
Repayment of loans	19	(4,000)		-	
Principal elements of lease payments	23	(362)		84	
Dividends paid to equity shareholders	21	-		(3,500)	
Dividends paid to non-controlling interests		(37)		(167)	
Net cash from financing activities			26,601		11,242
Net increase/(decrease) in cash and cash equivalents			988		(6,599)
Net cash and cash equivalents at beginning of year			18,726		25,325
Net cash and cash equivalents at end of year			19,714		18,726
Relating to:					
Cash and cash equivalents	17		42,549		27,998
Bank overdraft	18		(7,835)		(9,272)
Short-term overdraft	19		(15,000)		-
Net cash and cash equivalents			19,714		18,726

The notes on pages 25 to 64 form part of these group financial statements.

EAST SURREY HOLDINGS LIMITED

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023

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1 Accounting policies

Company information
East Surrey Holdings Limited (the "Company") is a Company incorporated and domiciled in England, the UK. The Company is a private company limited by shares. The trading address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ

1.1 Accounting convention

The Group financial statements consolidate those results of the Company and its subsidiaries (together referred to as the "Group").

The Group financial statements have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The accounting policies set out below have, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The financial statements are prepared on the historical cost basis unless otherwise stated in these notes to the financial statements.

The financial statements are prepared in Pound Sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £000, unless otherwise stated.

Adoption of new and revised standards and changes in accounting policies
There are no amendments to accounting standards that are effective for the year ended 31 March 2023 that have a material impact on the Group's financial statements.

1.2 Business combinations

All business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

1.3 Basis of consolidation

The consolidated group financial statements consist of the financial statements of the parent company East Surrey Holdings Limited together with all entities controlled by the parent company (its subsidiaries) and the group's share of its interests in joint ventures and associates.

All financial statements are made up to 31 March 2023. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1 Accounting policies **(Continued)**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

1.4 Going concern

The Directors have at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. On the basis noted under the Going Concern section in the Directors' Report, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Under the terms of the Notes Purchase agreement dated 19 October 2018 entered into with Pacific Life Insurance Company ("Pacific Life"), the Company is required to deliver to the Note Holders copies of its consolidated balance sheet and statements of income, shareholders' equity and cash flows within 150 days of the end of the Financial Year, in addition to ensuring that all covenants are met at the calculation date. The ESH consolidated accounts were due 150 days post year-end, a default notice to Pacific Life has been issued by the management and remedied within the 30-day remedy period as at the date of signing the accounts.

1.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when performance obligations have been satisfied. The Group's activities are described in detail below.

The core principles of IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") are:

1. Identify the contract with a customer
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 when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Group considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (see note 2).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Group provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six-monthly in arrears (see note 2).

1 Accounting policies **(Continued)**

The Group has applied this framework to its revenue streams as follows:

1. Water services – household and wholesale revenue
The Group has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Group's customer is the relevant retailer. In this case there is a contractual arrangement with the retailer through the competitive market arrangements run by Market Operator Services Limited ("MOSL").

The Group's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be one performance obligation and the performance of this obligation is matched to our customers consuming water.

The transaction price is the amount of consideration that the Group expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (measured supply) or not (unmeasured supply). In certain specific circumstances, usually when the customer has requested a water meter, but we are physically unable to fit one to the customer's property, a customer may be placed on an assessed tariff (unmeasured supply). The process for revenue recognition for customers on an assessed tariff is the same as that for unmeasured customers.

For unmeasured supply of water services the amount of consideration to which the Group has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Group's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

For measured supply of water services, the amount of consideration to which the Group is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Group (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 2). Details of the charging schemes for household customers are available on the Group's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Group and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 2).

Revenue is not recognised on contracts where the recoverability of revenue is not assured. The criteria used by management is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least 3 years.

Late payment fees are typically associated with delayed settlement of financial obligations by customers. Revenue on such fees is recognised only when there exists a high degree of probability that the anticipated consideration will be received.

A refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. As the number of products returned has been minimal in prior years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see note 1.16).

1 Accounting policies **(Continued)**

2. Empty Properties – Household revenue
Empty unmeasured properties are not billed if the Group has been informed in writing that the supply is not required and the Group is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third-party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

3. Developer services – Other water revenue
The Group has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of developer services charges are available on the Group's website and described below:

a) Network extensions
Network extensions relate to the Group laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

b) Service connections
Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see Note 1.18) for the Group when payment of the quote is received.

There is a contractual arrangement between the Group and the customer to supply the new connection based on the tariff, with the Group's performance commitment being to connect the property to the Group's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Group's network and revenue is recognised when this connection made.

c) Diversions
Diversions are when the Group moves our assets at the request of a developer or another party. These are contractual arrangements with the Group's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

1 Accounting policies **(Continued)**

d) Infrastructure charges
Infrastructure charges are paid by developers when a new connection is made to our network, based on a tariff. The charges are designed to cover the cost of network reinforcement work to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Group considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for *the infrastructure charge is between the Group and the developer who is not necessarily the party that will ultimately* benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Group expects to receive based on the tariff rate. It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when all the new connections are made and so revenue is recognised at that point.

4. Commission income
Commission revenue from other regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when SESW collects monies from customers on behalf of the other regulated companies. SESW acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the monies and transfer to the other company. The commission is paid based on the amount of monies collected and then transferred, with SESW recognising the revenue when the performance obligation is satisfied (the cash being transferred).

5. Home Services
Home Services represents (excluding value added tax and insurance premium tax) the amount derived from the installation, repair and maintenance of household central heating, plumbing and emergency services as well as the commission on insurance policies sold.

In the UK, delivery of an item is considered a separate performance obligation from the installation of the item, both satisfied at a point in time. Delivery is the point at which control passes to the customer as the customer takes physical possession of the asset. It is also the point at which the Company has the right to consideration. Delivery and installation usually occur at the same point in time and consequently revenue is recognised for both performance obligations simultaneously.

6. Garage revenue
The Group receives revenue for the servicing, repair and MOT facilities to third parties by the Group's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

1 Accounting policies **(Continued)**

1.6 Intangible assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Research and development

Expenditure on research activities is recognised in profit or loss as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit or loss as an expense as incurred.

Amortisation

Amortisation is charged to the profit or loss through operating costs on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software: 3-10 years

1.7 Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at cost. Subsequently they are measured at cost less any depreciation at each reporting end date. The fair value was used as deemed cost on transition to IFRS in 2014. The estimated useful lives are as follows:

- Investment properties: 46-221 years

1.8 Non-current investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the parent company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1 Accounting policies **(Continued)**

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are stated at deemed cost less accumulated depreciation and accumulated impairment losses. The cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. The Group considers a substantial period of time for the construction of an asset in the water industry to be five years.

Property, plant and equipment are capitalised and depreciated when they are considered to be operationally complete, which means that the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Infrastructure assets – mains and fresh water reservoirs

Infrastructure assets comprise a network of systems relating to water distribution.

Mains – repairs, maintenance and replacements

The mains network is considered to consist of multiple assets. It consists of different areas and is capable of being separated and divided up. IAS 16 Property, Plant and Equipment ("IAS 16") requires all repairs and maintenance to be charged to the profit or loss. Repairs and maintenance include the day-to-day servicing of an item. The costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The mending of a burst main is considered to be a repair as long as the subsequent work extends to the replacement of no more than one length of pipe. The relining of a main is to be maintained which is the work needed to keep a main in good condition.

IAS 16 requires replacements to be capitalised. When more than one length of pipe is laid it is considered a replacement, and not a repair, and it is therefore capitalised.

Perished mains replaced during the year are disposed of from the fixed asset records.

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Freehold land is not depreciated. The estimated useful lives are as follows:

Collection reservoir	140-150 years
Water mains	100 years
Buildings, boreholes and service reservoirs	5-100 years
Motor vehicles and sundry plant	3-50 years
Plant and machinery	3-100 years

Freehold land and assets in the course of construction are not depreciated.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1 Accounting policies **(Continued)**

1.10 Borrowing costs related to non-current assets

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.11 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Group would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Bad debt write-off policy

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted or the cost of recovery is considered to be disproportionate to the value of the debt.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1 Accounting policies **(Continued)**

1.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of beads in Advanced Minerals Limited is based on the weighted average cost method, otherwise cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

1.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.14 Interest income/(expense)

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

1.15 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1 Accounting policies **(Continued)**

1.16 Provisions

Provisions are recognised when the Group has a legal or constructive present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

- The Group has a present legal or constructive obligation as a result of past events
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- The amount has been reliably estimated

Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Group offers warranties for certain of its products and services in general. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions used in this estimate have been consistently applied in current and prior years. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 March 2023, the Group had not made any warranty provisions as the costs involved is not considered to be material.

1.17 Employee benefits

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

A defined contribution plan is a pension plan under which SESW pays fixed contributions into a separate entity. SESW has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

1 Accounting policies **(Continued)**

1.18 Retirement benefits

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plan on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past service costs are recognised immediately in the profit or loss.

1.19 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Group meeting the performance obligation required to recognise the transaction in the profit or loss. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

Contract liabilities of £6,266k (2022: £5,723k) is due to timing of money received in advance from SESW customers that will be passed to Thames Water upon billing and advanced billings received from SESWS customers.

Revenue that relates to carried-forward contract liabilities of £5,723k is recognised in the current year as money received in advance from customers as at 31 March 2022 has been billed in the current year.

1.20 Leases

At inception, the Group assesses whether a contract is, or contains, a lease within the scope of IFRS 16 Leases ("IFRS 16"). A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where an item of property, plant and equipment is acquired through a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

1 Accounting policies **(Continued)**

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the group is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the Group's estimate of the amount expected to be payable under a residual value guarantee; or the Group's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

1.21 Insurance receipts

Income from insurance policies is recognised when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit or loss and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cash flow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cash flow, management considers the nature of the transaction:

Insurance receipts relating to damaged property, plant and equipment represent 'in substance' a disposal of property, plant and equipment and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

1.22 Dividends

Dividends are recognised as a liability at the date of the balance sheet to the extent that they are declared prior to year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

The SESW dividend policy has been published on that company's website and is supplemented by a diagrammatical representation of how SESW's Board applies this dividend policy.

1 Accounting policies **(Continued)**

1.23 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a) They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

b) Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.24 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.25 Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financial income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

2 Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Estimate – unbilled measured income
The measured income accrual within SESW is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The water companies use a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £430k (2022: £380k).

Estimate – Defined benefit pension scheme
SESW is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historical experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in Note 20.

Estimate – Provision for doubtful debt
SESW and SESWS calculate a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write-off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given.

The Covid-19 pandemic and subsequent cost of living crisis has impacted ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. Despite increasing its cash collection activities both in house and through external debt collection agencies, the level of debt owed by customers has increased and as a result an increase of £2.1m was applied to the bad debt provision as at 31 March 2023.

Judgement – Capitalisation of expenditure as property, plant and equipment
SESW makes large scale investment into its property, plant and equipment through construction and engineering projects. Management is required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. SESW capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised, this includes an element of employee costs where the individuals contribute to the overall capital programme but not specifically on an individual project, an estimation of time spent on capex related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

3 Revenue

The allocation of business activities is consistent with internal management reporting and reflects the Group's focus on its core and non-core activities.

The business activities are as follows:
Sutton and East Surrey Water Plc ('SESW') being the Group's core activity – engaged in the supply of water across the London Borough of Croydon, Merton and Sutton, as well as East Surrey and parts of Kent and Sussex.

Sutton and East Surrey Water Services Limited ('SESWS') trading as SES Business Water and SES Home Services provides water and sewerage retail services (in England and Scotland) and services for plumbing, heating and insurance across the southeast of England.

Other non-core entities engage in mineral processing, building materials supply and property rentals.

For the year ended 31 March 2023

	Revenue £000	Loss after tax £000	Total assets £000	Total liabilities £000
SESW	67,446	(19,511)	465,224	387,949
SESWS	58,654	(4,548)	28,144	34,220
Other	5,550	(3,106)	201,741	46,167
Reportable activities	131,650	(27,165)	695,109	468,336
Elimination of intercompany transactions	(6,406)	977	(197,074)	(15,904)
Total	125,244	(26,188)	498,035	452,432

For the year ended 31 March 2022

	Revenue £000	Loss after tax £000	Total assets £000	Total liabilities £000
SESW	62,953	(17,335)	452,965	335,143
SESWS	51,683	(2,522)	24,609	26,137
Other	5,479	(2,504)	196,123	46,506
Reportable activities	120,115	(22,361)	673,697	407,786
Elimination of intercompany transactions	(6,089)	1,689	(190,914)	(9,767)
Total	114,026	(20,672)	482,783	398,019

All revenue of the Group is generated within the UK and Europe.

3 Revenue **(Continued)**

In accordance with IFRS 15, revenue has been disaggregated based on:

- Nature of revenue – the nature of revenue with the key items being the supply of water - £111,225k (2022: £97,811k), other water revenue - £2,303k (£3,090k), non-water income - £9,227k (2022: £10,707k), non-appointed revenue - £2,377k (2022: £2,297k) and rental income - £112k (2022: £121k).

- Timing of revenue recognition: Products and services transferred at a point in time - £125,244k (2022: £114,026k).

4 Operating (loss)/profit

	2023 £000	2022 £000
Operating (loss)/profit for the year is stated after charging:		
Wages and salaries	16,424	16,074
Social security costs	2,299	1,949
Other pension costs	2,473	2,324
Power	6,821	6,617
Raw material and consumables	60,316	51,140
Depreciation of owned assets	12,726	12,157
Depreciation of right-of-use assets	382	283
Depreciation of investment properties	27	27
Amortisation of intangible assets	949	773
Impairment of intangible assets	141	-
Fees payable to the group's auditors and its associates		
For the audit of parent company and consolidated financial statements	52	54
For the audit of the financial statements of the Company's subsidiaries	763	552
Audit of regulatory accounts	55	50
Other assurance services	50	79
Other operating charges	21,551	17,159
Management support fees	500	500
Total operating costs	125,528	109,738

The bad debt provision of £12k included in "Operating costs" in prior year is presented separately under "Net impairment (losses)/write-backs on financial and contract assets" in the face of the income statement in current year.

Wages and salaries disclosed above are shown net of capitalised costs. During the current year, £4,291k (2022: £2,462k) of employment costs were capitalised as fixed assets.

Other assurance service fees relate principally to assurance work carried out on the implementation of the new billing system ahead of go live in 2022. No other fees were paid to PwC.

5 Other operating income

	2023 £000	2022 £000
Proceeds from insurance claim	-	1,970
Other operating income	1,017	106
Profit on sale of fixed assets	91	1,283
Total	1,108	3,359

The bad debt release of £449k included in "Other operating income" in prior year is presented separately under "Net impairment (losses)/write-backs on financial and contract assets" in the face of the income statement in current year.

During the year, SESW agreed on a commercial settlement of £0.7m in relation to a dispute over refurbishment works undertaken at a water treatments plant of SESW at Woodman Sterne.

During the prior year, SESW received £1,970k in insurance proceeds, relating to damage at one of its water treatment facilities which occurred in 2017.

6 Directors' remuneration

	2023 £000	2022 £000
Remuneration for qualifying services	935	803
Pension contributions	46	40
	981	843

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	2023 £000	2022 £000
Salary	264	255
Benefits	23	33
Benefits under defined contribution pension scheme	22	22
Long-term incentive	124	-
Annual bonus	111	105
Total remuneration of highest paid director	544	415

The highest paid director is Ian Cain, Chief Executive Officer (2022: Ian Cain, Chief Executive Officer). Both Ian Cain and Paul Kerr are members of the defined contribution pension scheme.

Ian Cain and Paul Kerr received a payment of £124k and £76k under the Group's long-term incentive plan during the current year (2022: £84k).

There are no share options available within the Company.

7 Employees

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

	2023 Number	2022 Number
Water supply	367	345
Other activities	115	123
Total	482	468

Their aggregate remuneration comprised:

	2023 £000	2022 £000
Wages and salaries	16,424	16,074
Social security costs	2,299	1,949
Pension costs under defined contribution scheme	2,473	2,324
Total	21,196	20,347

8 Finance income

	2023 £000	2022 £000
Interest income		
Expected return on pension scheme assets	3,124	2,227
Interest on post retirement liabilities	(2,441)	(1,862)
Net return on pension scheme asset	683	365
Interest receivable and similar income	208	17
Total finance income	891	382

9 Finance costs

	2023 £000	2022 £000
Bond interest	5,547	5,005
Bond indexation	22,111	6,628
Bond amortisation cost	619	444
Total cost of bond	28,277	12,077
Interest on bank overdrafts and other loans	3,656	5,057
Interest on lease liabilities	45	44
Total interest payable and similar charges	31,978	17,178

There has been a £15.5m increase in non-cash indexation costs due to a rise of the Retail Price Index (RPI) rate in the current year. In July 2021, the annual inflation change was 3.84%; in July 2022, it increased to 12.3%. Therefore, inflation increased by 220%, and the indexation charge increased by 234%.

10 *Income tax (credit)/expense*

	2023 £000	2022 £000
Current tax		
UK corporation tax on profits for the current year	-	-
Adjustments in respect of prior years	99	(130)
Total UK current tax	99	(130)
Deferred tax		
Origination and reversal of temporary differences	(4,835)	(925)
Effect of changes in tax rates	(1,505)	13,286
Adjustment in respect of prior years	(210)	(271)
Total deferred tax	(6,550)	12,090
Total tax (credit)/charge	(6,451)	11,960

10 Income tax (credit)/expense

The tax charge for the year can be reconciled to the loss per the income statement as follows:

	2023 £000	2022 £000
Loss before taxation	(32,639)	(8,712)
Expected tax (credit)/charge based on a corporation tax rate of 19.00% (2022: 19.00%)	(6,201)	(1,655)
Effect of expenses not deductible in determining taxable profit	129	62
Income not taxable	(55)	(256)
Adjustment in respect of prior years	99	(130)
Effect of change in UK corporation tax rate	(1,505)	13,286
Deferred tax adjustments in respect of prior years	(210)	(271)
Other adjustments	3	20
Rolled over gains	-	374
Amounts not recognised	1,289	530
Taxation (credit)/charge for the year	(6,451)	11,960

Factors affecting future tax rate
The UK corporation tax rate for the year ended 31 March 2023 was 19% (2022: 19%). The Finance Act 2021 enacted on 10 June 2021 increased the main rate of UK corporation tax from 19% to 25%, effective from 1 April 2023. Deferred taxes on the balance sheet have been measured at 25% (2022: 25%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The Group filed research and development expenditure ("RDEC") claims to the HMRC on qualifying expenditure of £1,096k incurred by SESW for the year ended 31 March 2021 and that of £1,030k and £147k incurred by SESW and Advanced Minerals for the year ended 31 March 2022. The Group received a refund of claims of £224k for SESW in August 2023. The Group is currently performing an assessment on qualifying expenditure under RDEC Scheme for the year ended 31 March 2023.

11 Intangible assets

	Software £000	Work in Progress £000	Total £000
Cost			
At 1 April 2021	7,647	6,161	13,808
Additions – purchased	48	7,545	7,593
Disposals	(2,836)	-	(2,836)
Transferred from Work in Progress	8,011	(8,011)	-
Other movements	(458)	458	-
At 31 March 2022 and 1 April 2022	12,412	6,153	18,565
Additions – purchased	-	4,131	4,131
Transferred from Work in Progress	2,039	(2,039)	-
At 31 March 2023	14,451	8,245	22,696
Accumulated amortisation and impairment			
At 1 April 2021	6,054	-	6,054
Charge for the year	773	-	773
Eliminated on disposals	(2,761)	-	(2,761)
At 31 March 2022 and 1 April 2022	4,066	-	4,066
Charge for the year	949	-	949
Impairment for the year	141	-	141
At 31 March 2023	5,156	-	5,156
Net book value			
At 31 March 2023	9,295	8,245	17,540
At 31 March 2022	8,346	6,153	14,499

The software included in the Group's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all SESW's projects from network repairs to large capital projects. The asset is carried at £441k (2022: £505k) and has a remaining amortisation period of six years (2022: seven years) on a straight-line basis. Aptumo, SESW's new billing system went live in October 21 and is used for all customer service operations and billing management. The asset is carried at £6.9m (2022: £6.5m) and has a remaining amortisation period of 14 years (2022: 15 years) on a straight-line basis.

The development of SES Water Services Limited's latest billing system is presently on hold. The management intends to complete this project after completion of the strategy review currently being undertaken by our shareholders. Upon completion of this billing system, it will cater to all operations and billing management for Business Water customers. The asset carried at year end is £6,936k (2022: £4,284k). While the asset is not yet operational, no depreciation has been applied to it.

Furthermore, Home Services is enhancing its existing systems through the 'Stars project,' which is presently in progress. The value of this asset at the year end is £963k (2022: £466k), and it remains non-operational with no amortization recorded against it.

12 Property, plant and equipment

	Land £000	Collection reservoirs £000	Building, Boreholes & service reservoirs £000	Plant and machinery £000	Water mains £000	Motor vehicles and sundry plant £000	Assets under construction £000	Right of use assets £000	Total £000
Cost									
At 1 April 2021	5,088	2,533	131,509	137,744	255,383	12,168	29,451	1,295	575,171
Additions	-	-	-	65	-	445	23,630	657	24,797
Disposals	(14)	-	-	(39)	-	(686)	-	-	(739)
Elimination	-	-	-	-	-	-	-	(373)	(373)
Transfers	-	-	4,835	20,515	5,164	943	(31,457)	-	-
At 31 March 2022 and 1 April 2022	5,074	2,533	136,344	158,285	260,547	12,870	21,624	1,579	598,856
Additions	-	-	-	34	-	150	24,274	445	24,903
Disposals	-	-	-	(2)	-	(268)	-	(273)	(543)
Transfers	23	-	884	19,077	17,524	156	(37,664)	-	-
At 31 March 2023	5,097	2,533	137,228	177,394	278,071	12,908	8,234	1,751	623,216
Accumulated depreciation and impairment									
At 1 April 2021	-	442	39,628	80,870	96,080	8,784	-	324	226,128
Charge for the year	-	20	2,641	6,604	1,902	990	-	283	12,440
Eliminated on disposal	-	-	-	(29)	-	(668)	-	-	(697)
Elimination	-	-	-	-	-	-	-	(125)	(125)
At 31 March 2022 and 1 April 2022	-	462	42,269	87,445	97,982	9,106	-	482	237,746
Charge for the year	-	22	2,706	7,100	2,039	859	-	382	13,108
Eliminated on disposal	-	-	-	(2)	-	(238)	-	(167)	(407)
At 31 March 2023	-	484	44,975	94,543	100,021	9,727	-	697	250,447
Net book value									
At 31 March 2023	5,097	2,049	92,253	82,851	178,050	3,181	8,234	1,054	372,769
At 31 March 2022	5,074	2,071	94,075	70,840	162,565	3,764	21,624	1,097	361,110

13 Investment property

	Investment properties £000
Cost	
At 1 April 2021	2,860
At 31 March 2022	2,860
At 31 March 2023	2,860
Accumulated depreciation	
At 1 April 2021	163
Charge for the year	27
At 31 March 2022	190
Charge for the year	27
At 31 March 2023	217
Net book value	
At 31 March 2023	2,643
At 31 March 2022	2,670

14 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax liabilities 2023 £000	2022 £000
Property, plant and equipment	42,017	48,658
Employee benefits (pension)	2,101	6,322
Balance carried forward	44,118	54,980

Movement in deferred tax during the current and prior year

	Property, plant and equipment £000	Employee benefits (pension) £000	Total £000
At 1 April 2021	38,208	3,699	41,907
Charged/(credited) to the profit or loss	10,450	1,640	12,090
Charged/(credited) to other comprehensive income	-	983	983
At 31 March 2022 and 1 April 2022	48,658	6,322	54,980
Charged/(credited) to the profit or loss	(6,641)	91	(6,550)
Charged/(credited) to other comprehensive income	-	(4,312)	(4,312)
At 31 March 2023	42,017	2,101	44,118

The Group has unrecognised deferred tax of £2,970k (2022: £1,382k) on tax losses and other deductible temporary differences that are available for offsetting against future taxable profits or among entities within the Group through group relief. The management remain prudent in the recognition of deferred tax assets as some group companies were loss making in recent years and the utilisation of unrecognised deferred tax assets is uncertain due to the timing of its recoverability and further tax planning activity within the Group.

15 Inventories

	2023 £000	2022 £000
Raw materials	815	782
Work in progress	43	21
Finished goods	595	579
	1,453	1,382

During the current year, £60,316k (2022: £51,140k) of inventories was recognised as operating costs in the profit or loss.

16 Trade and other receivables

	2023 £000	2022 £000
Trade receivables	50,647	45,890
Provision for expected credit losses	(12,388)	(10,272)
	38,259	35,618
Other taxes and social security	364	555
Other receivables	2,378	2,308
Contract assets	5,864	5,594
Prepayments	4,415	3,061
	51,280	47,136

Movements in the expected credit losses provision were as follows:

	2023 £000	2022 £000
At 1 April	10,272	10,709
Charge for expected credit losses	2,376	12
Bad debt release	-	(449)
Bad debt write-off	(260)	-
At 31 March	12,388	10,272

The aging of trade receivables at the balance sheet date was as follows:

	2023 £000	2022 £000
Not past due	6,235	7,611
Past due 0-30 days	5,035	4,357
Past due 31-120 days	4,511	5,805
More than 120 days	34,866	28,117
	50,647	45,890

The aged analysis for expected credit losses for receivables past due not individually impaired is:

	2023 £000	2022 £000
Aged less than 6 months	1,037	1,096
Aged between 6 and 12 months	805	768
Aged between 12 and 48 months	6,153	4,642
Aged greater than 48 months	4,393	3,766
	12,388	10,272

17 Cash at bank and cash equivalents

	2023 £000	2022 £000
Cash and cash equivalents	42,549	27,998

Within bank balances there is £8.7m (2022: £5.8m) of restricted cash relating to the secured index-linked bond.

18 Trade and other payables

	2023 £000	2022 £000
Trade payables	12,383	10,358
Contract liabilities	6,266	5,723
Amounts owed to immediate parent company	840	1,000
Deposits from developers	373	344
Overdraft	7,835	9,272
Lease liabilities	399	335
Accruals	18,825	18,742
Other payables	24,719	24,933
	71,640	70,707

Contract liabilities

	2023 £000	2022 £000
At 1 April	5,723	9,306
Revenue recognised that was included in the contract liability balance at the beginning of the year	(5,723)	(9,306)
Increase due to cash received, excluding amounts recognised as revenue during the year	6,266	5,723
At 31 March	6,266	5,723

19 Interest-bearing loans and borrowings

	2023 £000	2022 £000
Borrowings held at amortised cost:		
Short-term overdraft	15,000	-
Loans from immediate parent company	11,000	-
Long-term loans	110,875	94,825
2.874% Secured Index-Linked Bond 2027-2031	197,751	175,202
3.25% Irredeemable debentures	50	50
5% Irredeemable debentures	52	52
Leases (See note 23)	680	766
	335 408	270,895
Less: current portion	(26 000)	-
Non-current portion	309 408	270,895

Changes in liabilities from financing activities.

	3.25% Irredeemable debentures £000	5% Irredeemable debentures £000	Bond £100m 2.874% (2027-2031) £000	Bond costs £000	Other loans £000	Finance and lease contract £000	Total £000
At 1 April 2021	50	52	172,551	(4,421)	80,000	756	248,988
Indexation	-	-	6,628	-	-	-	6,628
Amortisation of bond cost	-	-	-	444	-	-	444
Other borrowings	-	-	-	-	14,325	-	14,825
IFRS 16 – lease liability	-	-	-	-	-	10	10
At 31 March 2022 and 1 April 2022	50	52	179,179	(3,977)	94,825	766	270,895
Indexation	-	-	22,111	-	-	-	22,111
Amortisation of bond costs	-	-	-	438	50	-	488
Drawdown of borrowings	-	-	-	-	46,000	-	46,000
Repayment of borrowings	-	-	-	-	(4,000)	-	(4,000)
IFRS 16 – lease liability	-	-	-	-	-	(86)	(86)
At 31 March 2023	50	52	201,290	(3,539)	136,875	680	335,408

Included in other loans are:

(i) the £36 m loan with Pacific Life held by East Surrey Holdings Limited shown net of arrangement fees, which carries a fixed interest rate of 3.22% and is due or repayment in 2025;

(ii) two RCF facilities with RBS held by SESW. the first is 5-year £50m facility and the second is a 3-year facility of £25m, both of which were fully drawn down at the year-end date and have a margin above SONIA rate,

(iii) £15m short-term overdraft from National Westminster Bank held by SESW which was fully drawn down at the year-end date and has a fixed margin above Bank of England base rate. The short-term overdraft of £15m was repaid in May 2023; and

(iv) loans of £4m and £7m from SOGWUK to SESWS and SESW which carry fixed interest rate at 5.85% and 6% per annum and due in March 2024 and May 2023. SESW repaid £3m to SOGWUK in May 2023 and it has obtained waiver from SOGWUK on late repayment of £4m in July 2023.

20 Retirement benefit schemes

Defined contribution scheme	2023 £000	2022 £000
Charge to profit or loss in respect of defined contribution schemes	2,473	2,324

The Group participates in both a defined contribution scheme 'Group Personal Pension Plan' (GPPP) which is available for SESW employees, and a defined benefit scheme 'The Water Companies Pension Scheme' (WCPS) for qualifying employees.

Defined benefit scheme
WCPS is a sectionalised scheme and SESW participates in the Sutton & East Surrey Water Section of the Scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with SESW and the board of trustees of the fund.

SESW's own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset *volatility*
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g., liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in Bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Life expectancy
The majority of the plan's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk
The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

Guaranteed Minimum Pension (GMP)
The Group has continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequality caused by unequal Guaranteed Minimum Pensions for current member of the Section.

Section buy-in
With effect from 31 March 2023, the Trustees of the Scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities, which should reduce the volatility seen through the liability in the pension scheme.

20 Retirement benefit schemes **(Continued)**

Valuation

A comprehensive actuarial valuation of the SESW's pension scheme, using the projected unit basis, was carried out at 31 March 2022 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

Deficit contributions

The entity did not make any deficit contributions as the scheme is in surplus.

Key assumptions	**2023**	**2022**
Discount rate	2.7%	2.7%
Retail price inflation	3.6%	4.0%
Consumer price inflation	3.1%	3.5%
Life expectancy of a male aged 60 in 2023/2022	26.4	26.4
Life expectancy of a male aged 60 in 2047	28.3	28.3
Weighted average duration	12.0	14.0

Reconciliation of scheme assets and liabilities:

	Assets £000	**Liabilities £000**	**Carrying Amount £000**
At 1 April 2022	117,797	(91,532)	26,265
Interest on benefit obligations	-	(2,415)	(2,415)
Actuarial gains/(losses) due to:			
Changes in financial assumptions	-	24,352	24,352
Changes in demographic assumptions	-	244	244
Experience adjustments on obligation	-	(4,418)	(4,418)
Benefits paid	(4,519)	4,519	-
Interest on section assets	3,124	-	3,124
Actual return less interest on plan assets	(37,576)	-	(37,576)
Expenses	(365)	-	(365)
At 31 March 2023	78,461	(69,250)	9,211

Please see SESW Financial Statements for additional information on the valuation of the defined benefit pension scheme.

20 Retirement benefit schemes **(Continued)**

Fair value of plan assets	2023 £000	2022 £000
At 31 March		
Liability driven investments	-	28,220
Liquidity funds	8,538	14,208
Buy-in policy	68,674	-
BMO Global Absolute Return Bond Fund	-	24,317
Buy and maintain credit	-	50,450
Net current assets	597	-
Cash	652	602
Total	78,461	117,797

The majority of the Section assets are held within instruments with quoted market prices in active market. The Section does not investment in properly occupied by the Group or in the financial securities issued by the Group.

Scheme obligations would have been affected by changes in assumptions as follows:

	2023 £000	2022 £000
Change in inflation rate (+0.1%)	700	1,100
Change in inflation rate (-0.1%)	(700)	(1,100)
Change in discount rate (+0.1%)	800	1,400
Change in discount rate (-0.1%)	(800)	(1,300)
Change in life expectancy (+1 year)	3,000	4,600
Change in life expectancy (-1 year)	(3,000)	(4,600)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the report period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

Total credit/(expense) recognised in the profit or loss

	2023 £000 WCPS	2023 £000 Unfunded	2023 £000 Total	2022 £000 WCPS	2022 £000 Unfunded	2022 £000 Total
Employer's part of current service cost						
Section expenses	(365)	-	(365)	(244)	-	(244)
Past service cost	-	-	-	-	-	-
Net interest credit/(charge)	709	(26)	683	384	(19)	365
Net credit/(expense) recognised in profit or loss for pension schemes	344	(26)	318	140	(19)	121

20 Retirement benefit schemes (Continued)

Total (losses)/gains recognised in other comprehensive income/(expense)

	2023 £000 WCPS	2023 £000 Unfunded	2023 £000 Total	2022 £000 WCPS	2022 £000 Unfunded	2022 £000 Total
Net actuarial (losses)/gains in the year due to:						
Changes in financial assumptions	24,352	222	24,574	5,356	33	5,389
Changes in demographic assumptions	244	1	245	665	9	674
Experience adjustments on benefit obligations	(4,418)	(73)	(4,491)	(1,207)	(33)	(1,240)
Actual (loss)/gain on Section assets relative to interest on Section assets	(37,576)	-	(37,576)	835	-	835
(Loss)/gain recognised outside profit and loss in other comprehensive income	(17,398)	150	(17,248)	5,649	9	5,658

Changes in net assets recognised in the balance sheet

	2023 £000 WCPS	2023 £000 Unfunded	2023 £000 Total	2022 £000 WCPS	2022 £000 Unfunded	2022 £000 Total
Balance sheet asset/(liability) at 1 April	26,265	(972)	25,293	20,476	(1,006)	19,470
Credit/(charge) recognised in profit or loss	344	(26)	318	140	(19)	121
(Loss)/gain recognised in other comprehensive income	(17,398)	150	(17,248)	5,649	9	5,658
SESW contributions paid	-	46	46	-	44	44
Balance sheet asset/(liability) at 31 March	9,211	(802)	8,409	26,265	(972)	25,293

21 Capital and reserves

As at 31 March	**2023 £000**	**2022 £000**
Allotted, authorised, called up and fully paid		
3,653,953,848 (2022: 3,653,953,848) ordinary shares of £0.02 each	73,079	73,079

Dividends
The following interim dividends were paid during the year:

	2023 £000	2022 £000
£nil (2022: £0.001) per qualifying ordinary share	-	3,500

21 Capital and reserves **(Continued)**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the current year, ESH received dividends of £1,940,000, £1,000,000, £3,400,000 and £1,760,000 from Sutton and East Surrey Water plc via SESW Holding Company Limited in May 2022, July 2022, November 2022 and December 2022, respectively. ESH did not distribute and pay any dividend to SOGWUK during the current year.

In January 2023, ESH received a dividend of £148,000 from Advanced Minerals Limited.

22 Fair value of financial liabilities

22 (a) Fair values of financial instruments

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Determining the fair value of financial liabilities
The fair value of the bond is based on price quotations at the reporting date.

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cash flows using discount rates that reference to market interest rate of loans with comparable maturity and credit risk of the entity at the reporting date. There is no material difference between fair values and carrying amounts within the balance sheet of all other financial assets and liabilities.

The fair values together with their carrying amounts are shown in the balance as follows:

As at 31 March

	Carrying Amount 2023 £000	Fair value 2023 £000	Level 1 2023 £000	Level 2 2023 £000	Carrying Amount 2022 £000	Fair value 2022 £000	Level 1 2022 £000	Level 2 2022 £000
3.22% Pacific Life loan	35,875	34,113	-	34,113	35,825	35,945	-	35,945
2.874% secured index-linked bond 2027 2031	197,751	227,661	227,661	-	175,202	241,379	241,379	-
	233,626	261,774	227,661	34,113	211,027	277,324	241,379	35,945

There were no transfers between Level 1 and Level 2 during the current and prior year.

22 Fair value of financial liabilities **(Continued)**

22 (b) Credit risk

The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of its business.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than SESW. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Credit risk arises principally from trading (the supply of services to customers), the Group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability. The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the majority of the Group's customer base being comprised of large number of unrelated households or, for other services, a wide number of trade customers. At the balance sheet date there were no significant concentrations of credit risk.

22 (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The following are the undiscounted contractual maturities of financial liabilities including estimated interest payments:

As at 31 March 2023	Undiscounted contractual cashflows £000	1 year or less £000	1 to <5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loans and other borrowings	75,000	-	75,000	-
Debentures	102	-	-	102
Overdraft	7,835	7,835	-	-
Loans from immediate parent company	11,323	11,323	-	-
Short-term overdraft	15,142	15,142	-	-
Trade and other payables	63,805	63,805	-	-
2.874% secured index-linked bond	324,936	6,024	82,882	236,030
3.22% Pacific Life loan	39,477	1,159	38,318	-
	537,620	105,288	196,200	236,132

As at 31 March 2022	Undiscounted contractual cashflows £000	1 year or less £000	1 to <5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loans and other borrowings	59,000	-	59,000	-
Debentures	102	-	-	102
Overdraft	9,272	9,272	-	-
Trade and other payables	61,435	61,435	-	-
2.874% secured index-linked bond	299,488	5,327	25,534	268,627
3.22% Pacific Life loan	40,119	1,159	38,960	-
	469,416	77,193	123,494	268,729

22 Fair value of financial liabilities **(Continued)**

Undrawn committed borrowing facilities

Undrawn borrowing facilities available to the Group are set out below. The facilities available at the balance date are unsecured.

As at 31 March	2023 £000	2022 £000
Expiring		
In one year or less	-	1,000
Between one and two years	-	-
More than two years	1,000	16,000
	1,000	17,000

22 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Group does not have any exposure to currency risk since all activities are conducted in the UK and all borrowings are denominated in £ sterling.

Market risk – Interest rate risk

The Group adopts a policy of ensuring the majority of its exposure to interest rate charges on borrowings is on a fixed rate basis. The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked so that the capital sum and interest payment increase with RPI.

The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Group. The bond was issued on 21 March 2001 and is secured upon the shares of Sutton and East Surrey Water plc. In the event of default, the interest and capital payments are insured by Assured Guaranty Limited. The bonds and debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate/SONIA, and longer-term borrowings will be at a margin above SONIA. The Pacific Life Loan of £36m is at a fixed interest rate and therefore does not attract any interest rate risk.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for 2022.

	Equity		Profit or loss	
	2023 *£000*	2022 *£000*	2023 *£000*	2022 *£000*
Increase	(768)	(473)	(768)	(473)
Decrease	768	473	768	473

22 Fair value of financial liabilities **(Continued)**

22 (e) Inflation risk

The Group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. Currently, the Group's regulatory assets are linked to RPI inflation however, following Ofwat's decision to transition to the use of CPIH for inflation indexation for the 2020-25 regulatory period, from 2020 the Group's RCV will be 50 per cent linked to RPI inflation and 50 per cent linked to CPIH inflation, with any new additions being added to the CPIH portion of the RCV.

The Group believes this is an appropriate inflation hedging policy taking into account a balanced assessment of the following factors: economic hedge of the Group's RCV and revenues; cash flow timing mismatch between allowed cost of debt and the Group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

The carrying value of index-linked debt held by the Group was £197.751 million at 31 March 2023 (2022: £175.202 million)

22 (f) Capital management

The fundamental principles of the Group's capital management are to maintain an appropriate level of capital and debt and equity balance to manage business risk for the purpose of maintaining management soundness and efficiency and to promote continuous growth.

The capital structure of the Group consists of net debt and equity as disclosed in note 21. The Group's net debt is comprised of cash and cash equivalents, debentures, bank and other loans and an index-linked bond.

The Group's objectives when managing capital are to:

- Safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- Maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust the capital structure, the Group might adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Gearing
Consistent with others in the industry, SESW monitors capital on the basis of the gearing ratio which, in line with the prior year, it aims to maintain at 60%. SESW's gearing is measured by the ratio of net indebtedness to regulatory capital value (RCV). The ratio at the end of the current year was 77% (2022: 72% – restated as per SES Water published annual report). The increase in gearing ratio was attributed to the additional draw-down of RCF and the indexation charge on the index-linked bond during the current year.

22 Fair value of financial liabilities **(Continued)**

Loan covenants
Under the terms of the major borrowing facilities (as disclosed in note 19), SESW is required to comply with the following financial covenants:

- As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date 7 May and 7 November each year covering calculation period of 12 months ending 31st March and 31st October an interest cover ratio of at least 1.10:1, an adjusted interest cover ratio of at least 1.0:1.0 and a Regulated Asset Ratio of not more than 0.95:1.

- Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each scheduled price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulatory Asset Ratio of less than or equal to 0.80:1.

- Under the agreement of £36m loan, the Company (ESH) will not create, assume, incur or guarantee or otherwise be or become liable in respect of any indebtedness other than under this agreement. The Group shall permit the ICR (Interest Cover Ratio) in respect of any calculation period to be less than 1.10:1 and the RAR (Regulated Asset Ratio) to exceed 0.95:1.

The Group has complied with these covenants throughout the current and prior reporting period.

23 Right-of-use assets and lease liabilities

The Company adopted IFRS 16 'leases' on 1 April 2019, using the modified retrospective approach whereby right-of-use assets and lease liabilities were brought onto the balance sheet at the present value of future lease payments using the appropriate discount rate.

Payments associated with short-term leases of the twelve electric vehicles are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group has lease contracts for electric commercial vehicles, plant and machinery and buildings used in operations. The amounts recognised in the financial statements in relation to the leases are as follows:

Amounts recognised in the balance sheet:

As 31 March 2023	SESW £000	SESWS £000	AML £000	Total £000
Right-of-use assets				
Vehicles	816	-	-	816
Plant & machinery	-	-	238	238
	816	-	238	1,054
Lease liabilities				
Current	307	-	92	399
Non-current	530	-	150	680
	837	-	242	1,079

23 Right-of-use assets and lease liabilities **(Continued)**

As 31 March 2022	**SESW £000**	**SESWS £000**	**AML £000**	**Total £000**
Right-of-use assets				
Vehicles	625	-	-	625
Plant & machinery	-	-	328	328
Buildings	-	144	-	144
	625	144	328	1,097
Lease liabilities				
Current	212	33	90	335
Non-current	412	111	243	766
	624	144	333	1,101

Adoption of IFRS 16 was based on lease contracts commencing from April 2019.

Amounts recognised in the profit or loss relating to leases:

Year ended 31 March 2023	**SESW £000**	**SESWS £000**	**AML £000**	**Total £000**
Depreciation of right-of-use assets				
Vehicles	252	-	-	252
Plant & machinery	-	-	92	92
Buildings	-	38	-	38
	252	38	92	382
Interest expense	28	10	7	45

Undiscounted contractual maturities as at 31 March 2023 are as follows:

	SESW £000	**SESWS £000**	**AML £000**	**Total £000**
Less than one year	307	-	92	399
Between one and five years	559	-	161	720
More than five years	-	-	-	-
Total gross payments	866	-	253	1,119
Impact of discounting	(29)	-	(11)	(40)
Carrying amount of liability	837	-	242	1,079

23 Right-of-use assets and lease liabilities **(Continued)**

Year ended 31 March 2022	SESW £000	SESWS £000	AML £000	Total £000
Depreciation of right-of-use assets				
Vehicles	149	-	-	149
Plant & machinery	-	-	92	92
Buildings	-	42	-	42
	149	42	92	283
Interest expense	34	1	9	44

Undiscounted contractual maturities as at 31 March 2022 are as follows:

	SESW £000	SESWS £000	AML £000	Total £000
Less than one year	212	44	98	354
Between one and five years	427	122	252	801
More than five years	-	-	-	-
Total gross payments	639	166	350	1,155
Impact of discounting	(15)	(22)	(17)	(54)
Carrying amount of liability	624	144	333	1,101

24 Capital commitments

	2023 £000	2022 £000
The Group had capital commitments as follows:		
Contracted capital commitments	3,000	10,400

25 Related party transactions

Remuneration of key management personnel
The remuneration of key management personnel, including directors, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures ("IAS 24").

Remuneration was paid to Geoff Salt including salaries of £122,475 (2022: £118,347) and pension contributions of £26,332 (2022: £24,725), a director and shareholder who has significant influence over Advanced Minerals Limited and The Calcite Factory B.V., and is therefore considered a related party under IAS 24.

Geoff Salt also received a dividend of £37,000 (2022: £167,290) from Advanced Minerals Limited in current year.

Transactions with key management personnel
The compensation of key management personnel during the year totalled £1,137k (2022: £879k).

Identity of related parties with which the Group has transacted
Management support fees were paid to both SOGWUK, the immediate parent company and Summit Water Limited, a subsidiary of the ultimate parent company Sumitomo Corporation.

SOGWUK, the immediate parent company, also granted loans of £4m and £7m to SESWS and SESW and interest was accrued on these loans during the current year.

	Finance costs incurred for the year		Administrative expenses incurred for the year		Payables outstanding as at 31 March	
	2023	2022	2023	2022	2023	2022
	£000	£000	£000	£000	£000	£000
Immediate parent – Sumisho Osaka Gas Water UK Limited	18	-	100	100	11,840	1,000
Other – Summit Water Limited	-	-	400	400	-	-
	18	-	500	500	11,840	1,000

Included in the payable balance with immediate parent company – SOGWUK – are loans of £4m and £7m which carry a fixed rate interest of 5.85% and 6% and due in March 2024 and May 2023.

26 Events after the reporting date

On 30 June 2023, The Calcite Factory B.V.'s factory in the Netherlands ceased operation, where assets assessed likely to have value were shipped to Advanced Minerals Limited in the UK. The closure of the factory would not have significant impact to the Group's future financial performance due to its low level of business activity and profit contribution to the Group in the prior years.

On 12 July 2023, East Surrey Holdings Limited issued 100,000,000 ordinary shares at par (£2 million proceeds received) to the existing shareholder. The proceeds were then further injected to Sutton and East Surrey Water Plc via SESW Holding Company Limited on the same day.

On 11 August 2023, East Surrey Holdings Limited issued 250,000,000 ordinary shares at par (£5 million proceeds received) to the existing shareholder. The proceeds were then further injected to Sutton and East Surrey Water Plc via SESW Holding Company Limited on the same day.

27 Parent undertaking and ultimate parent undertaking

The ultimate parent company and the smallest and largest group in which the results of the Group are consolidated is SOGWUK. The consolidated financial statements are available to the public at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, which is the registered address of the Group.

EAST SURREY HOLDINGS COMPANY

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Non-current assets					
Property, plant and equipment	32		200		216
Trade and other receivables	35		4,762		4,687
Investments	33		108,636		108,636
Deferred tax assets	37		2		-
			113,600		113,539
Current assets					
Trade and other receivables	35	7,199		1,914	
Cash and cash equivalents		2,294		2,305	
		9,493		4,219	
Current liabilities					
Trade and other payables	36	(1,904)		(1,740)	
Net current assets			7,589		2,479
Total assets less current liabilities			121,189		116,018
Creditors: amounts failing due after more than one year					
Interest-bearing loans and borrowings	38		(35,875)		(35,825)
Deferred tax liabilities	37		-		(2)
			(35,875)		(35,827)
Net assets			85,314		80,191
Equity					
Called up share capital	39		73,079		73,079
Retained earnings			12,235		7,112
Total equity			85,314		80,191

As permitted by s408 Companies Act 2006, the Company has not presented its own income statement and related notes. The Company's profit for the year was £5,123k (2022: £1,844k).

The financial statements were approved by the board of directors and authorised for issue on 4 September 2023 and are signed on its behalf by:

P Kerr

Director

Company Registration No. 02660370

EAST SURREY HOLDINGS COMPANY

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Called up share capital £000	Retained earnings £000	Total £000
Balance at 1 April 2021	73,079	8,768	81,847
Profit and total comprehensive income for the year	-	1,844	1,844
Transactions with owners in their capacity as owners:			
Dividends	-	(3,500)	(3,500)
Balance at 31 March 2022 and at 1 April 2022	73,079	7,112	80,191
Profit and total comprehensive income for the year	-	5,123	5,123
Balance at 31 March 2023	73,079	12,235	85,314

The notes on pages 67 to 74 form part of these parent financial statements.

28 Accounting policies

Company information
East Surrey Holdings Limited is a Company incorporated, domiciled and registered in England, the UK. The Company is a private company limited by shares. The trading address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ.

28.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards and the requirements of the Companies Act 2006.

The financial statements are prepared on the historical cost basis unless otherwise stated in these notes to the financial statements.

East Surrey Holdings Limited operates as a holding Company with investments in water and other trading and property companies within the East Surrey Holdings Group. The primary activities of the Group are to supply water to domestic customers through SES Water (a regulated water supply company) and to act as a retailer within the water and sewerage retail market for eligible non-household customers through Sutton and East Surrey Water Services Limited (SESWS) (trading as SES Business Water).

In these separate financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

1. A Statement of Comprehensive Income;
2. A Cash Flow Statement and related notes;
3. Comparative period reconciliations for share capital, tangible fixed assets and investments;
4. Disclosures in respect of transactions with wholly, owned subsidiaries;
5. Disclosures in respect of capital management;
6. The effects of new but not yet effective IFRSs;
7. Disclosures of transactions with a management entity that provides key management personnel services to the Company;
8. The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements; and
9. Disclosure of financial instruments in line with IFRS 7.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements, other than where new policies have been adopted.

28.2 Property, plant and equipment and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Motor vehicles & sundry plant	5 years
Plant and Machinery	20 years
Office equipment	5 years

28 Accounting policies (Continued)

28.3 Going concern

In addition to the basis as noted under the Going Concern section in the Directors' Report, the Directors have also considered the Company's assets (and in particular its investments in associated companies) and liabilities as at the date of signing these financial statements, and have concluded that the Company will continue to be able to meet its liabilities for at least twelve months from the date of signature of these financial statements. A going concern basis has therefore been adopted.

Under the terms of the Notes Purchase agreement dated 19 October 2018 entered into with Pacific Life, the Company is required to deliver to the Note Holders copies of its consolidated balance sheet and statements of income, shareholders' equity and cash flows within 150 days of the end of the Financial Year. The ESH consolidated accounts were due 150 days post year-end, a default notice to Pacific Life has been issued by the management and remedied within the 30-day remedy period as at the date of signing the accounts.

28.4 Borrowing accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

28.5 Dividends

Dividends are only recognised as a liability to the extent that they are declared and paid prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

29 Adoption of new and revised standards and changes in accounting policies

There are no amendments to accounting standards that are effective for the year ended 31 March 2023 that have a material impact on the Company's financial statements.

30 Critical accounting estimates and judgements

The preparation of the Company's financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required include:

Estimate – Impairment on investments and loans/receivables

As at 31 March 2023, the Company had investments in subsidiaries of £108,636k, which mainly comprised £101,795k in SESW and £6,644k in The Cheam Group plc ("Cheam") and its subsidiaries (SESWS and The Sutton District Water plc) (together referred to as the "Cheam Group"), and loans/receivables of £12,506k (before impairment) to subsidiaries, of which £4,762k was due from Cheam and £7,555k was due from SESWS.

For the purpose of impairment testing, the Company estimates the recoverable amount of the CGUs to which the investments and loans have been allocated which is the higher of the fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and suitable inputs, including revenue growth rate, gross profit margin and discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, impairment loss may arise.

The Company assessed the recoverable amount of investment in SESW based on the RCV of its appointed business less its indebtedness and the net present value of future cashflows of its non-appointed business. The Company assessed the RCV of SESW as at 31 March 2023 and considered the recoverable amount of its investment in SESW to be higher than the carrying value of its investment in SESW and therefore no impairment is considered necessary on its investment in SESW.

For the impairment testing on the Company's investment in and loans/receivables due from the Cheam Group as at 31 March 2023, the Company prepared cash flow projections for SESWS, which comprises SES Business Water and SES Home Services, covering a 5-year period and the cash flow beyond the 5 years period was extrapolated using a long-term growth rate of 2.0% (2022: 2.0%).

30 Critical accounting estimates and judgements **(Continued)**

For the 5-year period, the first three years are based on the financial budgets approved by the management and for the period from the third year to the fifth year the projections are based on potential growth opportunities, forecasted market conditions, targeted customer mix, etc., of SES Business Water and SES Home Services ("Base Case Scenario").

For SES Business Water in the Base Case Scenario, the revenue from the third to the fifth year was estimated using an annualised growth rate of 8.58% and the gross profit margin was assumed to be ranging from 6.50% to 6.79%. These assumptions were made based on the continuing improvements on its billing process and management to ensure the customers to be billed accurately and effectively. SES Business Water will also reinforce its debt collection process to closely monitor the debtor aging and follow up on long outstanding accounts and partner with various debt collection agencies to recover its debtor balances. In term of profitability, it will direct its commercial focus towards existing and new customers with higher margin going forward.

For SES Home Services in the Base Case Scenario, the revenue from the third to the fifth year were estimated using an annualised growth rate of 18.72%, and the gross profit margin was assumed to be at 33.47% in the third year, 35.48% in the fourth year and 37.45% in the fifth year and remain steady beyond fifth year. These assumptions were made based on the new affinity partnership with HomeServe. This is expected to be the next key growth and profitability drivers of SES Home Services in the coming years as this partnership allows SES Home Services to take advantage of HomeServe's market position and its more efficient claim handling process and policy management.

Debtor turnover days for both SES Business Water and SES Home Services were assumed to decrease gradually from 83 days to 70 days by end of forth year and remain at 70 days onward.

The Company estimates discount rates using post-tax rates that reflect current market assessment of time value of money and the risks specific to the CGUs and determined the discount rate to be 10.00% (2022: 10.0%).

Based on the outcome of assessment on Base Case Scenario above, it gives an indication of impairment and therefore the Directors had provided for an impairment of £1m on ESH's loans to SESWS as at 31 March 2023.

The Company considered the following reasonably plausible downside to the Base Case Scenario with the following possible change in assumptions (with all other variables being held constant) that would cause the total recoverable amount of SES Business Water and SES Home Services to drop below the total carrying value of ESH's investments in and loans/receivables due from the Cheam Group, and give rise to an additional impairment loss of £1.6m, £4.3m and £2.8m, respectively.

- A decrease in gross profit margin by 0.25% in SES Business Water throughout the forecasted period
- Debtor turnover days remains 80 days in SES Business Water over the forecasted period
- Revenue of SES Home Services in the fourth and fifth year assumes to grow at a lower rate of 11.5% and gross profit margin remains at that of 33.47% in the third year

A sensitivity analysis has also been performed on the discount rate being used in the impairment assessment above. Should there be an increase in discount rate by 1%, it would cause an additional impairment of £2m in the Base Case Scenario.

The Directors will continue to monitor closely the business performance of SES Business Water and SES Home Services and might consider a reversal of such impairment should SES Business Water and SES Home Services demonstrate improvement in their business performance.

31 Directors' remuneration and employees

	2023 £000	2022 £000
Directors' fee	13	11

The Directors' fee was paid to David Shemmans (2022: J D Pelczer) for his services as Chairman. No other Directors received any emoluments for their services to the Company (2022: £nil). The Company had no employees during the year (2022: nil).

32 Property, plant and equipment

	Plant and machinery £000	Office equipment £000	Motor vehicles & sundry plant £000	Total £000
Cost				
At 1 April 2022	331	2	24	357
Disposals	-	(2)	-	(2)
At 31 March 2023	331	-	24	355
Accumulated depreciation and impairment				
At 1 April 2022	115	2	24	141
Charge for the year	16	-	-	16
Eliminated on disposals	-	(2)	-	(2)
At 31 March 2023	131	-	24	155
Net book value				
At 31 March 2023	200	-	-	200
At 31 March 2022	216	-	-	216

33 Investments

	Investments in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost or valuation			
At 1 April 2022	108,787	210	108,997
At 31 March 2023	108,787	210	108,997
Provisions			
At 1 April 2022	151	210	361
At 31 March 2023	151	210	361
Carrying amount			
At 31 March 2023	108,636	-	108,636
At 31 March 2022	108,636	-	108,636

34 Subsidiaries

The registered address of all investments other than The Calcite Factory B.V. (Holland) is 66-74 London Road, Redhill, Surrey, RH1 1LJ. All investments other than The Calcite Factory B.V. are registered and operate in England and Wales. The registered address for The Calcite Factory B.V. is Prodock, 9 Mozelhavenweg, Amsterdam.

The principal activities for all investments are as follows:

Name of company	Activity	Class of shares held	Ownership/ Proportion of voting rights 2023 %	2022 %
Directly held:				
Allmat (East Surrey) Limited	Building Supplies	Ordinary	100	100
SESW Holding Company Limited**	Holding Company	Ordinary	100	100
Surrey Downs Estates Limited**	Property Development	Ordinary	100	100
Surrey Downs Property Investment Limited**	Property Investment	Ordinary	100	100
The Cheam Group plc	Holding Company	Ordinary	100	100
		Preference	79	79
SES Water Limited**	Non-trading	Ordinary	100	100
Advanced Minerals Limited	Processes and sells minerals for the bathroom industry	Ordinary	80	80
Indirectly held:				
Sutton and East Surrey Water plc	Water supply	Ordinary	100	100
		Preference	100	100
Sutton and East Surrey Water Services Limited	Water retail principally with Home Services	Ordinary	100	100
		Preference	100	100
The Calcite Factory B.V.	Minerals processing	Ordinary	80	80

34 Subsidiaries **(Continued)**

All companies denoted with ** are exempt from audit by virtue of Section 479A of the Companies Act 2006. In accordance with Section 479C of the Companies Act 2006, East Surrey Holdings Limited guarantees all outstanding liabilities to which the subsidiary companies are subject at the end of the financial year to which the guarantee relates, until they are satisfied in full. The guarantees are enforceable against East Surrey Holdings Limited by any person to whom the subsidiaries are liable in respect of those liabilities.

35 Trade and other receivables

	Current		Non-current	
	2023 £000	2022 £000	2023 £000	2022 £000
Amounts owed by fellow group undertakings	6,744	1,585	4,762	4,687
Corporation tax recoverable	361	317	-	-
Prepayments	94	12	-	-
	7,199	1,914	4,762	4,687

The current balance due from subsidiaries above includes a loan of £500k under RCF and a term loan of £3,950k to SESWS. These loans are unsecured, carry interest at 2.19% per annum and are repayable on demand. The remaining balances are unsecured, interest-free and has no fixed terms of repayment.

The non-current balance due from subsidiaries above includes loans to The Cheam Group plc for £1,100,000 and £3,200,000 issued on 31 August 2016 and 3 April 2017 respectively. Along with interest on these loans the total balance is £4,762k (2022: £4,687k) as at 31 March 2023. These loans are unsecured, carry interest at 1.75% per annum and are repayable on demand. However, these loans are not expected to be repaid within the next twelve months.

As at 31 March 2023, the Company provided an impairment of £1m on its loans to SESWS following the impairment assessment as detailed in note 30 of the company financial statements.

36 Trade and other payables

	2023 £000	2022 £000
Amounts owed to fellow group undertakings	999	818
Accruals	905	922
	1,904	1,740

The balance of £817,000 included in amounts due to fellow group undertakings are unsecured, interest-free and is repayable on demand. The remaining balance is unsecured, interest-free and has no fixed term of repayment.

37 Deferred taxation

Deferred tax liabilities/(assets)	2023 £000	2022 £000
As at 1 April	2	5
Credited to the profit or loss	(4)	(3)
As at 31 March	(2)	2

The Company has unrecognised deferred tax of £1,227k (2022: £2,083k) on tax losses and other deductible temporary differences that are available for offsetting against future taxable profits of the companies in which they are related to. Deferred tax assets have not been recognised as they may not be used to offset taxable profits of the Company in near future.

38 Interest-bearing loans and borrowings

The Company holds a £36m loan with Pacific Life, which carries a fixed interest rate of 3.22% per annum and is due for repayment in 2025. The outstanding liability is shown net of arrangement fees as at 31 March 2023 and 2022. Pacific Life has security over the shares of the Company on this loan. For further information, please see note 19 of the group financial statements.

39 Called up share capital

Refer to note 21 of the group financial statements.

40 Dividends

	2023 £000	2022 £000
Dividends paid	-	3,500

41 Related party transactions

Please see note 25 of the group financial statements for details and note 30 of the company financial statements for the remuneration of key management personnel, including directors.

Except for the related party transactions and outstanding balances with other wholly-owned subsidiaries of the Group and the immediate parent company of the Company – SOGWUK, the Company has incurred management support fee to Summit Water Limited, a subsidiary of the ultimate parent company Sumitomo Corporation, during the current year (2022: £400k).

42 Events after the reporting date

On 30 June 2023, The Calcite Factory B.V.'s factory in the Netherlands ceased operation, where possible assets were shipped to Advanced Minerals Limited in the UK. The closure of the factory would not have significant impact to the Group's future financial performance due to its low level of business activity and profit contribution to the Group in prior years.

On 12 July 2023, East Surrey Holdings Limited issued 100,000,000 ordinary shares at par (£2 million proceeds received) to the existing shareholder. The proceeds were then further injected to Sutton and East Surrey Water Plc via SESW Holding Company Limited on the same day.

On 11 August 2023, East Surrey Holdings Limited issued 250,000,000 ordinary shares at par (£5 million proceeds received) to the existing shareholder. The proceeds were then further injected to Sutton and East Surrey Water Plc via SESW Holding Company Limited on the same day.

43 Ultimate and immediate holding company and parent undertaking of larger group

The ultimate and immediate parent company, controlling party and the smallest and largest group in which the results of the Company are consolidated is SOGWUK. No other group financial statements include the results of the Company. The consolidated financial statements are available to the public at Vintners' Place, 68 Upper Thames Street, London EC4V SBJ, which is registered address of SOGWUK.