Sumisho Osaka Gas Water UK Limited

Annual Report and Financial Statements for the year ended
31 March 2021

Company Number 08369318

Sumisho Osaka Gas Water UK Limited

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Sumisho Osaka Gas Water UK Limited

Group Strategic Report

The directors present the strategic report for the year ended 31 March 2021.

Principal activities

Sumisho Osaka Gas Water UK Limited (SOGWUK) operates as a holding company for certain European subsidiaries of Sumitomo Corporation Japan and Osaka Gas Co. Ltd. The company owns 100% ordinary shares in East Surrey Holdings (ESH), a company with investments in water and other trading and property companies.

The primary activities within the Group is to both supply water to domestic customers through Sutton and East Surry 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 Sutton and East Surrey Water Services Limited (trading as SES Business Water). The other smaller subsidiaries include Advanced Minerals whom source and process materials and minerals and Allmat a locally based builders merchant in Kenley.

Sutton and East Surrey Water Plc (SESW)

SESW the largest company within the Group, supplies 160 million litres of clean water each day to 735,000 people in East Surrey, and parts of West Sussex, West Kent and South London. Some key highlights of 2021 include;

- Achieving the leakage reduction target for the 22nd successive year meaning less water is being taken from the environment
- Very low numbers of burst mains and supply interruptions, thanks to a targeted approach to asset investment meaning customers benefit from a more robust service
- SESW is helping more people in more ways than ever before, including providing the highest volume of payment holiday support per 10,000 customers in response to COVID-19 across the industry
- Helping 20,274 customers on the Water Support Scheme.
- SESW have continued to invest in the ongoing replacement of the pipes in our distribution network, despite reduce activity during lockdowns, SESW have still replaced over eight kilometres of aging water mains in the past year. A further £2.3m (2020: £6.3m) was invested across our network primarily to improve our ‘resilience mains’ (to ensure water can be efficiently moved around our supply area now, and in the future). Finally, £0.8m (2020: £1.1m) was spent on extending our network into new housing developments.
- In order to meet supply demands SESW have invested £11.4m (2020: £13.7m) on replacing and upgrading equipment at the treatment works, pumping stations, service reservoirs and other operational sites.
- Over 90% of SESW’s customers think the extra services offered are helpful
- Achieving The Wildlife Trusts Biodiversity Benchmark for enhancing and protecting the Biodiversity at one of the treatment works – and are currently the only water company to hold this award.
- Opened a brand new education centre at Bough Beech Treatment works – to ensure continuous inspiration for future generations for many years to come.

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

- Continued to develop the ‘Here For You’ campaign to raise awareness of the collection of financial support schemes and priority services offered.
- In response to COVID-19 launched ‘Breathing Space’, a payment pause scheme for customers facing life changes that have affected their income and who need time to adjust.
- More than 12,000 of customers are registered on the Priority Services Register, which provides extra support to customers who have health, access or communication needs.
- Continued to evolve the ‘Voice of the customer’ programme to give better insight into what customers thing, which helps to make better informed decisions.

Group Strategic Report (Continued)

- SESW became the only water company to currently hold the Wildlife Trusts' Biodiversity Benchmark for making the Elmer Treatment Works more attractive to plants and animals, with two more sites expected to follow by 2025.
- Opened 'Flow Zone', the brand new, state of the art education centre at Bough Beech Reservoir which will help to continue to deliver the very successful education programme that started more than 20 years ago.
- SESW expanded the fleet of electric vehicles and the new company car scheme policy means all qualifying employees are provided with either electric vehicles or plug-in hybrids.
- SESW were the first water company to offer virtual home water efficiency checks to help customers save water, with their partners Save Water Save Money.

Within the wider Group:

- In response to COVID-19 we have continued to put the health and wellbeing of employees and customers first, whilst striving to do the right thing across all of the industries that the Group operate within.
- We have continued our commitment to supporting many good causes including donations into the Surrey Coronavirus Response Fund.
- The customer transformation programme has continued with the development of a new billing and customer relationship management system which is due to launch later in 2021 across both SESW and Business Water.
- SES Home Services continued its drive to expand beyond its traditional insurance business by developing new relationships with claims managers serving customers of other insurance companies and also provided services to customers of SES Business Water in the business water market.
- SES Home Services completed its systems transformation projects implementing and integrating its new finance system with its job management systems.
- SES Business Water saw turnover fall during the year due to lower consumption brought about by the COVID-19 pandemic.
- Allmat our builders merchant closed for a 7-week period in lockdown one, however successfully re-opened its trade counter through operating a click and collect business model until it was safe to operate and government restrictions were lifted to be able to open fully.

Ian Cain, Chief Executive Officer joined the Company in February 2020 at the start of the pandemic, looking back "the last year has been like no other. For me it has highlighted the unwavering commitment that all our staff have to our customers." Speaking about SESW Ian goes onto say "SES Water has a long history and deep roots in the community, and our response to the pandemic has made that even stronger. We've played an active part in the local response through donations to the Surrey Coronavirus Response Fund, helping to set up the new NHS Headley Court Hospital and through our work with local foodbanks and other worthy causes. This is in addition to the extra support we have put in place for our customers and employees during this difficult period"

SESW's overall aim is to continue to be a well-run, respected and successful business. SESW takes its role of being trusted to provide an essential public service very seriously, and for SESW it is more than just supplying water but wanting to play an active part in the communities that we live within. SESW is a small local company and has been deeply embedded in local communities for over 150 years.

SESW has 5 pledges that each of its employees strives to deliver through their roles within the company;

Pledge 1 – To provide the customer with high-quality water all day, every day.

SESW are proud to produce some of the highest-quality water in the country and for all water companies this is measured against the Drinking Water Inspectorate's (DWI) Compliance Risk Index (CRI). SESW sampling programme normally includes going into customer properties to test taps but this was not possible during the lockdown restrictions, instead samples were taken from the homes of our employees living in our supply area, as well as the head office in Redhill. The CRI for the Company will be published in the Chief Inspector's Report in July 2021. During 2020 there were seven sample failures, which included one exceedance of the standard for benzo(a)pyrene at a commercial property. Investigations into each failure confirmed there was no concern regarding the quality of the wider network and remedial action resolved the local concern.

SESW have a challenging target to minimise the number of customers who need to contact us about the taste, smell or appearance of their water. In 2020 SESW received 401 contacts which is above the target limit of 366 resulting in a financial penalty from Ofwat. Whilst any penalty from Ofwat is disappointing, this continues to be industry leading performance which demonstrates the teamwork involved to deliver a product that SESW's customers are so satisfied with.

Illegal usage of hydrants can compromise water quality for paying customers and this year SESW have continued to pursue companies who do this – SESW believe it accounts for 20% of contacts from SESW's customers. In October 2020, SESW successfully prosecuted a company for taking water from a fire hydrant using an unauthorized standpipe, the fine it incurred and legal costs went back to the local community who were impacted with cloudy water as a result.

Some planned interruptions to supply are unavoidable as SESW work to improve the long-term resilience of the pipe network but SESW performance this year largely reflects one significant burst last summer where SESW's customers were without water for longer than three hours. Historically SESW perform very strongly in this area, amongst the best in the industry, so it's disappointing to miss the target this year. The business worked very hard to minimise the impact and positive feedback was received from customers about SESW's response. While we aim to not have any burst mains, they do occur; however, the low number reflects the general good health of the network and the work that goes into maintaining it.

Around 85% of the water SESW supply comes from underground and we are unique in the industry in having a legal obligation to soften the groundwater we treat and a performance commitment on the amount of hardness in the water we distribute. To do this SESW make significant capital investment, which this year includes an upgrade to the softening capability at our Elmer Treatment Works. SESW will always reduce or stop softening if it poses a risk to the quality of the water to ensure we meet the strict requirements of the Water Industry Act. Operational outages as well as site upgrades affect our softening capability and this is reflected in our performance against this target.

Pledge 2: To provide our customers with a service at a fair price and offer when our customers need it.

Most customers do not normally struggle to pay their bill but understandably this year we have seen a rise in the number of people with money worries due to their personal circumstances changing. Back in March 2020 we worked very quickly to introduce a payment holiday within five days of the first lockdown starting, and we provided more financial assistance per 10,000 customers than any other water company. This has now progressed into a new, permanent support option called 'Breathing Space', where customers can pause their bill payments while they get back on their feet.

SESW had a target this year for 12,000 customers to be benefitting from our Water Support Scheme, which provides a 50% bill reduction to eligible people. At the end of March 20, 274 people were on this tariff, which means we are already surpassing the target we set ourselves for year three of this five-year Business Plan period. SESW will continue to welcome more customers onto the scheme who need it and also continue to raise awareness of the support on offer as we are currently not meeting the target for this commitment.

With just 7% of customers questioned feeling their water bill is not good value for money, this is within the target limit of 9%. The average household bill for 2020/21 equated to around 50 pence a day, with money from bills playing a crucial part in funding our ongoing investment programme.

Our Priority Services Register provides extra support to customers who have health, access or communication needs and helps us tailor the help we can offer. 4.5% of our customers are on this register, higher than the target of 3.5%, and over 90% of people think the extra services offered are helpful, which is great news.

SESW have a target to reduce the number of 'void' properties in our supply area, which means they are connected to our network but not charged for any water. Although the number of properties is reducing, we have more to do to meet our target and this year we have incurred a financial penalty as a result.

Pledge 3: Provide our customers with a service that is fit for now and for the future

Since 2010 we have been progressing with a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of our area, which was previously completely reliant on groundwater supplies. This means that by 2025 every property can be supplied by more than one treatment works if needed, such as during periods of low rainfall or operational outages. Unfortunately, last summer we were unable to progress with laying a strategic trunk main in Purley which was a key part of the programme but this work is now being re-planned and we are confident that we will be able to join up our network over the next few years and be the first water company to achieve this.

There have been no restrictions on the use of water this year. Like other water companies, we depend on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation. During this recharge period we saw well above average rainfall which meant our underground resources filled up and we were in a good position to meet the demands of the spring.

Managing leakage is one of our customers' top priorities and a key focus for us too and we remain a water company with one of the lowest levels of leakage. We have stayed at or below the maximum allowed level of leakage every year since the target was first set over 20 years ago, which is particularly pleasing given the increase in leaks due to the challenging winter weather conditions. This was only made possible through a concerted team effort to drive down the backlog of jobs and respond to the increase in leaks reported. We are committed to significantly and sustainably reducing leakage levels for the long-term, aiming to more than halve the water lost from our network and our customers' pipes by 2050. That's why we are investing in innovative technology and real-time data solutions with key partners such as Vodafone and Royal Haskoning, to be the first water company with a totally 'smart' network.

Pledge 4: Provide excellent service, whenever and however our customers need it.

Regardless of the reason for our customers needing to contact us and the method they use, we aim to provide an excellent, tailored resolution every single time. For the first time this year, we have a target to reduce the number of times customers have to contact us about the same issue, with 80% of contacts being resolved first time. Over the last year many more customers have needed our help, with things like home moves due to the stamp duty holiday and financial support following furlough, and we have been able to resolve 82% of these at the first contact. This is particularly pleasing given that there was the added complication of the majority of our call handlers working from home during lockdowns to keep them safe, which inevitably made meeting this target more challenging.

C-MeX is the industry metric for measuring customer satisfaction and experience across all companies and is based on two surveys – one based on customers' experiences when they have had to contact us and the other a customer experience survey which scores us based on their perception of the Company. While we did not meet our target of our score being in the top quartile of the industry, the year has seen sustained progress with quarter-on-quarter improvements, demonstrating that the investment we are making in the service we provide to our customers is working. We are also the most improved company in the league table for satisfaction, however we acknowledge we must improve even further to reach a consistent upper quartile position, which is our goal. Our people are passionate about what they do and many are involved in programmes of work that we know will make a difference, such as improved complaints handling, listening to and acting on customer feedback and reducing bill shock.

Investing in our digital contact capability is key to transforming our service to customers and this year we will launch a new billing system. This innovation is the biggest change we have made to this key area of our business in over 20 years but it's a very important one in enabling us to manage contact with our customers in a much more efficient and effective way.

The service we provide to developers is also measured through the D-MeX industry metric and we have not met our target in this area. We are taking action to respond more quickly to their applications, keep them updated on progress and better tailor our service to meet their individual needs and we are confident in the progress we are already making in doing this.

Pledge 5: Support a thriving environment that we can all reply upon

We're committed to reducing the impact of our essential service on the environment while making a positive contribution to its quality. This year we were the first water company to achieve The Wildlife Trusts' Biodiversity Benchmark for making our land at Elmer Treatment Works more attractive to a variety of plants and wildlife. Covering over ten hectares, the accreditation process identified six significant habitats all found to be supporting species such as butterflies, dormice, badgers, lizards and slow worms.

Pumping, treating and distributing millions of litres of water every single day is incredibly energy intensive so we are doing more to limit the emissions we create. In addition to only purchasing electricity that has been generated from renewable sources, in the past year we have added to our fleet of electric vehicles and our new Company car scheme policy means all qualifying employees are now provided with either electric vehicles or plug-in hybrids. Both of these initiatives are contributing towards our ambition of achieving net zero carbon by 2030 in the most affordable and resilient way. We are consulting with our customers on our route map to get there and our Environmental Scrutiny Panel is providing an independent voice on our plans.

Group Strategic Report (Continued)

We operate in a region which is classified as being in serious 'water stress' due to the growing population and limited resources which is why we have a target to reduce the amount of water per person we need to take from the environment. The hot summer as well as many more people being at home this year has seen household demand soar and we have therefore not met our target. Water meters are one of the most effective ways of bringing down consumption, but our installation programme slowed down significantly during the three lockdowns when we were only carrying out emergency activity in people's homes. However, we remained committed to helping our customers use less water and we were the first water company to offer virtual home water efficiency checks with our partners Save Water Save Money.

There have been no category one or two incidents of pollution this year, as measured by the Environment Agency. There have been some less significant incidents, largely caused by burst mains, but we are the only water-only company to have put forward a target in this area, another notable indicator of the importance we place on protecting and enhancing the environment.

Sutton and East Surrey Water Services Ltd (SESWS)

SESWS operates as two separate trading divisions: SES Business Water and SES Home Services. SES Business Water saw turnover decrease substantially during the year mainly due to the lower demand and shut down of its customers throughout the lockdown period. The business also began the process during the year to invest in a new billing system which is expected to be operational within the next financial year. This is expected to have the impact of reducing operating costs, improving customer experience and assisting cash collection in the future. It will also allow for a stronger breadth of propositions to be taken to market and the ability to more clearly differentiate ourselves.

SES Home Services continued its drive to expand its revenues beyond its traditional insurance business. It developed new relationships with claims managers serving the customers of other insurance companies and also provided services to the new business water market.

Key indicators for Home Services include gross profit, the number of insurance policies sold and overhead costs. For Business Water gross margin across various segments, overheads and cash collection are key indicators. Other current key performance indicators include:

- The first fix rate for plumbing and heating repair jobs.
- The number of calls abandoned by the Contact Centre across both brands.
- Business Water sales growth.

The Company is well positioned to continue to expand in the non-household water retail market in England and Scotland with plans to diversify away from the pure provision of a water commodity to smarter digital services. The Home Services division expects to capitalise on the changes it has made and grow significantly across the south east the number of services and jobs it performs.

COVID-19 Update

The COVID-19 pandemic has affected the SOGWUK Group across all companies, the impacts hit the individual companies in different ways but across the SOGWUK Group the top priority in the response to COVID-19 has always been to put the health and wellbeing of employees and customers first, while striving to do the right thing and continue to provide the service and products that we do every day.

Group Strategic Report (Continued)

In the following section we highlight the impact it has had on the Group's businesses, the risk management approach that was taken to manage the situation and the remaining uncertainties that the Group face over the coming year.

COVID-19 has caused several risks identified on our risk register to either become a reality or increase in likelihood. This includes:

- Staff absence - A few employees have been unable to work due to illness or self-isolation and the Group had to change the way in which the field, production, shop floor and office-based teams work to abide with the Government's lockdown and social distancing requirements to protect public health. The priority has been to maintain a high-quality service to customers, which has meant that we have not been able to carry out all business operations as we normally would and have instead had to prioritise essential areas.
- Allmat, the builders merchant closed for two months during the height of the pandemic, as of the date of these financial statements has now re-opened with a new business model now operating a click and collect service to maintain safety of employees and customers. In that period 11 employees were furloughed who have now all returned to their positions.
- Cash collection rates - We have experienced a reduction in revenue across most of the business particularly with temporary closures at Allmat, reduced volumes of water consumed by businesses and due to some household customers being unable to afford their water bills and retailers not being able to pay wholesale charges as so many businesses have been impacted. In addition under the charging rules proposed by MOSL the market operator within the wholesale water market, SESW offered delayed payment terms for retailers for up to 8 months during the first lockdown, all of which have now been repaid as of 31 March 21.
- Penalties from non-delivery of the 2021/22 Business Plan targets in order to protect the health of employees and customers. We had to prioritise emergency work and only enter customers' properties when absolutely necessary, which led us to temporarily stopping work on some of our capital investment programme, reducing our proactive leak detection activity and stopping non-essential activity such as our water efficiency home visits and meter reading. This could impact the Group's ability to meet some of the Business Plan targets at the end of this year which could result in us receiving a financial penalty within the regulated water company
- Across SESW and SESWS the risk of bad debt has increased either due to more household customers expected to find financial hardship or retail customers ceasing to trade or the external economic market conditions worsening, as a result management have increased the bad debt provision by reducing the likelihood of future collections in the expected credit loss model.

The health and safety of employees and customers has been the top priority throughout and there are a number of mitigating actions that we have taken and continue to take to manage the impact on our customers and employees and abide by the latest government advice.

We have remote IT systems in place, so all office-based staff have been able to continue working and we have practised social distancing for those employees in the field, at the treatment works and in the Group's factories. We furloughed a number of our builders merchant staff as it closed for a period of time throughout the pandemic.

Within the water company where water is a necessity, we have offered customers a three-month payment holiday if they are struggling to pay their water bill, after which they will receive our Water Support Scheme that discounts bills by 50%. Over 20,000 customers are already benefiting from our Water Support Scheme which is much higher than our target of 12,960. This is helping households manage during this difficult time by making bills more affordable while maintaining cash flow into the business, albeit at a lower level than normal.

We have also worked with MOSL, the retail market regulator, to manage the financial impact on retailers

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Group Strategic Report (Continued)

Sumisho Osaka Gas Water UK Group (SOGWUK) Risks

The principal risks and uncertainties facing the Group include;

- Cyber Attacks causing interference with operational controls or loss of personal data, mitigated through multiple layer security, controls and employee awareness training.
- 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 the company 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.
- Cash Collection – increased risk of bad debt driven by poor cash collection as household customers suffer financial hardship in a Covid driven recession 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 and cash collection procedures.
- Failure of the billing systems across SESW and SESWS particularly with the transition to the new billing system, mitigated through a current stable billing system supported by an experienced system provider with detailed controls for any changes to system or environment, including transition to new billing system, full disaster recovery arrangements in place and adequate liquidity for temporary loss of billing capability.
- Operational risks across the Group particularly within the operational area of SESW and SES Home Services employs gas and plumbing engineers who work closely with gas on a regular basis, mitigated by strong health and safety protocol and training.

Other risks that are closely monitored include;

- Investment risk - The key factor for the 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.
- Interest rate and liquidity risks - The Group adopts a policy of ensuring the majority of its exposure to interest rate changes on borrowings is on a fixed rate basis. The majority of the interest rates risks are associated with SESW and its index linked bond. SESW has controlled 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 use of borrowing facilities with the Royal Bank of Scotland. As at 31st March 2021 SESW has a £50 million five-year revolving credit facility of which £6m remains unutilised. Other Group companies manage their own liquidity risk through overdraft facilities and are supported by the parent entity with loans if necessary, provided at a market rate.
- Currency risks - The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate 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 21 for details

Financial Performance

The financial performance of the Group declined this year with a reduction seen in the retail non-household market. Group Revenue for the year ended 31 March 2021 was £110.7m (2020: £124.8m) a decrease of 11.3%. Operating costs decreased to £103.7m (2020: £106.4m) with operating profit decreasing by 52.6% to £9.2m (2020: £19.4m).

Interest Charges decreased by 24.7% to £7.3m (2020: £9.7m). The decrease in interest is partly driven by the decrease in indexation of £100m bond as a result of interest rates falling in the period.

Group Strategic Report (Continued)

Group profit before taxation was £2.6m (2020: £10.4m) and Profit After tax reduced to £2.2m (2020: £4.4m). In March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted in May 2021 following the third reading of the Finance Bill 2021, since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. The maximum impact on deferred tax balances of the rate increase is estimated to be £13.2m.

Environmental Improvements

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

The Group has done some great work this year becoming the only water company to currently hold The Wildlife Trusts' Biodiversity Benchmark (at our Elmer Treatment Works), demonstrating our commitment to making our sites more attractive to plants and animals and the ability for operational activity to work alongside biodiversity.

As well as continuing with the trial of electric fleet vehicles, we have taken another step forward with our company car scheme which now sees all qualifying employees provided with electric vehicles or plug-in hybrids when they either join the scheme for the first time or when their vehicle is replaced.

Helping to guide our long-term environmental strategy is our Environmental Scrutiny Panel (ESP) which we formed in April last year and is a group of experienced and passionate environmental champions who want to see us put environmental sustainability at the heart of our decision-making.

Capital Investment

Year ending March 21 was the first year of the new regulatory period, the majority of the capital investment happens within SESW, £27.6 million was invested in new and replacement plant (2020: £36.2 million). SESW have continued to invest in the ongoing replacement of the pipes in their distribution network, investing £2.8 million this year to provide targeted replacement based on their age, condition and performance. Other investment of £2.3 million continued across the network, primarily on the improvement of resilience mains to ensure water can be efficiently moved around their supply area and also £0.8 million in pipes to supply new developments. The remaining £20.6 million was spent in replacing equipment at SESW's treatment works, pumping stations, service reservoirs and other operational sites (£11.4 million), investment in the ongoing metering programme (£2.1 million), and investment in IT, including replacing SESW's billing system, vehicles, laboratory and office equipment (£7.1 million). The £11.4m Capital investment in SESW's operational sites includes the ongoing work on upgrading Elmer Water Treatment Works (£3.6 million).

Net Debt

Net term debt for the Group is £268.6m, an increase of £15.1m (2020: £253.5m). The increase represents, £2.8m RPI indexation on the indexed linked bond, and incremental utilisation of RCF loan of £13.0m.

Cash and liquid resources increased by £0.4m in the year to £34.7m (2020: £34.3m)

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 82% at 31 March 2021 which is within the 95% covenant. Interest cover ratio was 1.4 which is within the Group's permitted range of greater than 1.1:1.0.

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Group Strategic Report (Continued)

Dividends

During the year the Group paid dividends to its parent company Summit Water Limited (SWL) and Osaka Gas UK Limited of £3.5 million (2020: £3.5million).

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 Group

Stakeholder Group	How we engage	Impact of engagement
Customers	• Dedicated 'Voice of the Customer' programme which includes a range of activity to better inform the decisions and improvements made • Online 'Talk on Water' community • Education programme • Attendance at community events • Independent Customer Scrutiny Panel	SESW Business Plan targets reflect customer priorities including: • 15% leakage reduction • 7.3% reduction in consumption • 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 Call centres for SESW and SESWS will continue to be based in the local area. Significant investment in digital capability to better serve customers across both SESW and SESWS.
Employees	• Annual employee engagement survey • Roundtables involving all employees, the directors and CEO • Dedicated Board member responsible for employee engagement • Senior leader visibility and accessibility Staff suggestion scheme • Structured development and appraisal programme	Investors in People silver accreditation. Performance management system and skills strategy in place. Industrial cadets programme to attract young people to the Company. 'Live local work local' initiative. Employee volunteering scheme. Constructive negotiation through the Joint Negotiation and Consultative Committee. (JNCC) to secure a two-year pay deal. More flexible working practices going forwards.
Communities	• Membership of local business forums • Working with organisations that help vulnerable customers • Supporting worthy local causes with volunteering time and financial donations • Education Programme	More than £27,000 of community grants provided through the Community Foundation of Surrey. Extending the education programme to reach more schools, young people, business and community groups. Moved people living in housing association properties onto direct billing to provide a discount through the Water Support Scheme.

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Group Strategic Report (Continued)

		Provided payment holidays and automatic enrolment onto the Water Support Scheme to those affected by the COVID-19 pandemic.
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. Updated dividend and executive pay policies. Lowered bills by more than 15% and committed to supporting 25,000 people with our Water Support Scheme. Pledged to make £9 million of efficiency savings between 2020 and 2025. Leading the industry's research and innovation programme to reduce leakage. Signed up to the Social Mobility Pledge. Participation in Ofwat's innovation competitions. For SESWS – ensuring compliance with MOSL the retail market operator
Local Authorities	• Meetings with chief executives • Supporting local economic prosperity initiatives • Participation in local resilience forums	Planned for a 50% increase in the number of people living in our area by 2080. Investing £11 million to deliver our softening operations and committed to keeping average hardness levels at no more than 80mg of calcium per litre per fortnight. Delaying some of our mains laying activity to minimise further disruption during the COVID-19 recovery.
Environmental organisations	• Involvement in local catchment partnerships • One-to-one meetings • Independent Environmental Scrutiny Panel	Specific targets in our Business Plan to: • Not cause pollution • Increase biodiversity at our sites • Reduce abstraction from two sources during low flows • Reduce our carbon emissions
Suppliers	• Dedicated relationships depending on the scope and nature of the arrangement • Our procurement team and supplier forums • Annual performance reviews for business-critical suppliers	Productive and stable working relationships. Agile decision-making as a small company. Participation in joint industry award entries. Testimonials and PR.

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

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K Kageyama
Director
Company Registration No: 08369318
16 December 2021

Sumisho Osaka Gas Water UK Limited

Directors' Report

The directors present their directors' report and the audited consolidated financial statements for the year ended 31 March 2021.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

M Kobayashi
K Oida
E Natsuaki (appointed 1 April 2020)
K Kageyama (appointed 1 April 2021)
S Kitajima (resigned 1 April 2021)

Results and dividends

The results for the year are set out on page 22.

Ordinary dividends were paid amounting to £3,500,000 during the year (2020: £3,500,000). The directors do not recommend a payment of further dividend.

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 Group and controlling shareholders, or to which the Group is a party and in which directors of the Group are, or were, materially interested.

Directors' indemnities

There are contractual entitlements in place for the directors of the Group to claim indemnification by the Group 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 Group to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the Group.

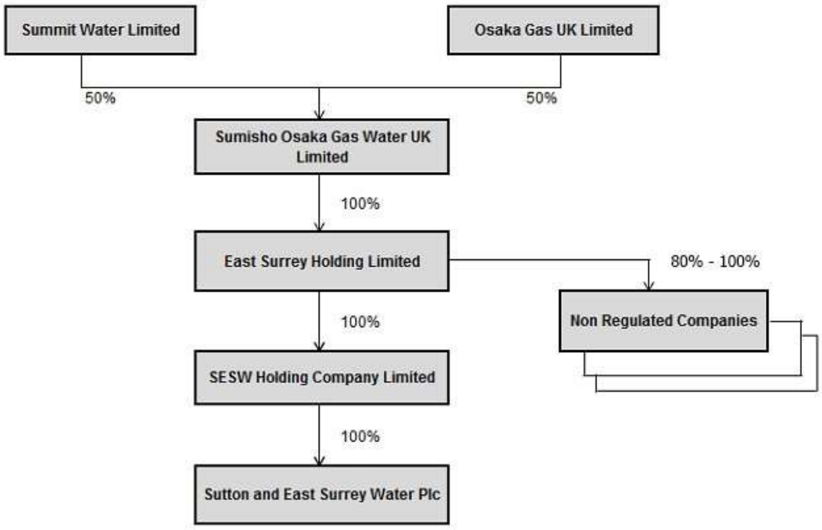
The Group also maintains an appropriate level of directors' and officers' liability insurance.

Ownership of the company

Sumisho Osaka Gas Water UK Limited 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.

Sumisho Osaka Gas Water UK Limited

Directors’ Report (Continued)



Group overview

The primary activities within the Group is to both supply water to domestic customers through 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 Sutton and East Surrey Water Services Limited (trading as SES Business Water). The other smaller subsidiaries include Advanced Minerals whom source and process materials and minerals and Allmat a locally based builders merchant in Kenley.

Business review and future prospects

The Group’s turnover for the year ended 31 March 2021 decreased to £110,728,000 (2020: £124,820,000). The Group profit before taxation was £2,636,000 (2020: £10,362,000).

During the year, the company paid dividends to its shareholders, Summit Water Limited (SWL) and Osaka Gas UK Limited (OGUK), of £3,500,000 (2020: £3,500,000).

SESW Turnover decreased to £65,819,000 (2020: £69,822,000), Operating costs increased to £56,909,000 (2020: £49,511,000) driven by increased bad debt provision costs due to lower cash collections seen as a result of the COVID-19 pandemic, increase power and chemical costs to treat a higher demand of water seen in household customers as a result of good weather and lockdowns, and increased costs on network maintenance activity as well as the Company investing in new capabilities to deliver on commitments made to customers. As a consequence, operating profit decreased to £11,112,000 (2020: £20,430,000).

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

SESWS Turnover decreased to £46,705,257 (2020: £57,156,196) mainly due to the lower demand and shut down of its customers throughout the lockdown period within Business Water. Operating costs decreased to £47,145,497 (2020: £53,268,897) due to reduced trading volumes as a result of COVID-19.

For SESWS, the second largest entity in the group, we are actively increasing the volume of customers within the retail market and also looking at collaborations in which we can develop the Home Services insurance market. SESWS’s Business Water division Turnover decreased to £43,041,684 (2020: £52,955,526), operating costs before interest increased to £3,430,618 (2020: £3,370,872). The decrease in turnover was driven by reduced consumption due to COVID-19, operating costs needed to be increased to meet the increased needs of the customers affected by

Directors' Report (Continued)

COVID-19 and interest costs increasing to service the increased borrowing requirements brought about due to COVID-19.

SESWS's HS division Turnover decreased to £3,663,568 (2020: £4,200,671), operating costs decreased to £1,416,199 (2020: £1,606,636). The decrease in turnover was due to reduced demand in the early days of Covid-19 but this was offset by better control of costs with the help of the government furlough scheme. As a consequence, the operating profit reduced to £245,808 (2020: £379,744).

Research and development

While the Group does not have a specific research and development function, SES Water has continued with both its own innovation developments and has significantly contributed to the national water industry innovation agenda. The Company's innovation manager has coordinated the national leakage innovation heatmap and directly assisted with the national innovation strategy. In recognition of SES Water's expertise in key areas, they have been specifically invited to join four applications from other water companies for the water breakthrough challenge, looking at open data, a national leakage research centre, smart metering and smart operational systems.

Future developments and financial risks

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 £46,820 (2020: £38,223). This included a £27,000 donation to the Community Foundation for Surrey (CFS). There were no political donations (2020: £nil).

Greenhouse gas emissions

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 (market based reporting) in 2021 were 2,500 tonnes of carbon dioxide equivalent (tCO2e) (2020: 3,373 tCO2e), a 24% reduction on the previous year. This equates to operational emissions of 40 kgCO2e per million litres of treated water (2020: 56 kgCO2e). Using 2019/20 emissions factors, operational emissions for 2020/21 would be equivalent to 42 kgCO2e per million litres of treated water:

- Gas consumption: 1,210,127 kWh and 223 tCO2e (1,200,254 kWh and 245 tCO2e)
- Consumption of travel fuels: 3,703,921 kWh and 397 tCO2e (4,499,426 kWh and 482 tCO2e)
- Purchase of electricity by the Company for its own use, including for transport: 55,409,645 kWh and 0 tCO2e (51,800,997 kWh and 18 tCO2e)

Note: All conversions are using the 2020 and 2019 greenhouse gas reporting figures on a net calorific value basis. The data for consumption of transport fuels covers vehicles for which the Group 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. The Group is exploring options to digitise the expenses process to make this information more accessible.

2020/21 we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. We have extended the previous year's trial of sub-metering equipment, allowing us to monitor efficiencies of the highest energy-consuming pumps on our main sites on an ongoing basis. The Group has extended its electric vehicle charging infrastructure to now include 42 charging points across 100% of our operational treatment works and head office. The Group has solar panels installed at five treatment works and at its Redhill head office. In 2020/21 these generated 266,045 kWh (2020: 270,898 kWh).

This year, our first Air Source Heat Pump was installed to provide continuous heating to the gas storage and dosing room at one of our treatment works. This is the first step in a move to replace gas heating systems with renewable heating across all of our sites. In addition, our GHG emissions figure was impacted by COVID-19 due to increased demand for water and decreased vehicle movements during lockdowns.

Directors’ Report (Continued)

The Group is part of the Water UK commitment for water companies in England to be net zero carbon by 2030. The water industry’s route map to net zero carbon was published in November 2020 and this will be followed by our own route map, due for publication later in 2021.

Payment to suppliers

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 were approximately 15 days (2020: 28 days) due to timing of the final supplier payment run ahead of 31 March 2021 compared to prior year.

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.

Employment of disabled persons

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

Going Concern

The going concern basis has been adopted for preparing the financial statements.

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 on pages 1 to 11. The financial position of the Group is set out on page 22. Note 21 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 concern 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 this Annual Report. The directors’ conclusions on the going concern basis include the consideration of amounts available under the Group’s committed revolving credit facility of £50m using mitigating actions as needed should any plausible downsides occur.

No repayments of SESW’s long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non-household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of COVID-19 on customers’ ability to pay, were assessed against the long-dated bond financial covenants. The Group complied with such covenants under base case and downside scenarios, using a number of mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

Post balance sheet events

As disclosed in Note 8 of the Financial Statements, in March 2021 the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. Had the new rate been applied as at 31 March 2021 the maximum impact on deferred tax balances of the rate increase is estimated to be £13.2 million.

On 20 July 2021, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY 20-21.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent Auditors

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

Statement of directors' responsibilities in respect of the financial statements and annual report

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and the parent 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 international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the parent 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.

Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

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

………………..
Director

K Kageyama
Director
Company Registration No: 08369318
16 December 2021

Vintners' Place, 68 Upper Thames Street
London
EC4V 3BJ
United Kingdom

Independent auditors' report to the members of Sumisho Osaka Gas Water UK Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Sumisho Osaka Gas Water UK 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 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements 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, comprising 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 consolidated and company balance sheets as at 31 March 2021; consolidated statement of profit and loss and other comprehensive income, the consolidated cash flow statement, the consolidated and the company statements of changes in equity 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.

Independent auditors' report to the members of Sumisho Osaka Gas Water UK Limited (Continued)

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 2021 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 Statement of directors' responsibilities, 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.

Independent auditors' report to the members of Sumisho Osaka Gas Water UK Limited (Continued)

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:

- Enquiries 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 journal combinations of account codes where credits have gone 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 certain key unusual words;
- 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.

Sumisho Osaka Gas Water UK Limited

Independent auditors’ report to the members of Sumisho Osaka Gas Water UK Limited (Continued)

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

………………..
Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 December 2021

Sumisho Osaka Gas Water UK Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March

	Note	2021 £000	2020 £000
Revenue	2	110,728	124,820
Operating cost	3	(103,717)	(106,445)
Other operating income	4	2,202	1,026
Operating profit		9,213	19,401
Finance income	7	717	616
Finance expenses	7	(7,294)	(9,655)
Profit before tax		2,636	10,362
Taxation	8	(405)	(5,998)
Profit for the year		2,231	4,364
Other comprehensive (expense) / income			
Actuarial (losses) / gains on pension scheme		(7,184)	10,379
Movement on deferred tax relating to pension asset		1,365	(1,999)
Total other comprehensive (expense)/income for the year		(5,819)	8,380
Total comprehensive (expense)/income for the year		(3,588)	12,744
Total comprehensive (expense)/income attributable to:			
Equity holders of the parent		(3,621)	12,623
Non-controlling interest		33	121
Profit for the year attributable to:			
Equity holders of the parent		2,198	4,243
Non-controlling interest		33	121

The notes on pages 27 to 64 form part of the financial statements.

Sumisho Osaka Gas Water UK Limited

Consolidated Balance Sheet as at 31 March

	Note	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	9	349,043	336,403
Intangible assets	10	121,373	118,193
Investment Properties	11	2,697	2,724
Pension Scheme Asset	19	20,476	27,356
		493,589	484,676
Current assets			
Inventories	14	1,376	1,573
Trade and other receivables	15	42,947	35,281
Corporation tax receivable		1,491	444
Cash and cash equivalents	16	34,699	34,268
		80,513	71,566
Total assets		**574,102**	**556,242**
Current liabilities			
Trade and other payables	18	59,950	49,489
		59,950	49,489
Non-current liabilities			
Interest-bearing loans and borrowings	17	268,576	253,483
Unfunded pension obligation	19	1,006	994
Deferred tax liabilities	13	41,909	42,971
Provisions for liabilities		444	-
		311,935	297,448
Total liabilities		**371,885**	**346,937**
Net assets		**202,217**	**209,305**
Equity attributable to equity holders of the parent			
Share capital	20	164,550	164,550
Translation Reserve		(1)	(1)
Retained earnings		37,020	44,141
		201,569	208,690
Non-controlling interest		648	615
Total equity		**202,217**	**209,305**

The notes on pages 27 to 64 form part of the financial statements.
These financial statements on pages 22 to 64 were approved by the Board of Directors on 16 December 2021 and signed on its behalf by:

……………………
K Kageyama
Director
Company Registration No: 08369318

Sumisho Osaka Gas Water UK Limited

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Translation reserve	Total parent equity	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2019	164,550	35,018	(1)	199,567	596	200,163
Total comprehensive income for the period						
Profit or loss	-	4,243	-	4,243	121	4,364
Actuarial gains on pension scheme	-	10,379	-	10,379	-	10,379
Movement on deferred tax relating to pension asset	-	(1,999)	-	(1,999)	-	(1,999)
Total comprehensive income for the year	-	12,623	-	12,623	121	12,744
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	(102)	(3,602)
Total transactions with Owners	-	(3,500)	-	(3,500)	(102)	(3,602)
As at 31 March 2020	**164,550**	**44,141**	**(1)**	**208,690**	**615**	**209,305**
Total comprehensive expense for the period						
Profit or loss	-	2,198	-	2,198	33	2,231
Actuarial losses on pension scheme	-	(7,184)	-	(7,184)	-	(7,184)
Movement on deferred tax relating to pension asset	-	1,365	-	1,365	-	1,365
Total comprehensive expense for the year	-	(3,621)	-	(3,621)	33	(3,588)
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	-	(3,500)
Total transactions with Owners	-	(3,500)	-	(3,500)	-	(3,500)
As at 31 March 2021	**164,550**	**37,020**	**(1)**	**201,569**	**648**	**202,217**

This notes on pages 27 to 64 form part of the financial statements.

Sumisho Osaka Gas Water UK Limited

Consolidated Cash Flow Statement
for the year ended 31 March

	Notes	2021 £000	2020 £000
Cash flow from operating activities			
Profit for the year		2,231	4,364
Adjustments for			
Depreciation of tangible fixed assets	9	11,441	10,183
Amortisation of intangible fixed assets	10	648	1,213
Depreciation of Investment properties	11	27	28
IFRS 16 Adjustments		(1,675)	(91)
Amortisation of Bond costs	17	435	434
Net interest receivable and similar charges	7	(717)	(616)
Net interest payable and similar charges	7	6,859	9,655
Profit on sale of assets on disposal of PPE		(527)	(133)
Profit on sale of assets on disposal of investment property		-	(893)
Provision Movements		444	-
Taxation	8	405	5,998
		19,571	30,142
Increase in trade and other debtors		(7,604)	(3,032)
Decrease/(Increase) in stocks		196	(231)
Increase in trade and other creditors		8,097	8,145
(Decrease) in provisions and employee benefits		(292)	(454)
		397	4,428
Interest Paid		(6,095)	(6,736)
Tax Paid		(1,151)	(1,967)
Net cash generated from operating activities		12,722	25,867
Cash flows from investing operating activities			
Proceeds from disposal of fixed assets		596	1,028
Proceeds from disposal of investment property		-	828
Proceeds from Insurance claims		1,675	-
Interest received		717	280
Acquisition of tangible fixed assets		(24,149)	(32,821)
Acquisition of intangible fixed assets		(3,828)	(3,334)
Acquisition of investment properties		-	(32)
Net cash generated used in investing activities		(24,989)	(34,051)
Cash flows from financing activities			
Proceeds from loans		13,274	17,550
Payment of obligation under finance leases		739	-
Dividends paid to minority interest		-	(102)
Dividends paid		(3,500)	(3,500)
Net cash generated from financing activities		10,513	13,948
Net (decrease)/increase in cash and cash equivalents		(1,754)	5,764
Cash and cash equivalents at 1 April		29,910	24,146
Cash and cash equivalents at 31 March		28,156	29,910

Sumisho Osaka Gas Water UK Limited

Consolidated Cash Flow Statement (continued)
for the year ended 31 March

Relating to:

	2021 £000	2020 £000
Cash and cash equivalents	34,699	34,268
Overdraft (included in creditors less than one year)	(6,543)	(4,358)
Cash and cash equivalents at 31 March	28,156	29,910

The notes on pages 27 to 64 form part of the financial statements

Notes to the Financial Statements

1 Accounting policies

1.1 Basis of accounting

Sumisho Osaka Gas Water UK Limited (the "Company") is a company incorporated and domiciled in UK. The Company is a private company limited by shares. The address of the registered office is Vintners' Place, 68 Upper Thames Street, London, EC4V 3BJ.

As per IFRS 1, the Group, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements for the subsidiary after adjustment for consolidation adjustments.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS. The parent company financial statements present information about the Company as a separate entity and not about its 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 Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 65 - 72.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group 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 25.

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

1.2 Adopted accounting standards not yet applied

There are no amendments to accounting standards that are effective for the year ended 31 March 2021 that have a material impact on the Group's financial statements.

1.3 Going concern

The going concern basis has been adopted for preparing the financial statements. The directors have considered the financial position of the Group and have concluded that they will meet their 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 the financial statements.

1.4 Basis of consolidation

Subsidiaries

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.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1 Accounting policies (continued)

1.5 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 Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company'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 Company'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.

1.6 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.

1.7 Property, plant and equipment

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

Tangible fixed assets 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 Company. The Company considers a substantial period of time for the construction of an asset in the water industry to be five years.

Tangible fixed assets 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 tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Infrastructure assets – mains and fresh water reservoirs

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

1 Accounting policies (continued)

1.7 Property, plant and equipment (continued)

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 requires all repairs and maintenance to be charged to the profit and loss account. 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 considered to be maintenance 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 period are disposed of from the fixed asset records.

Depreciation is charged to the profit and loss account 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:

	Years
Infrastructure assets	
Collection reservoirs	140 - 150
Water mains	100
Non- infrastructure assets	
Buildings, boreholes and service reservoirs	5 - 100
Plant and machinery	3 – 100
Motor vehicles and sundry plant	3 - 50

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

1.8 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.

1.9 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised in the profit and loss account 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 and loss account as an expense as incurred.

1 Accounting policies (continued)

1.9 Intangible assets and goodwill (continued)

Amortisation

Amortisation is charged to the income statement 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:

	Years
Contracts	7-15
Software	3-10

1.10 Investment Properties

Investment properties, which are held to earn rentals and/or for capital appreciation, are 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:

	Years
Investment Properties	46-221

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. 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.

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 Company 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.

1.12 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.

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.

1 Accounting policies (continued)

1.12 Impairment excluding inventories and deferred tax assets (continued)

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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Management's approach is to treat the entire ESH business as one CGU as that is the level at which SOGWUK management assess and monitor goodwill. This is primarily in light of i) how the ESH business was acquired as one large group (noting all the business was part of SES Water and the split of the retail licence to SESWS only happened a number of years later following UK sector restructuring) and ii) information that gets presented to the SOGWUK board on performance is not broken down into individual businesses of the ESH group.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee benefits

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

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

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.

1 Accounting policies (continued)

1.13 Employee benefits (continued)

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 and loss account.

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.

1.14 Provisions

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.

During the year Advance Minerals Limited and Allmat (East Surrey Limited) recognised dilapidation provisions of £300,080 and £144,406 respectively to acknowledge the liability to restore leased premises to their original condition at the expiry of the lease.

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.

1.15 Turnover and revenue recognition

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' 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 25).

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1 Accounting policies (continued)

1.15 Turnover and revenue recognition (continued)

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 25).

The Group has applied this framework to its income 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 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 25). 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 25).

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.

1 Accounting policies (continued)

1.15 Turnover and revenue recognition (continued)

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.

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.

1 Accounting policies (continued)

1.15 Turnover and revenue recognition (continued)

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 debt and transfer to the other company. The commission is paid based on the amount of debt 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 customers 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 a 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.

1.16 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.

1.17 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

1.18 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 and loss account. 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.

1 Accounting policies (continued)

1.19 Leases

Leases – as lessee
The Group has adopted IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16.

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right- of-use asset and a corresponding lease liability for all leasing arrangements, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liability – Initial measurement
The lease liability is initially measured at the present value of the lease payments, excluding payments made at or before the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:
- Fixed lease payments (including in-substance fixed payments); and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable lease payments are not included in the determination of the lease liability and are charged to the profit and loss in the period that they arise. (applicable for car lease rentals).

Lease liability – Subsequent measurement
The lease liability is subsequently measured at amortised cost.
The lease liability is remeasured, with a corresponding adjustment to the related right-of-use asset, whenever:
- The lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets
The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for:
- lease payments made at or before the commencement day, less any lease incentives received;
- any initial direct costs;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group depreciates the right-of-use assets on a straight-line basis from the lease 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 Group also assesses the right-of-use asset for impairment when such indicators exist.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1 Accounting policies (continued)

1.20 Expenses

Operating lease payments (policy applied up to 1 April 2019)

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

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. Financing income comprise 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.

1.21 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of goodwill is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.22 Dividends

Dividends are only 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.

1.23 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 and loss account 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 consider the nature of the transaction:

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

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

2 Revenue

Revenue for the group can be identified as per below:

	2021 £000	2020 £000
Supply of water	97,545	109,688
Non-Water income	11,027	13,067
Non-appointed revenue	2,156	2,065
Total	**110,728**	**124,820**

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

3 Expenses and auditors' remuneration

	2021 £000	2020 £000
Wages and salaries	15,111	14,577
Social security costs	1,821	1,669
Other pension costs	2,074	1,683
Power	7,401	5,712
Raw material and consumables	45,699	57,602
Depreciation of owned assets	10,980	10,038
Depreciation of right-of-use assets	461	145
Depreciation of investment properties	27	28
Amortisation of intangibles	648	1,213
Amounts written off during the year in respect of bad debt provision	76	324
Bad Debt provided for during the year	2,968	2,771
Fees payable to the group's auditors and its associates:		
- For the audit of parent company and consolidated financial statements	54	60
- For the audit of the financial statements of the company's subsidiaries	449	487
- Audit of regulatory financial statements	48	75
- Other assurance services	23	39
Other operating charges	15,477	9,622
Management support and Service Agreement	400	400
Total operating costs	103,717	106,445

Wages and salaries disclosed above are shown net of capitalised costs. During the year £2,125,580 (2020: £2,226,155) of employment costs were capitalised as fixed assets.

Other assurance services fees relate principally to assurance work carried out on the implementation of the new billing system ahead of go live in 2021. No other fees were paid to PwC.

4 Other Operating Income

	2021 £000	2020 £000
Proceeds from insurance claim	1,675	-
Profit on sale of fixed assets	527	1,026
Other operating income	**2,202**	**1,026**

During the year, SESW received £1,674,504 (2020: £nil) insurance proceeds, relating to damage at one of its water treatment facilities which occurred in 2017.

5 Remuneration of directors

No remuneration was paid to any other directors directly in respect of their services to the Company in the current financial year. For the directors holding office during the year, their duties to the Company are considered to be incidental to their other duties within Sumitomo Corporation and therefore no allocation has been made.

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2020: nil).

No pension benefits are accruing to any directors (2020: nil).

6 Employees

The average monthly number of persons employed by the Group (including directors) during the year were as follows:	1 April 2020 - 31 March 2021 Number	1 April 2019 - 31 March 2020 Number
Water supply	324	314
Other activities	112	112
	436	426

The aggregate payroll costs of these persons were as follows:

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Wages and salaries	15,111	14,577
Social security costs	1,821	1,669
Other pensions costs	2,074	1,683
	19,006	17,929

Notes to the Financial Statements

7 Finance income and expense

Recognised in profit or loss

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Finance income		
Expected return on pension scheme assets	2,772	2,821
Interest on post retirement liabilities	(2,164)	(2,485)
Net return on pension scheme asset	608	336
Interest receivable and similar income	109	280
Total finance income	717	616

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Finance expense		
Interest payable:		
Bond - interest	4,700	4,832
- indexation	2,756	4,575
- Bond amortisation cost*	(1,557)	(1,558)
Total cost of bond	5,899	7,849
Other loans	1,395	1,806
Total interest payable and similar charges	7,294	9,655

*The Secured Index-Linked Bond 2027-2031 was recognised at acquisition date fair value less attributable transaction costs. Subsequent to initial recognition, the interest-bearing borrowings are stated at amortised cost using the effective interest method.

8 Taxation

Recognised in the income statement

UK corporation tax	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Current tax on income for the period	15	879
Adjustments in respect of prior period	87	(3)
Group current tax charge	**102**	**876**
Deferred tax		
Origination of timing differences	261	929
Adjustments to tax charge in respect of previous period (deferred tax)	(13)	(52)
Remeasurement of deferred tax – change in UK tax rate	-	4,224
Pension scheme	55	21
Total deferred tax	303	**5,122**
Tax charge on profit	**405**	**5,998**

Factors affecting future tax rate

The UK corporation tax rate for the year ended 31 March 2021 was 19% (2020: 19%).

Accordingly, this rate is applicable in the measurements of the deferred tax assets and liabilities at 31 March 2021. Deferred tax has been provided at 19% being the rate at which temporary differences are expected to reverse.

However in March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. The legislation was subsequently enacted in May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. The maximum impact on deferred tax balances of the rate increase is estimated to be £13,244,443.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

8 Taxation (continued)

Reconciliation of effective tax rate

Tax expense for the year is lower (2020: higher) than the tax expense that would have been incurred under the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £'000	2020 £'000
Profit for the year	2,231	4,364
Tax charge on profit	405	5,998
Profit excluding tax	**2,636**	**10,362**
Tax using the UK corporation tax rate of 19% (2020: 19%)	501	1,969
Effect of:		
Expenses not deductible for tax purposes	(393)	113
Remeasurement of deferred tax – change in UK tax rate	-	4,224
Differences between current and deferred tax rates (fixed assets)	-	39
Differences between current and deferred tax rates (pension)	-	(48)
Adjustments to tax charge in respect of previous period (current tax)	87	(3)
Adjustments to tax charge in respect of previous period (deferred tax)	(13)	(52)
Other Adjustments	(254)	(244)
Deferred Tax	(1)	-
Amounts not recognized	478	-
Total tax expense	**405**	**5,998**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

9 Property, plant and equipment

Group	Land	Collection reservoir	Building, boreholes & service reservoirs	Plant& machinery	Water mains	Motor vehicles & sundry plant	Under construct -ion	Right of use assets	Total
	£000	£000	£000	£000	£000	£000	£000	£'000	£000
Cost									
At 1 April 2019	5,088	2,533	120,009	113,510	235,178	9,899	33,721	-	519,938
Additions	-	-	-	261	-	950	31,610	-	32,821
Disposals	-	-	(1)	(230)	-	(829)	-	-	(1,060)
Transfers	-	-	9,842	17,585	4,190	-	(31,617)	-	-
At 31 March 2020	**5,088**	**2,533**	**129,850**	**131,126**	**239,368**	**10,020**	**33,714**	**-**	**551,699**
Additions	-	-	-	33	-	128	22,943	1,044	24,148
Disposals	-	-	(40)	(6)	-	(452)	-	(178)	(676)
Transfers	-	-	1,699	6,591	16,015	2,472	(27,206)	429	-
At 31 March 2021	**5,088**	**2,533**	**131,509**	**137,744**	**255,383**	**12,168**	**29,451**	**1,295**	**575,171**
Accumulated Depreciation									
At 1 April 2019	-	402	34,640	70,940	92,546	7,510	-	-	206,038
Charge for the year	-	20	2,437	5,149	1,682	895	-	-	10,183
Disposals	-	-	(1)	(227)	-	(697)	-	-	(925)
At 31 March 2020	**-**	**422**	**37,076**	**75,862**	**94,228**	**7,708**	**-**	**-**	**215,296**
Charge for the year	-	20	2,574	5,014	1,852	1,520	-	461	11,441
Disposals	-	-	(22)	(6)	-	(444)	-	(137)	(609)
At 31 March 2021	**-**	**442**	**39,628**	**80,870**	**96,080**	**8,784**	**-**	**324**	**226,128**
Net book value									
At 31 March 2020	5,088	2,111	92,774	55,264	145,140	2,312	33,714	-	336,403
At 31 March 2021	**5,088**	**2,091**	**91,881**	**56,874**	**159,303**	**3,384**	**29,451**	**971**	**349,043**

Land comprises of freehold land at £4,793,000 (2020: £4,793,000) and long leasehold land at £5,000 (2020: £5,000)

Notes to the Financial Statements

10 Intangible assets

	Software £000	Contracts* £000	Purchased goodwill £000	Work in Progress £000	Total £000
Cost					
Balance at 1 April 2019	6,231	7,376	112,546	384	126,537
Additions during the period	138	-	-	3,196	3,334
Transferred from under construction	210	-	-	(210)	-
Balance at 31 March 2020	**6,579**	**7,376**	**112,546**	**3,370**	**129,871**
Additions during the period	424	-	-	3,404	3,828
Transferred from under construction	613	-	-	(613)	-
Balance at 31 March 2021	**7,616**	**7,376**	**112,546**	**6,161**	**133,699**
Amortisation					
Balance at 1 April 2019	5,118	5,347	-	-	10,465
Charge for the year	463	750	-	-	1,213
At 31 March 2020	**5,581**	**6,097**	**-**	**-**	**11,678**
Balance at 1 April 2020	5,581	6,097	-	-	11,678
Charge for the year	485	163	-	-	648
At 31 March 2021	**6,066**	**6,260**	**-**	**-**	**12,326**
Net book values					
At 31 March 2020	998	1,279	112,546	3,370	118,193
At 31 March 2021	**1,550**	**1,116**	**112,546**	**6,161**	**121,373**

* Contracts relates to future income from operational contracts in existence at the time of acquisition.

Amortisation and impairment charge

The amortisation charge is recognised in the following line items in the income statement. No impairment or reversals of previous impairments was charged during the year:

	1 April 2020 – 31 March 2021 £000	1 April 2019 – 31 March 2020 £000
Operating costs	648	1,213

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

10 Intangible assets (continued)

Impairment test for Goodwill

In 2013, Sumisho Osaka Gas Water UK Limited acquired the ESH Group at a consideration higher than the fair value of the net assets acquired. As a result, goodwill was booked for the difference between the consideration paid and the fair value of net assets acquired.

This goodwill is assessed for impairment on a yearly basis in line with the group policy. Goodwill itself does not generate cashflows and so this has to be allocated to the Cash Generating Unit (CGU) which derives benefit from the goodwill for impairment test purposes. Management's approach is to treat the entire ESH Group business as one CGU as that is the level at which the SOGWUK Board of Directors assess and monitor goodwill and business performance.

Goodwill recognised for the ESH Group CGU is as follows:

	Goodwill	
	2021	2020
	£000	£000
ESH Group Cash Generating Unit	**112,546**	112,546

The recoverable amount of the CGU has been calculated using the fair value less disposal cost (FVLDC) method. The fair value of the CGU was determined by using a discounted cashflow calculation based on the most recent financial projections available for the business.

The regulated water business of SESW is by far the biggest business making up the ESH Group. As customary practice for the UK water industry, Management has used a forecast period of twenty-five years, in line with the notice period a water company has to be given before it can stop providing the regulated service. An exit multiple is then applied to the regulatory capital value at that time to determine the terminal value. Both elements are then discounted based on a pre-tax nominal rate to derive the estimated fair value, from which an estimated disposal cost is deducted to derive fair value less disposal cost.

As a regulated water company, the revenues and costs are significantly influenced by the regulatory settlement for each AMP period. Key assumptions for AMP 7 are consistent with Ofwat's PR19 Final determination.

Cash flows beyond the end of the current AMP period are extrapolated using an assumed growth rate in the Group's regulatory capital base. The key assumptions of this calculation for SESW are shown below:

Key assumptions	2021	2020
Exit RCV multiples	1.15	1.15
Discount Rate	4.9%	4.9%
Inflation RPI	3%	3%
Inflation CPI	2%	2%

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the nominal WACC detailed in the Ofwat PR19 Final Determination.

Inflation assumptions are based on forecasts provided by Oxford economics which the Directors believe to be a reliable third-party source who provide economic forecasts. The assumptions are consistent with the Bank of England's long-term CPI inflation target of 2% and the historical 1% differential between RPI and CPI.

Overall, the total fair value less disposal cost for the ESH Group CGU exceeded its carrying amount by approximately £59m.

An increase in discount rates by more than 0.6%, or missing EBITDA forecasts by more than 10%, or a combination of an increase in discount rates by more than 0.35% and missing EBIDTA forecasts by more than 5%, would reduce the recoverable amount below the carrying amount of the CGU.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

11. Investment Properties

	Investment properties £'000
Cost	
Balance at 1 April 2019	3,538
Additions during the year	32
Disposals	(710)
Balance at 31 March 2020	**2,860**
Additions during the year	-
Disposals	-
Balance at 31 March 2021	**2,860**
Accumulated Depreciation	
Balance at 1 April 2019	123
Charge for the year	28
Disposals	(15)
Balance at 31 March 2020	**136**
Balance at 1 April 2020	136
Charge for the year	27
Disposal	-
At 31 March 2021	**163**
Net book values	
At 31 March 2020	2,724
At 31 March 2021	**2,697**

Investment properties are stated at cost less depreciation. The cost of the properties is then amortised in equal instalments over the estimated useful economic lives.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

12 Investments in subsidiaries

The Company has the following investments in subsidiaries.

Subsidiary undertakings

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

The principal activities for all investments are as follows:

Name of Company	**Activity**	**Class of shares**	**Ownership**	
			2021	**2020**
Directly held:				
East Surrey Holdings Limited	Holding Company	Ordinary	100%	100%
Indirectly held:				
Sutton and East Surrey Water plc	Water supply	Ordinary	100%	100%
SESW Holding Company Limited	Holding Company	Ordinary	100%	100%
Surrey Downs Property Investment Limited	Property Investment	Ordinary	100%	100%
Surrey Downs Estates Limited	Property development	Ordinary	100%	100%
Allmat (East Surrey) Limited	Building supplies	Ordinary	100%	100%
Advanced Minerals Limited	Processes and sells minerals for the bathroom industry	Ordinary	80%	80%
The Cheam Group plc	Holding company	Ordinary	100%	100%
		Preference	79%	79%
Sutton and East Surrey Water Services Limited	Water retail principally with Home Services	Ordinary	100%	100%
The Sutton District Water plc	Dormant	Ordinary ‘A’	100%	100%
SES Home Services Limited	Dormant	Ordinary	100%	100%
SES Business Water Limited	Dormant	Ordinary	100%	100%
SES Water Limited	Dormant	Ordinary	100%	100%
The Calcite Factory B.V.	Minerals processing	Ordinary	80%	80%

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

13 Deferred tax liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

As at 31 March	Assets 2021 £000	2020 £000	Liabilities 2021 £000	2020 £000
Property, plant and equipment	-	21	38,210	38,021
Employee benefits (pension)	-	-	3,699	4,971
Balance carried forward	**-**	**21**	**41,909**	**42,992**

Movement in deferred tax during the year

	1 April 2020 £000	Recognised in income £000	Recognised in OCI £000	31 March 2021 £000
Property, plant and equipment	(38,000)	(210)	-	(38,210)
Employee benefits (pension)	(4,971)	(93)	1,365	(3,699)
	(42,971)	**(303)**	**1,365**	**(41,909)**

Movement in deferred tax during the prior year

	1 April 2019 £000	Recognised in income £000	Recognised in OCI £000	31 March 2020 £000
Property, plant and equipment	(33,231)	(4,769)	-	(38,000)
Other Timing difference	21	(21)	-	-
Employee benefits (pension)	(2,640)	(332)	(1,999)	(4,971)
	(35,850)	**(5,122)**	**(1,999)**	**(42,971)**

14 Inventories

As at 31 March	2021 £000	2020 £000
Raw materials and consumables	707	826
Work in progress	156	148
Finished goods for resale and others	513	599
	1,376	**1,573**

Notes to the Financial Statements

15 Trade and other receivables

As at 31 March

	2021 £000	2020 £000
Trade receivables	45,224	34,267
Bad debt provision	(10,709)	(7,817)
Other receivables	2,367	2,230
Prepayments and accrued income	6,065	6,601
	42,947	**35,281**

Movements in the expected credit losses provision were as follows:

	2021 £000	2020 £000
At 1 April	7,817	5,370
Charge for bad and doubtful debts	2,968	2,771
Amounts written off during year	(76)	(324)
At 31 March	**10,709**	**7,817**

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

	2021 £000	2020 £000
Not past due	11,862	10,275
Past due 0-30 days	6,758	5,180
Past due 31-120 days	3,946	3,331
More than 120 days	22,658	15,481
	45,224	**34,267**

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

Trade receivable	Aged less than 6 months £000	Aged between 6 and 12 months £000	Aged between 12 and 48 months £000	Aged greater than 48 months £000	Total £000
At 31 March 2021	962	1,531	5,040	3,176	10,709
At 31 March 2020	2,329	789	2,709	1,990	7,817

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

16 Cash at bank and cash equivalents

As at 31 March	2021 £000	2020 £000
Cash	34,699	34,268
Cash and cash equivalents	**34,699**	**34,268**

Within bank balances there is £5.7m (2020: £5.5m) of restricted cash relating to the secured index-linked bond.

17 Non-current liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 21.

Non-current liabilities

As at 31 March	2021 £000	2020 £000
Long-term loan	80,000	66,726
2.874% Secured Index-Linked Bond 2027-2031	187,718	186,519
3.25% Irredeemable debentures	50	50
5% Irredeemable debentures	52	52
Leases	756	136
	268,576	**253,483**

Changes in liabilities from financing activities

	3.25% Irredeemable debentures	5% Irredeemable debentures	Bond £100,000,00 2.874% (2027-2031)	Bond costs	Other loans	Finance and lease contract	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019	50	52	188,791	(5,290)	49,176	-	232,779
Changes from financing activities							
Indexation	-	-	4,575	-	-	-	4,575
Amortisation of bond cost	-	-	-	434	50	-	484
Other borrowings	-	-	-	-	17,500	-	17,500
IFRS 16 – lease liability	-	-	-	-	-	136	136
Amortisation of bond revaluation	-	-	(1,991)	-	-	-	(1,991)
Balance at 31 March 2020	50	52	191,375	(4,856)	66,726	136	253,483
Changes from financing activities							
Indexation	-	-	2,756	-	-	-	2,756
Amortisation of bond cost	-	-	-	435	-	-	435
Other borrowings	-	-	-	-	13,274	-	13,274
IFRS 16 – lease liability	-	-	-	-	-	620	620
Amortisation of bond revaluation	-	-	(1,992)	-	-	-	(1,992)
Balance at 31 March 2021	50	52	192,139	(4,421)	80,000	756	268,576

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

18 Trade and other payables

As at 31 March

	2021	**2020**
	£000	**£000**
Current		
Trade payables	7,359	7,752
Other trade payables	17,061	10,048
Overdraft	6,543	4,358
Contract Liabilities	9,306	7,653
Lease liabilities (see note 22)	261	142
Deposits from developers	322	429
Other taxes and social security	154	4
Non-trade payables and accrued expenses	18,944	19,103
	59,950	**49,489**

Contract liabilities

Group

	£000
Opening balance as at 1 April 2020	**7,653**
Revenue recognised that was included in the contract liability balance at the beginning of the period	(7,653)
Increase due to cash received, excluding amounts recognised as revenue during the period	9,306
At the end of the year, 31 March 2021	**9,306**

19 Employee Benefits

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.

One of the Group undertakings participates in a defined benefit pension scheme, the Water Companies Pension Scheme (WCPS). The scheme funds are administered by trustees and are independent of that Company’s finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial advisor.

Following extensive consultations, changes were implemented to that Company’s section of WCPS on 1 April 2013, whereby retirement benefits for active members will be accrued on a career average basis rather than the final salary basis applicable previously.

The results of the actuarial valuation of WCPS as at 31 March 2021 were updated to the accounting date by an independent qualified actuary in accordance with the accounting standard.

Over the year to 31 March 2021, contributions of £Nil (2020: £Nil) were made to the defined benefit scheme due to its closure at 31 March 2019. Within the group a defined contribution scheme remains open to all members of the group.

SESW has included an estimate of the impact of the GMP equalisation of £425k (2020 £400k); this was consulted with the scheme actuary. This was as a result of the high court ruling that occurred on the 26 Oct 2018 for the trustee of the Lloyds Banking Group pension scheme setting precedent to remove inequalities in scheme benefits that arose from Guaranteed Minimum Pension (GMP). This was to equalise pension payments for members who were paying into the scheme for a 7 year period in the 1990’s.

On 31 March 2019, SESW closed the defined benefit pension scheme.

Notes to the Financial Statements

19 Employee Benefits (continued)

The key IAS 19 (R) assumptions used for the scheme are set out below, along with the fair value of assets, a breakdown of the
assets into the main asset classes, the present value of IAS 19 (R) liabilities and the surplus of assets above IAS 19 (R) liabilities
(which equal the gross pension asset).

Assumptions

As at 31 March	2021	2020
Retail price index inflation	3.5% pa	2.9% pa
Consumer price index inflation	3.0% pa	2.2% pa
Discount rate	1.9%	2.3% pa
Life expectancy of male aged 60 in 2021	26.7	28.9
Life expectancy of male aged 60 in 2046	28.6	31.6
Weight average duration	15.0	15.0

On the basis of the assumptions used for life expectancy, a male pensioner currently 60 would be expected to live for further 26.7 years (2020: 28.9 years).

As at 31 March

	2021 Fair value £000	2020 Fair value £000
Liability driven investment	93,837	94,879
Absolute Return Bonds	25,243	27,473
Cash	562	140
Total	119,642	122,492

The majority of the Section assets are held within instruments with quoted market prices in an active market. The Section does not invest in property occupied by the Company or in financial securities issued by the Company.

The investment strategy is set by the Trustee of the Section. The current strategy is to invest in a combination of lower risk assets (e.g. liability driven investments, which respond to factors such as changes in interest rates) and return seeking assets (e.g. equities and other diversified assets) with the allocation to lower risk assets gradually increased so that by March 2035, 100% of the Section assets are invested in lower risk assets.

Charges in the present value of the defined benefit obligations are as follows:

	2021 £000	2020 £000
Opening defined benefit obligation	95,278	107,986
Past service costs/(income)	25	(200)
Adjustment in respect of previous period	(142)	-
Interest cost	2,142	2,460
Actuarial loss/(gain)	5,781	(8,668)
Benefits paid	(3,918)	(6,300)
Closing defined benefit obligation	**99,166**	**95,278**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

19 Employee Benefits (continued)

Changes in the fair value of the Section assets are as follows:

	2021 £000	2020 £000
Opening fair value of the Section assets	122,492	124,610
Interest on Section assets	2,772	2,821
Actual return less interest on plan assets	(1,369)	1,628
Benefits paid	(3,918)	(6,300)
Expenses	(335)	(267)
Closing fair value of Section assets	**119,642**	**122,492**

	2021 £000	2020 £000
Total fair value of assets	119,642	122,634
Present value of liabilities	(99,166)	(95,278)
Pension asset for the scheme	20,476	27,356
Unfunded former directors' pension entitlement	(1,006)	(994)
Net pension scheme asset	**19,470**	**26,362**

The net asset has not been reduced in the Balance Sheet as the Company believes that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the Scheme. Past service losses totalling £1,006,000 (2020: £994,000) were recognised in prior years in respect of an unfunded portion of a former Director's pension entitlement. This figure has been revalued using the same assumptions as above and is set against the net pension asset.

Plan assets

	2021 £000	2020 £000
Liability driven instruments	93,837	94,879
BMO Global Absolute Return Bond Fund	25,243	27,473
Cash	562	140
Total	**119,642**	**122,492**

The majority of the Section assets are held within instruments with quoted market prices in an active market. The Section does not invest directly in property occupied by the Company or in financial securities issued by the Company.

The investment strategy is set by the Trustee of the Section. The current strategy is to invest in a combination of lower risk assets (e.g. liability driven investments, which respond to factors such as changes in interest rates).

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

19 Employee Benefits (continued)

The surplus recognised in the Balance Sheet has moved over the year as follows:

As at 31 March	**2021**	**2020**
	£000	**£000**
Balance Sheet asset at start of year	27,356	16,624
Amount recognised in profit and loss account	270	436
Amount recognised in other comprehensive income	(7,150)	10,296
Balance Sheet asset for the scheme at end of year	20,476	27,356
Unfunded pension liability	(1,006)	(994)
Net Balance Sheet asset at end of year	**19,470**	**26,362**

The following amounts have been recognised in profit and loss:

	2021	**2020**
	£000	**£000**
Past service costs/(income)	25	(200)
Section Expenses	335	267
Net interest credit	(630)	(503)
Total operating (credit)	**(270)**	**(436)**

The amounts recognised immediately in other comprehensive income are as follows:

	2021	**2020**
	£000	**£000**
Net actuarial losses/(gains) in the year due to		
– Changes in financial assumptions	14,247	(7,641)
– Changes in demographic assumptions	(6,412)	-
– Experience adjustments on benefit obligations	(2,054)	(1,027)
Actual loss/(gain) on Section assets relative to interest on Section assets	1,369	(1,628)
Loss/(gain) to recognise outside profit and loss in other comprehensive income	7,150	(10,296)
Loss/(gain) on unfunded former Directors' pension entitlement	34	(83)
Total remeasurement of deferred benefit asset recognised in other comprehensiveincome	**7,184**	**(10,379)**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

19 Employee Benefits (continued)

The following table illustrates the sensitivity of the defined benefit obligation to some of the significant assumptions as at 31 March:

As at 31 March 2021	**Effect on obligation**	
	2021 (£000)	**2021 (£000)**
	-0.1%pa	+0.1%pa
Price inflation	(1,300)	1,300
Discount rate	1,600	(1,500)
	-1year	+1year
Life expectancy	(4,700)	4,700

As at 31 March 2020	**Effect on obligation**	
	2020 £000	**2020 £000**
	-0.1%pa	+0.1%pa
Price inflation	(1,200)	1,200
Discount rate	1,400	(1,400)
	-1year	+1year
Life expectancy	(4,100)	4,100

These sensitivities have been calculated to show the movement in the defined benefit obligation in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Section.

20 Share Capital

As at 31 March	**2021 £000**	**2020 £000**
Allotted, called up and fully paid		
329,100,002 (2020: 329,100,002) ordinary shares of £0.5 each	164,550	164,550

Dividends

The following dividends were paid during the period:

	2021 £000	**2020 £000**
£0.01 (2020: £0.01) per qualifying ordinary share	3,500	3,500

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. On 18 June 2021, an interim dividend of £1.75m was received from ESH to SOGWUK.

21 Financial instruments

21 (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).

The fair values of all financial liabilities, whose fair value materially differ from there carrying value, by class together with their carrying amounts shown in the balance sheet are as follows:

As at 31 March	Carrying amount 2021 £000	Fair value 2021 £000	Level 1 2021 £000	Carrying amount 2020 £000	Fair value 2020 £000	Level 1 2020 £000
Financial liabilities measured at amortised cost						
2.874% secured index-linked bond 2027 – 2031	187,718	230,808	230,808	186,519	230,021	230,021
Total financial instruments	**187,718**	**230,808**	**230,808**	**186,519**	**230,021**	**230,021**

The fair value of the bond is based on price quotation 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. There is no material difference between fair values and carrying amounts within the balance sheet for all other financial assets and liabilities.

21 (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 a 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.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

21 Financial instruments (continued)

21 (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 contractual maturities of financial liabilities, including estimated interest payments:

31 March 2021

	Total contractual cash flows £000	1 year to less £000	1 to <5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loan and other borrowing	44,000	-	44,000	-
Debentures	102	-	-	102
Trade and other payables	59,952	59,952	-	-
Interest rate - 2.874% secured index-linked bond 2027-2031	295,219	4,983	27,050	263,186
Interest rate – 3.22%	38,960	1,159	37,801	-
	438,233	**66,094**	**108,851**	**263,288**

31 March 2020

	Total contractual cash flows £000	1 year to less £000	1 to <5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loan and other borrowing	31,000	-	31,000	-
Debentures	102	-	-	102
Trade and other payables	49,489	49,489	-	-
Interest rate - 2.874% secured index-linked bond 2027-2031	300,051	5,094	27,855	267,102
Interest rate – 3.22%	42,424	1,159	5,265	36,000
	423,066	**55,742**	**64,120**	**303,204**

Undrawn committed borrowing facilities

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

As at 31 March	**2021 £000**	**2020 £000**
Expiring in one year or less	1,000	1,000
Expiring in more than one year but not more than two years	6,000	4,000
	7,000	**5,000**

21 Financial instruments (continued)

21 (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 changes 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 regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is 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 Ltd.

The bonds, debentures and preference shares are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate, and longer-term borrowings will be at a margin above LIBOR.

The ESH loan of £36m is at a fixed interest rate and therefore doesn't 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 2020.

	1 April 2020 – 31 March 2021 £000	**1 April 2019 – 31 March 2020 £000**
Equity		
Increase	2,490	2,320
Decrease	(2,490)	(2,320)
Profit or loss		
Increase	(2,490)	(2,320)
Decrease	2,490	2,320

21 (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.

21 Financial instruments (continued)

21 (*e) Inflation risk (continued)*

The Group believes this is an appropriate inflation hedging policy taking into account a balanced assessment of the following factors: economic hedge of the Groups 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 £172.551 million at 31 March 2021 (2020: £164.939 million).

21 (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 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, the Group monitors capital on the basis of the gearing ratio which, in line with the prior year, it aims to maintain at 60%. Gearing is measured by the ratio of net indebtedness to regulatory capital value (RCV). The ratio at the end of the current year was 0.82 (2020: 0.76).

Loan covenants

Under the terms of the major borrowing facilities (as disclosed in note 17), the Group 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 Nov each year covering calculation period of 12 months ending 31-Mar and 31- Oct an interest cover ratio of at least 1.10:1 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 1.60:1; and a Regulated Asset Ratio of less than or equal to 0.751.
- 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 not 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.

Dividends

The Group pays dividends to its parent if, in the view of the directors, there are sufficient distributable reserves and there is no threat to capital adequacy of the Company. During the year dividends for the year ended 31 March 2020 of £1,750,000 (2019: £1,750,000) and Interim dividend for the year ended 31 March 2021 of £1,750,000 (2020: £1,750,000) was paid.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

21 Financial instruments (continued)

21 (f) Capital management (continued)

In addition to above dividends, since year end the directors have approved payment of final dividend for the year ended 31 March 2021. The aggregate amount of the dividend fully paid on 28 July 2021 out of retained earnings was £1,750,000.

22 Leases

The Group 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 used in operations. The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the balance sheet:

31 March 2021	**SESW £000**	**SESWS £000**	**AML £000**	**Allmat £000**	**Total £000**
Right-of-use assets					
Vehicles	268	-	-	-	268
Plant & Machinery	-	-	420	-	420
Buildings	-	33	-	249	282
	268	33	420	249	970
Lease liabilities					
Current	85	33	88	55	261
Non-current	192	-	333	231	756
	277	**33**	**421**	**286**	**1,017**

31 March 2020	**SESW £000**	**SESWS £000**	**AML £000**	**Allmat £000**	**Total £000**
Right-of-use assets					
Vehicles	175	-	-	-	175
Plant & Machinery	-	-	50	-	50
Buildings	-	58	-	-	58
	175	58	50	-	283
Lease liabilities					
Current	38	54	50	-	142
Non-current	132	4	-	-	136
	170	**58**	**50**	**-**	**278**

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

22 Leases (continued)

(ii) Amounts recognised in the profit and loss

The profit and loss and other comprehensive income shows the following amounts relating to leases:

As at 31 March 2021	**SESW £000**	**SESWS £000**	**AML £000**	**Allmat £000**	**Total £000**
Depreciation charge of right-of-use assets					
Vehicles	(51)	-	-	-	(51)
Plant & Machinery	-	-	(89)	-	(89)
Buildings	-	(43)	-	(65)	(108)
	(51)	(43)	(89)	(65)	(248)
Interest expense (included in finance cost)	(4)	(1)	(5)	(6)	(16)
Future minimum lease payments as at 31 March 2021 are as follows:					
Not later than one year	87	33	98	61	279
Later than one year and not later than five years	192	-	350	243	785
Later than five years	-	-	-	-	-
Total gross payments	279	33	448	304	1,064
Impact of finance expenses	(2)	-	(27)	(18)	(47)
Carrying amount of liability	**277**	**33**	**421**	**286**	**1,017**

As at 31 March 2020	**SESW £000**	**SESWS £000**	**AML £000**	**Allmat £000**	**Total £000**
Depreciation charge of right-of-use assets					
Vehicles	(27)	-	-	-	(27)
Plant & Machinery	-	-	(86)	-	(86)
Buildings	-	(32)	-	-	(32)
	(27)	(32)	(86)	-	(145)
Interest expense (included in finance cost)	(2)	-	(2)	-	(4)
Future minimum lease payments as at 31 March 2020 are as follows:					
Not later than one year	41	54	50	-	145
Later than one year and not later than five years	136	4	-	-	140
Later than five years	-	-	-	-	-
Total gross payments	177	58	50	-	285
Impact of finance expenses	(7)	-	-	-	(7)
Carrying amount of liability	**170**	**58**	**50**	**-**	**278**

Notes to the Financial Statements

23 Commitments

As at 31 March	2021 £000	2020 £000
Contracted capital commitments	7,800	9,500

24 Related parties

Identity of related parties with which the Group has transacted
The Group had transactions with subsidiaries of Sumitomo Corporation, the ultimate parent company of Summit Water Limited. Summit Water Limited owns 50% of the Group.

For the year ended 31 March	Sales to		Administrative expenses incurred from	
	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Shareholders	-	-	400	400
Other related parties	-	-	38	38
	-	**-**	**438**	**438**

As at 31 March	Receivables Outstanding		Payables outstanding	
	2021 £000	2020 £000	2021 £000	2020 £000
Shareholders	-	-	-	240
Other related parties	-	-	21	43
	-	-	**21**	**283**

Transactions with key management personnel

The compensation of key management personnel:

As set out in note 5 and 6, the average number of persons employed by the parent company during the year is nil (2020: nil). As also noted, no remuneration was paid to directors during the year (2020: £nil).

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

25 Key Accounting Judgements

The preparation of the annual financial statements requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. Given the nature of these estimates, actuals may differ from the estimate. The key estimates and areas of judgement required in the preparation of these financial statements are*:*

Capital Expenditure

The appropriate recognition of costs between operating expenses and capital expenses is a key judgement area which can have a significant impact on both the Group's profit and balance sheet. The Group has detailed policies in place to determine whether expenditure should be capitalised and these policies are reviewed on a regular basis by the Directors.

Goodwill

Goodwill is assessed annually for impairments by analyzing the net present value of the groups future cashflows. To date, no impairments have been made and the cashflows are in excess of the value of goodwill as at the date of these statements. For sensitivity results refer note 10.

Estimate - unbilled measured income

Within SESW the measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Group uses 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.

The impact of COVID-19 though, has disrupted normal consumption patterns in 2020-21 resulting in significantly higher short-term household consumption and therefore increasing risk of error associated with this estimate. In order to mitigate this risk management have performed further analysis of consumption patterns throughout the year and compared this to our historic modelling to ensure the model is adjusted to consider the impact of COVID-19 on consumption.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £363k (2020: £328k).

Judgement - Defined benefit 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 historic 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 19.

Judgement / Estimate - Provision of doubtful debt

The Group makes 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 favourable or negatively from those estimates given. All debts over three years are 100% provided for.

In the current year the ongoing impact of the COVID-19 pandemic on the ability for SESW customers (both household and non-household) to pay their bills has been taken into consideration by assessing the current customer collection rates. This has resulted in lower cash collections rates, an additional bad debt provision of £2.6m (2020: £1.8m).

If the bad debt recovery rate was to improve or worsen by 5% for debt between 12 and 36 months the bad debt provision would reduce by £655k (2020: £249k) or increase by £734k (2020: £262k).

25 Key Accounting Judgements (continued)

Estimate – Derecognition of revenue

Within SESW, the criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where the customer has not paid their bills for a period of at least two years. This resulted in derecognising £0.6m of revenue in FY21. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.1m

26 Post Balance Sheet Events

As disclosed in note 8 in March 2021 the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. The maximum impact on deferred tax balances of the rate increase is estimated to be £13.2m.

On 18 June 2021, an interim dividend of £1.75m was paid from ESH to SOGWUK.

On 20 July 2021, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY 20-21, on 16 December 2021 a further dividend of £1.75m has been declared to its shareholders Summit Water Limited and Osaka Gas UK Limited for FY21-22.

27 Parent undertaking and ultimate parent undertaking

The group is 50% owned by Summit Water Limited, a company incorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, and 50% owned by Osaka Gas UK Limited, a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE. There are no parent undertakings and no party has control of the group.

Sumisho Osaka Gas Water UK Limited

Company Balance Sheet as at 31 March

	Note	2021 £000	2020 £000
Non-current assets			
Investments	33	161,600	161,600
		161,600	**161,600**
Current assets			
Debtors	34	1,013	1,071
Cash at bank and in hand		2,830	2,820
		3,843	**3,891**
Creditors: amounts falling due within one year	35	(85)	(103)
Net current assets		**3,758**	**3,788**
Net assets		**165,358**	**165,388**
Capital and reserves			
Called up share capital	36	164,550	164,550
Profit and loss account*		808	838
Total Shareholders' funds		**165,358**	**165,388**

* The company's profit for the year ended 31 March 2021 was £3,470,000 (2020: £ 3,424,000)

The notes on pages 67 to 72 form part of the financial statements.

These financial statements on pages 65 to 72 were approved by the Board of Directors on 16 December 2021 and signed on its behalf by:

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K Kageyama
Director

Company Registration No: 08369318

Sumisho Osaka Gas Water UK Limited

Company Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total Shareholders' Funds
	£000	**£000**	**£000**
Balance brought forward 1 April 2019	**164,550**	**914**	**165,464**
Total comprehensive income for the year			
Profit retained for year	-	3,424	3,424
Total comprehensive income for the year	-	3,424	3,424
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2020	**164,550**	**838**	**165,388**
Balance brought forward 1 April 2020	**164,550**	**838**	**165,388**
Total comprehensive income for the year			
Profit for year	-	3,470	3,470
Total comprehensive income for the year	-	3,470	3,470
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2021	**164,550**	**808**	**165,358**

The notes on pages 67 to 72 form part of the financial statements.

Notes to the Financial Statements

28 Accounting policies

Basis of accounting

Sumisho Osaka Gas Water UK Limited (the "Company") is a company incorporated and domiciled in the UK. The Company is a private company limited by shares. The address of the registered office is Vintners' Place, 68 Upper Thames Street, London, EC4V 3BJ.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set up below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The company's profit for the year ended 31 March 2021 is £3,470,000 (2020: £ 3,424,000)

The company is 50% owned by Summit Water Limited, a company incorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, and 50% owned by Osaka Gas UK Limited, a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE. There are no parent undertakings and no party have control of the company.

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

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

Going Concern

The Directors have 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.

Investments

Investments in subsidiaries are stated at cost less any provision for impairment.

All other investments including investments held as current assets are stated at fair value. Changes in fair value are recognised through other comprehensive income, until the security is disposed of or is determined to be impaired, at

28 Accounting policies (continued)

which time the gain or loss previously recognised in other comprehensive income is transferred to the profit and loss account.

Other income

Other income represents income and dividends received from subsidiaries in respect of management services provided.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Dividends

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

Financial Instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Trade 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank balances and cash comprise time deposits with an original term of three months or less and interest is calculated by reference to Libor. The carrying amounts represent their fair value. As such no disclosure of fair value is required. All transactions are recognised on their transaction date.

Notes to the Financial Statements

28 Accounting policies (continued)

Financial liabilities and equity

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company 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 Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company'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 Company'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.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Trade payables

Trade payables, including balances held with group companies, are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. All transactions are recognised on their transaction date.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

29 Remuneration of directors

No remuneration were paid to any other directors directly in respect of their services to the Company in the current financial year. For the directors holding office during the year, their duties to the Company are considered to be incidental to their other duties within Sumitomo Corporation and therefore no allocation has been made

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2020: nil).

30 Other income

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Management Fees	100	100
Dividends	3,500	3,500

Notes to the Financial Statements

31 Expenses and auditors' remuneration

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
Included in profit/loss are the following:		
Auditors' remuneration:		
Audit of these financial statements	54	60

32 Taxation

A. Recognised in the profit and loss account

	1 April 2020 - 31 March 2021 £000	1 April 2019 - 31 March 2020 £000
UK corporation tax		
Current tax charge/(credit) on income for the period	-	9
Total current tax charge/(credit)	**-**	**9**
Tax charge/(credit) on profit	**-**	**9**

B. Reconciliation of effective tax rate

The current tax charge for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below.

	1 April 2020 – 31 March 2021 £000	1 April 2019 – 31 March 2020 £000
Profit for the year	3,470	3,424
Total tax charge	-	9
Profit excluding tax	**3,470**	**3,433**
Tax using the UK corporation tax rate of 19% (2020: 19%)	659	652
Effect of:		
UK dividend income	(665)	(665)
Loss carried forward not recognized	6	13
Prior year adjustment	-	9
Total tax charge/(credit)	**-**	**9**

C. Factors affecting the tax charge/(credit) for future periods

The UK corporation tax rate for the year ended 31 March 2021 was 19% (2020: 19%).

In March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. The legislation was subsequently enacted in May 2021.

Notes to the Financial Statements

33 Investments

	Subsidiary companies £'000
Details of movements in the year	
At 1 April 2020	161,600
Additions	-
Disposals	-
At 31 March 2021	**161,600**
Provisions for impairment:	
At 1 April 2020	-
Provision for the year	-
Disposals	-
At 31 March 2021	**-**
Net book value:	
At 31 March 2020	161,600
At 31 March 2021	161,600

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

34 Debtors

As at 31 March	**2021 £000**	**2020 £000**
Due from subsidiaries	1,000	1,060
Other debtors	13	11
	1,013	**1,071**
Due within one year	1,013	1,071

Notes to the Financial Statements

35 Creditors: amounts falling due within one year

As at 31 March	2021 £000	2020 £000
Due to subsidiaries	21	43
Accruals and deferred income	54	50
Other creditors	10	10
	85	**103**

36 Called up share capital

Share Capital

As at 31 March	2021 £'000	2020 £'000
Allotted, called up and fully paid:		
329,100,002 (2020: 329,100,002) ordinary shares of £0.5 each	164,550	164,550

Dividends

The following interim dividends were paid during the period:

	2021 £000	2020 £000
£0.01 (2020: £0.01) per qualifying ordinary share	3,500	3,500

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.

37 Accounting estimates and judgements

Investments:

Investments in subsidiary companies are stated at cost less impairments which are shown in note 33 of these financial statements. The board has assessed the recoverability of investments in subsidiary companies in the period and concluded that there were no indications of impairment as at the balance sheet date.

38 Off-balance sheet arrangements

The Company is not party to any off-balance sheet arrangements.

39 Parent undertaking and ultimate parent undertaking

The company is 50% owned by Summit Water Limited, a company incorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, and 50% owned by Osaka Gas UK Limited, a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE. There are no parent undertakings and no party has control of the company.

40 Post balance sheet events

On 20 July 2021, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY20-21, on 16 December 2021 a further dividend of £1.75m has been declared to its shareholders Summit Water Limited and Osaka Gas UK Limited for FY21-22.