

Company Number: 08369318

**Sumisho Osaka Gas Water UK Limited**

Annual Report and Financial Statements

for the year ended 31 March 2023

# 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 2023.

### Principal activities

Sumisho Osaka Gas Water UK Limited (“SOGWUK”, the “Company”) 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 Limited (ESH), a company with investments in water and other trading and property companies together, the “Group”.

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

### East Surrey Holdings (ESH) key highlights:

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

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

### Sutton and East Surrey Water Plc (SESW) key highlights:

SESW, the largest company within the Group, supplies 160 million litres of clean water each day to 750,000 people in East Surrey, and parts of West Sussex, West Kent and South London. SESW’s operational performance for the year ended 31 March 2023 has been strong. SESW has been fully focused on delivering and improving upon the promises it has made to its customers in its Business Plan 2020-2025, which includes achieving its leakage reduction target this year. Some key highlights of 2023 include;

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

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

### *Community Activities:*

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

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

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

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

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

### **Sutton and East Surrey Water Services Limited (SESWS) key highlights:**

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

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

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

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

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



# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

Additional existing pivotal performance indicators encompass:

### *Home Services*

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

### *Business Water*

- Expansion in sales

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

### **Other SOGWUK Group highlights:**

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

### **Climate change**

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

### **Cost of living**

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

### **Sumisho Osaka Gas Water UK Group (SOGWUK) Risks**

The principal risks and uncertainties facing the Group include;

- Interest rate and liquidity risks - The majority of the interest rate risks are associated with SESW and its index-linked bond. SESW managed its principal interest rate risk by issuing an Index-Linked Bond, the interest rate on this Bond is 2.874% in addition to index-linking of the capital value. SESW manages its liquidity risk through the borrowing facilities with the Royal Bank of Scotland and National Westminster Bank. The impact of inflation continues to be a significant risk to SESW's cost of debt.
- Cash Collection – increased risk of bad debt driven by poor cash collection as household customers suffer financial hardship amid cost-of-living crisis and also within the non-household retail market that SES Business Water operates within as businesses continue to recover from the impact of closures and downturn in the economy. Both are mitigated through regular reviews, credit control review, prompt and accurate billing, use of technology to customer billing and settlement records, implementation of cash collection procedures and bad debt recovery via collection agencies.
- Regulatory risk on resetting regulatory target and returns in PR24 Business Plan (covering 2025-2030).
- Failure to comply with legal and regulatory obligations, mitigated by formal processes for compliance with market codes (e.g. MOSL), dedicated resources and independent assurance.
- Failure of economic regulation within SESW where it has insufficient funding to fulfil its duties mitigated by having a stable and transparent regulatory regime, detailed business planning process including consultation with customers and an effective relationship with Ofwat.

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

- Cyber Attacks causing interference with operational controls or loss of personal data, mitigated through multiple layer security, controls and employee awareness training.
- Failure of the billing systems and other core applications across SESW and SESWS – full disaster recovery arrangements in place and adequate liquidity for temporary loss of billing capability to make the core systems more resilient and retrievable in case of major failure.
- Operational risks across the Group particularly within the operational areas of SESW and SES Home Services which employs gas and plumbing engineers who work closely with gas on a regular basis, the risk of harm or injury is mitigated by strong health and safety protocol and training.
- Failure of the billing systems and other core applications across SESW and SESWS – full disaster recovery arrangements in place and adequate liquidity for temporary loss of billing capability to make the core systems more resilient and retrievable in case of major failure.
- Operational risks across the Group particularly within the operational areas of SESW and SES Home Services which employs gas and plumbing engineers who work closely with gas on a regular basis, the risk of harm or injury is mitigated by strong health and safety protocol and training.
- SES Business Water continues to operate under a difficult trading environment with thin gross profit margin being achieved in current year. The aim to grow its customer base and maintain its gross margin remains difficult under current market situation.
- Financial risk – given the current strategic review, despite management’s assessment and shareholder support, there is uncertainty on the outcome of the strategic review and also associated financing solutions dependent upon the outcome. Management is continuing to work on financing strategies alongside the ongoing review.

Other risks that are closely monitored include;

- Investment risk - The key factor for the Group managing this risk is to maintain and enhance the close relationship with its customers and suppliers. The subsidiary undertakings continue to develop and provide innovative value added services at every stage of the supply chain.
- As at 31 March 2023, SESW has a £50 million five-year and a £25 million three-year revolving credit facility and a £15 million overdraft facility which were fully drawn down. During the current year, SESW and SESWS also secured and drew down loans of £7m and £4m from the immediate parent company of ESH, Sumisho Osaka Gas Water UK Limited (“SOGWUK”), for their operational needs and for the purpose of managing the financial covenants ratio (including the Adjusted Interest Cover Ratio Requirement) at the year-end date. Other Group companies manage their own liquidity risk through overdraft facilities and are supported by East Surrey Holdings Limited as parent entity with loans if necessary.
- Currency risks - The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate risks in the normal course of its business. The Group has minimal exposure to currency risk since nearly all activities are conducted in the UK and all borrowings are denominated in £ sterling.
- Financial risk management – please refer to note 21 (d) for details.

### Financial Performance and Position

The financial performance of the Group has remained challenging this year with some improvement in the retail non-household market from Covid-19 despite the impact of the cost-of-living crisis on customers, upward cost pressures on supply chain, and the impact of rising inflation. The Group’s revenue for the year ended 31 March 2023 was £125.2m (2022: £114.0m), an increase of 9.8%. Operating costs increased to £125.7m (2022: £109.9m) that led to an operating loss of £1.8m, representing a decrease of £9.7m compared to an operating profit of £7.9m in 2022.

Finance costs increased by 97.4% to £30.0m (2022: £15.2m). This increase is driven by the significant increase in indexation charge by £15.5m in SESW relating to the indexation of its £100m index-linked bond as a result of high inflation rate in current year.

The Group’s loss before taxation was £30.8m (2022: £6.9m) and loss after tax was £24.4m (2022: £18.9m), this is primarily due to the impact of surging operating costs and indexation charge on the £100m index-linked bond under high inflation environment in the current year.

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

The Group's total assets increased by £14.0m to £613.1m (2022: £599.1m). This is mainly due to the capital investments made by SESW in current year and increase in cash and cash equivalents by £13.5m to £44.3m.

Under IAS 36 the Directors have assessed at the balance sheet date whether there is any indication that the Company's investment in East Surrey Holdings Limited (ESH) may be impaired. Taking these assessments into consideration an impairment of £13.1m was recognised for the year ended 31 March 2023 on the Company standalone balance sheet. Further details can be found in note 33 of the financial statements.

### Environmental Improvements

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

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

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

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

### Capital Investment

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

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

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

### Net Debt

Total debt for the Group is £340.0m, an increase of £51.5m (2022: £288.5m). The increase represented £22.1m RPI indexation on the index-linked bond, additional borrowings of RCF loan of £16.0m and short-term bank loan of £15m for operational needs of the Group and for the purpose of meeting the financial covenants (including the Adjusted Interest Cover Ratio Requirement) at year-end date.

Cash and liquid resources increased by £13.5m in current year to £44.3m (2022: £30.8m) which comprised a restricted cash of £8.7m (2022: £5.8m) in relation to the secured index-linked bond.

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

### Financial guarantee contract

Sumisho Osaka Gas Water UK Limited (SOGWUK) is a guarantor to Sutton and East Surrey Water Services Limited (SESWS) for a credit facility provided by HSBC. The total guaranteed amount is £15m as at the balance sheet date of these financial statements. The fair value of the liability for the financial guarantee has been determined using the interest rate differentials method. The fair value of liability was recorded in Company balance sheet in 2022 at a value of £1.97m and is amortised over 10 years on a straight line basis.

### Dividends

During the year the Group paid no dividend to its parent company Summit Water Limited (SWL) and Osaka Gas UK Limited (OGUK) (2022: £3.5 million). No further dividends have been proposed or declared up to and including the date of signing these financial statements.

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

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

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

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

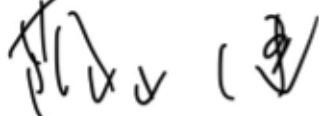
Stakeholder group	How we engage	Impact of engagement
Customers	<ul style="list-style-type: none"> <li>• Regular SES Water updates by direct email to customers and social media</li> <li>• Our dedicated 'Voice of the Customer' programme which includes a range of activity to better inform the decisions and improvements that we make.</li> <li>• Online 'Talk on Water' community.</li> <li>• Our education programme.</li> <li>• Attendance at community events.</li> <li>• Our independent Customer Scrutiny Panel.</li> <li>• Dedicated research via focus group for customers with particular needs and young people.</li> <li>• 'Your water, your say' meeting with customers.</li> </ul>	<p>SESW Business Plan targets reflect customer priorities including:</p> <ul style="list-style-type: none"> <li>• 15% leakage reduction.</li> <li>• 25,000 people on our Water Support Scheme.</li> <li>• 100% of people will be served by more than one treatment works.</li> <li>• 90% of our customers on a meter.</li> <li>• Significant investment being made in its digital capability to better serve customers</li> <li>• Offering excellent customer service through different channels such as telephone and face-to-face, as well as digital.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Regular employee engagement survey.</li> <li>• Open forums involving all employees and the directors and senior management.</li> <li>• Dedicated Board member responsible for employee engagement.</li> <li>• Senior leader visibility and accessibility.</li> <li>• Structured development and appraisal programme.</li> <li>• Ongoing programme of internal communications, and regular one-to-one meetings for employee and line manager.</li> </ul>	<ul style="list-style-type: none"> <li>• Investors in People silver accreditation.</li> <li>• Performance management system and skills strategy in place.</li> <li>• Employee volunteering scheme.</li> <li>• Employee Referral Scheme.</li> <li>• Constructive negotiation through the Joint Negotiation and Consultative Committee (JNCC) to secure a pay deal.</li> <li>• More flexible working practices going forwards.</li> <li>• A team of 28 Mental Health First Aiders across the business to support employee.</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>• Regular meetings with all our regulators including by our non-executive directors.</li> <li>• Regulator attendance at Board meetings.</li> <li>• Responding to consultations and information requests.</li> <li>• Participation in national campaigns.</li> <li>• Sharing our expertise and perspective through industry-wide forums.</li> </ul>	<ul style="list-style-type: none"> <li>• For SESW - maintaining our gearing at a level that is acceptable to Ofwat.</li> <li>• Updating dividend payout and executive pay policies.</li> <li>• Pledged to make £9m of efficiency savings between 2020 and 2025.</li> <li>• Leading the industry's research and innovation programme to reduce leakage.</li> <li>• Participation in Ofwat's innovation competitions.</li> </ul>

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report (Continued)

Stakeholder group	How we engage	Impact of engagement
Communities	<ul style="list-style-type: none"> <li>Targeted communications for charities and community partners.</li> <li>Membership of local business forums.</li> <li>Working with organisations that help vulnerable customers.</li> <li>Supporting worthy local causes with volunteering time and financial donations.</li> <li>Our education programme.</li> </ul>	<ul style="list-style-type: none"> <li>More than £28k of community grants provided through the Community Foundation for Surrey.</li> <li>Extending our education programme to reach more schools, young people, business and community groups.</li> <li>Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme.</li> </ul>
Local Authorities	<ul style="list-style-type: none"> <li>Meetings with council Chief Executives and directors.</li> <li>Supporting local economic prosperity initiatives.</li> <li>Project-specific department engagement such as highways.</li> <li>Participation in local resilience forums.</li> </ul>	<ul style="list-style-type: none"> <li>Planned for a 50% increase in the number of people living in our area by 2080.</li> <li>Delaying some of our mains upgrading work to minimise further disruption to local businesses.</li> </ul>
Environmental organisations	<ul style="list-style-type: none"> <li>Involvement in our local catchment partnerships.</li> <li>Regular meetings with environmental groups.</li> <li>Independent Environmental Scrutiny Panel.</li> <li>Involved in producing our Net Zero Carbon routemap.</li> <li>We engage on a regular basis on key environmental matters and listen to priorities from outside of our organisation.</li> </ul>	<ul style="list-style-type: none"> <li>Specific targets in our Business Plan to:</li> <li>cause no pollution.</li> <li>Increase biodiversity at our sites.</li> <li>Reduce abstraction from two sources during low flows.</li> <li>Reduce our carbon emissions.</li> <li>Achieving prestigious Biodiversity Benchmark Awards for several of our sites.</li> </ul>
Our suppliers	<ul style="list-style-type: none"> <li>Dedicated relationships depending on the scope and nature of the arrangement.</li> <li>Our procurement team and supplier forums.</li> <li>Annual performance reviews with critical suppliers.</li> <li>Regular planning and performance sessions.</li> </ul>	<ul style="list-style-type: none"> <li>Productive and stable working relationships.</li> <li>Agile decision-making as a small company.</li> <li>Participation in joint industry award entries.</li> <li>Provide testimonials in publicity campaigns and support supplier promotional work.</li> </ul>

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



.....  
K Kageyama  
Director

Company Registration No: 08369318  
27 November 2023



# 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 2023.

### Directors

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

K Oida  
K Kageyama  
T Ikuta (appointed 1 April 2022)  
Y Kurisu (appointed 1 April 2023)  
K Takiguchi (appointed 1 April 2022 and resigned 31 March 2023)  
M Kobayashi (resigned 1 April 2022)  
E Natsuaki (resigned 1 April 2022)

### Results and dividends

The results for the year are set out on page 19.

Ordinary dividends were paid amounting to £nil during the year (2022: £3.5m). 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.

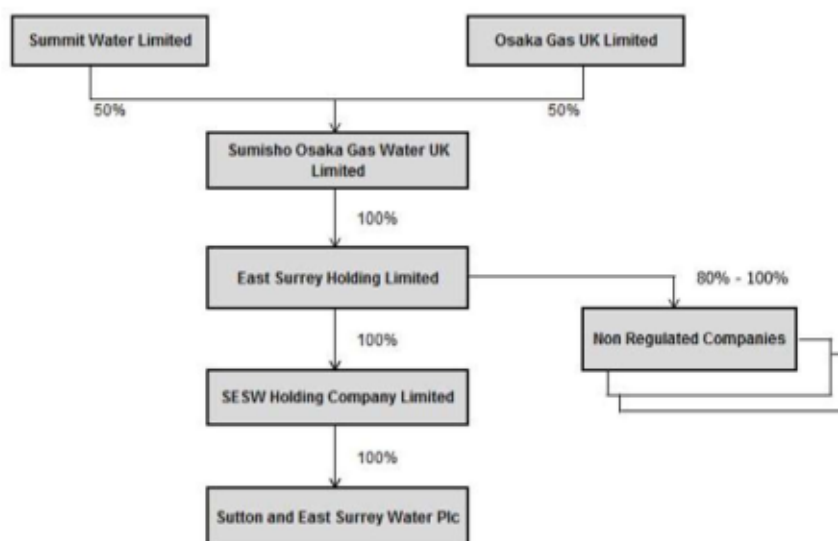
### Ownership of the company

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

### Business review and future prospects

The Group's performance and results are set out in the Strategic report.

SESW's revenue increased to £67.4m (2022: £63.0m), Operating costs increased to £62.8m (2022: £56.6m) driven by raw materials and consumables increased by 23% due to the increased supply chain pressure across the industry and depreciation increased by 5% as the business continues to invest in its capital programme. As a consequence, operating profit decreased to £4.3m (2022: £10.2m).

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

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

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

### Supplier Payment Policy

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

### Research and Development

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

### Disabled Persons

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

### Employees

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

### Events after Reporting Period

Subsequent to the balance sheet date, the management has evaluated events through 27 November 2023, which is the date the consolidated financial statements were available to be issued.

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

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

On 25 August 2023, the company was allotted 4,000,000 ordinary shares with a nominal value of £0.50 each.

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

During the current year, SOGWUK supported SESWS, the water retail division of the Group with shareholder's loans of £4m and provided a shareholder's loan of £7m to SESW to meet its operational needs and financial covenants at the year-end date, of which the £7m loan has been fully repaid subsequent to the year end. In July 2023 and October 2023, a further £1.5m and £1.3m of shareholder's loans was provided to SESW's financial needs.

The Shareholders of the Company have engaged financial advisors to undertake a strategic review of the SOGWUK Group's business, including SESW and as of October 2023 they are in advanced negotiations with a potential buyer of the sale of the company. The potential sale is not yet finalised and remains conditional on final agreement and approvals, therefore it remains uncertain at the date of signing these accounts if the proposed sale will proceed.

### Future Developments

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

### Charitable and Political Donations

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

### Greenhouse Gas Emissions

SESW continues to take action to reduce its carbon footprint resulting from its operational activities and have again met its performance commitment, with emissions of 41 kgCO<sub>2</sub>e/MI, compared with 47 kgCO<sub>2</sub>e/MI last year, the first result under this methodology that was not unduly influenced by suppressed operational activity during the Covid-19 pandemic.

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

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

Operational greenhouse gas emissions for 2022/23 for SESW include (2021/22 emissions are in brackets):

- Gas consumption: 947,045 kWh and 173 tCO<sub>2</sub>e (1,244,341 kWh and 228 tCO<sub>2</sub>e)
- Consumption of travel fuels: 1,679,218 kWh and 424 tCO<sub>2</sub>e (4,603,677 kWh and 427 tCO<sub>2</sub>e)
- Purchase of electricity by the company for its own use, including for transport: 54,332,386 kWh and 0 tCO<sub>2</sub>e (52,506,268kWh and 0 tCO<sub>2</sub>e).

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

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

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

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

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

### Audit Committee

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

### Going Concern

The Group's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic Report. The financial position of the Group is set out on page 20. 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 these financial statements (the Going Concern Period). The Directors' conclusions on the going concern basis reflect the commitment from the Company's controlling shareholders (in the form of written letters of support up to December 2024) on making available any necessary funding support to the Group for meeting its liquidity needs and financial covenant requirements under ESH and SESW. The funding commitment from the Company's controlling shareholders includes £22 million in aggregate in the form of equity injections to the Company, then to ESH, and then to SESW over the next 12 months. Such equity injections allow the Company to further support SESW to deliver its capital programme of investment for the next 12 months, these commitments are only valid to the extent the Company remains wholly owned by its current shareholders.

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

However, as noted in these financial statements the Shareholders of the company are in advanced negotiations with a potential buyer for the sale of the company, which may complete within the next 12 months. The Company's Directors do not have access to financing arrangements of the potential purchaser going forward or visibility of strategic plans or forecasts under any new ownership and, therefore the Directors are unable to incorporate these plans in their going concern assessment. As such, this creates a material uncertainty that may cast significant doubt on the Company and Group's ability to continue as a going concern. The Financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

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

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

During the current year, SOGWUK supported SESWS, the water retail division of the Group with shareholder's loans of £4m and provided a shareholder's loan of £7m to SESW to meet its operational needs and financial covenants at the year-end date, of which the £7m loan has now been fully repaid. Subsequent to the year end SOGWUK further supported SESWS with a shareholders loans totaling £2.8m.

### Statement of Disclosure to the Independent Auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

### Independent Auditors

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

### 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 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

- 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 company will continue in business.

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

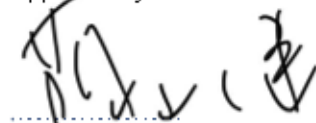
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements 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 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 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  
27 November 2023

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

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Consolidated Statement of Financial Position and Company Balance Sheet as at 31 March 2023; Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated and Company Statements of Changes in Equity and Consolidated Cash Flow Statement 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.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1.3 and Note 28 concerning the Group's and the Company's ability to continue as a going concern. Whilst the Company's ultimate shareholders have confirmed that they will continue to provide financial support for a minimum period of at least 12 months following approval of these financial statements, this is only valid to the extent the Company remains wholly owned by its current shareholders. The Shareholders of the Company are in advanced negotiations with a potential buyer for the sale of the Company, which may complete within the next 12 months. The Company's directors do not have access to financing arrangements of the potential purchaser going forward or visibility of strategic plans or forecasts under any new ownership and therefore the directors are unable to incorporate these plans in their going concern assessment. These conditions, along with the other matters explained in those notes to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.



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

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

## **Reporting on other information**

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

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

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

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

### **Strategic report and Directors' Report**

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

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

## **Responsibilities for the financial statements and the audit**

### **Responsibilities of the directors for the financial statements**

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

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

### **Auditors' responsibilities for the audit of the financial statements**

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of license 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 of directors who we wouldn't expect to be posting journals); or journals with certain key unusual words; and
- Challenging assumptions and judgements made by Management in their significant accounting estimates and judgements.

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

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

### Use of this report

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

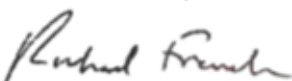
## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

## Sumisho Osaka Gas Water UK Limited

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

	Note	2023 £000	2022 £000
<b>Revenue</b>	2	125,244	114,026
Operating cost	3	(125,726)	(109,941)
Other operating income	4	1,108	3,359
Net impairment losses on financial and contract assets		(2,376)	449
<b>Operating (loss)/profit</b>		<b>(1,750)</b>	<b>7,893</b>
Finance income	7	891	382
Finance expenses	7	(29,970)	(15,186)
<b>Loss before tax</b>		<b>(30,829)</b>	<b>(6,911)</b>
Income tax credit/(expenses)	8	6,455	(11,955)
<b>Loss for the year</b>		<b>(24,374)</b>	<b>(18,866)</b>
<b>Other comprehensive (expense) / income:</b>			
Actuarial (losses) / gains on defined benefit pension scheme	19	(17,248)	5,658
Movement on deferred tax relating to pension asset	13	4,312	(983)
<b>Total other comprehensive (expense) / income for the year</b>		<b>(12,936)</b>	<b>4,675</b>
<b>Total comprehensive loss for the year</b>		<b>(37,310)</b>	<b>(14,191)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the parent		(37,343)	(14,242)
Non-controlling interest		33	51
		<b>(37,310)</b>	<b>(14,191)</b>
<b>Loss for the year attributable to:</b>			
Equity holders of the parent		(24,407)	(18,917)
Non-controlling interest		33	51
		<b>(24,374)</b>	<b>(18,866)</b>

The notes on pages 24 to 63 form part of the financial statements.

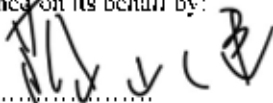
## Sumisho Osaka Gas Water UK Limited

### Consolidated Statement of Financial Position as at 31 March

	Note	2023 £000	2022 £000
<b>Non-current assets</b>			
Intangible assets	10	130,833	127,955
Property, plant and equipment	9	372,769	361,110
Investment properties	11	2,643	2,670
Pension scheme asset	19	9,211	26,265
		515,456	518,000
<b>Current assets</b>			
Inventories	14	1,453	1,382
Trade and other receivables	15	51,887	48,878
Cash and cash equivalents	16	44,266	30,814
		97,606	81,074
<b>Total assets</b>		<b>613,062</b>	<b>599,074</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	17	15,000	-
Trade and other payables	18	70,654	69,807
		85,654	69,807
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	17	324,332	287,725
Lease liabilities	22	680	766
Unfunded pension obligation	19	802	973
Deferred tax liabilities	13	44,118	54,980
Dilapidation provisions		464	464
		370,396	344,908
<b>Total liabilities</b>		<b>456,050</b>	<b>414,715</b>
<b>Net assets</b>		<b>157,012</b>	<b>184,359</b>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	20	174,550	164,550
Translation reserve		(1)	(1)
(Accumulated losses)/Retained earnings		(18,065)	19,278
		156,484	183,827
<b>Non-controlling interest</b>		<b>528</b>	<b>532</b>
<b>Total equity</b>		<b>157,012</b>	<b>184,359</b>

The notes on pages 24 to 63 form part of the financial statements.

These financial statements on pages 19 to 63 were approved by the Board of Directors on 27 November 2023 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 £'000	Retained Earnings/ (Accumulated losses) £'000	Translation reserve £'000	Total parent equity £'000	Non- controlling interest £'000	Total £'000
As at 1 April 2021	164,550	37,020	(1)	201,569	648	202,217
<b>Total comprehensive (expense)/income for the year</b>						
Profit or loss	-	(18,917)	-	(18,917)	51	(18,866)
Other comprehensive income:						
Actuarial gains on pension scheme	-	5,658	-	5,658	-	5,658
Movement on deferred tax relating to pension asset	-	(983)	-	(983)	-	(983)
	-	4,675	-	4,675	-	4,675
<b>Total comprehensive (expense)/income for the year</b>	-	(14,242)	-	(14,242)	51	(14,191)
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	(167)	(3,667)
Total transactions with Owners	-	(3,500)	-	(3,500)	(167)	(3,667)
<b>As at 31 March 2022</b>	<b>164,550</b>	<b>19,278</b>	<b>(1)</b>	<b>183,827</b>	<b>532</b>	<b>184,359</b>
<b>Total comprehensive (expense)/income for the year</b>						
Profit or loss	-	(24,407)	-	(24,407)	33	(24,374)
Other comprehensive (expense):						
Actuarial losses on pension scheme	-	(17,248)	-	(17,248)	-	(17,248)
Movement on deferred tax relating to pension asset	-	4,312	-	4,312	-	4,312
	-	(12,936)	-	(12,936)	-	(12,936)
<b>Total comprehensive (expense)/income for the year</b>	-	(37,343)	-	(37,343)	33	(37,310)
Transactions with owners recorded directly in equity						
Issue of shares	10,000	-	-	10,000	-	10,000
Dividends paid	-	-	-	-	(37)	(37)
Total transactions with Owners	10,000	-	-	10,000	(37)	9,963
<b>As at 31 March 2023</b>	<b>174,550</b>	<b>(18,065)</b>	<b>(1)</b>	<b>156,484</b>	<b>528</b>	<b>157,012</b>

This notes on pages 24 to 63 form part of the financial statements.

# Sumisho Osaka Gas Water UK Limited

## Consolidated Cash Flow Statement for the year ended 31 March

	Note	2023 £000	2022 £000
<b>Cash flow from operating activities</b>			
(Loss)/profit for the year		(24,374)	(18,866)
<i>Adjustments for</i>			
Depreciation of tangible fixed assets	9	13,108	12,440
Amortisation of intangible fixed assets	10	1,112	936
Depreciation of Investment properties	11	27	27
Impairment of intangible assets		141	-
Proceeds from Insurance claims		-	(1,970)
Amortisation of Bond costs	17	619	444
Net interest receivable and similar income	7	(891)	(382)
Net interest payable and similar charges	7	29,351	14,742
Profit on sale of assets on disposal of PPE		(91)	(1,283)
Provision Movements		-	20
Impairment losses on financial and contract assets, net		2,376	-
Taxation	8	(6,455)	11,955
		14,923	18,063
Increase in trade and other debtors		(6,593)	(4,202)
(Increase)/Decrease in stocks	14	(71)	6
Increase in trade and other creditors		2,895	7,051
Decrease in provisions and employee benefits		(362)	(165)
		(4,131)	2,690
<b>Cash generated from operations</b>		10,792	20,753
Interest paid		(9,171)	(10,111)
Income tax received/(paid)		1,035	(100)
<b>Net cash generated from operating activities</b>		2,656	10,542
<b>Cash flows from investing operating activities</b>			
Proceeds from disposal of fixed assets		121	1,562
Proceeds from disposal of intangibles		-	78
Proceeds from Insurance claims		-	1,970
Interest received	7	891	382
Acquisition of tangible fixed assets	9	(25,152)	(24,797)
Acquisition of intangible fixed assets	10	(4,228)	(7,593)
<b>Net cash used in investing activities</b>		(28,368)	(28,398)
<b>Cash flows from financing activities</b>			
Proceeds from loans	17	20,000	14,825
Payment of obligation under finance leases	22	-	84
Repayment of loans		(4,000)	-
Dividends paid to minority interest		(37)	(167)
Proceeds from issue of shares		10,000	-
Principal elements of lease payments		(362)	-
Dividends paid		-	(3,500)
<b>Net cash generated from financing activities</b>		25,601	11,242
Net decrease in cash and cash equivalents		(111)	(6,614)
Cash and cash equivalents at the beginning of the year		21,542	28,156
<b>Cash and cash equivalents at the end of the year</b>	16	21,431	21,542

## Sumisho Osaka Gas Water UK Limited

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

**Relating to:**

		<b>2023</b>	<b>2022</b>
		<b>£000</b>	<b>£000</b>
Cash and cash equivalents		44,266	30,814
Overdraft (included in creditors less than one year)	18	(7,835)	(9,272)
Short-term overdraft	17	(15,000)	-
<b>Cash and cash equivalents at the end of the year</b>		<b>21,431</b>	<b>21,542</b>

The notes on pages 24 to 63 form part of the financial statements.



# Sumisho Osaka Gas Water UK Limited

## 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 Company operates as a holding company for certain European subsidiaries of Sumitomo Corporation Japan and Osaka Gas Co. Ltd. The address of the registered office is Vintners’ Place, 68 Upper Thames Street, London, EC4V 3BJ.

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

The Group financial statements have been prepared and approved by the directors in accordance with UK-adopted International Accounting Standards and 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 64 - 73.

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.

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

#### 1.2 Adopted accounting standards not yet applied

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

#### 1.3 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. On 12 July 2023, the Company received a Letter of Support from Sumitomo Corporation and Osaka Gas Co. Ltd, the ultimate parent undertakings for at least 12 months from the date of signing these financial statements. This obligates Sumitomo Corporation and Osaka Gas Co. Ltd to provide the Company financial support as necessary such that the Group is able to operate as a going concern and is only valid to the extent the Company remains wholly owned by its current shareholders. A back to back Letter of Support on the same terms has been provided by the Company to ESH, and then by ESH to select operating companies, SESWS, Allmat and Cheam.

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.

However, as noted in the Strategic Report the Shareholders of the company are in advanced negotiations with a potential buyer for the sale of the company, which may complete within the next 12 months. The Company’s Directors do not have access to financing arrangements of the potential purchaser going forward or visibility of strategic plans or forecasts under any new ownership and therefore the directors are unable to incorporate these plans in their going concern assessment. As such, this creates a material uncertainty that may cast significant doubt on the Company and Group’s ability to continue as a going concern. The financial statements do not contain the adjustment that would arise if the Company were unable to continue as a going concern.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### **1 Accounting policies (continued)**

#### **1.4 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.

#### **1.5 Basis of consolidation**

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

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

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

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

#### **1.6 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

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

##### *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.

#### 1.8 Property, plant and equipment

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

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

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

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

##### *Infrastructure assets – mains and fresh water reservoirs*

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

##### *Mains – repairs, maintenance and replacements*

The mains network is considered to consist of multiple assets. It consists of different areas and is capable of being separated and divided up. IAS 16 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.8 Property, plant and equipment (continued)

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 property, plant and equipment. Freehold land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. The estimated useful lives are as follows:

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

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

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

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

#### 1.9 Intangible assets and goodwill

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

##### *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.

##### *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
Software	3-10

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 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 of beads in Advanced Minerals Limited is based on the weighted average cost method, otherwise cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

#### 1.12 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.

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.

##### *Bad debt write-off policy*

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

##### *Non-financial assets*

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.12 Impairment excluding inventories and deferred tax assets (continued)

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

#### 1.13 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.

#### 1.14 Retirement benefits

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

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

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

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

#### 1.15 Provisions

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.15 Provisions (continued)

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

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

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

Provisions are not recognised for future operating losses.

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

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

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

#### 1.16 Revenue

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

The core principles of IFRS 15 'Revenue from Contracts with Customers' 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 (note 25).



# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.16 Revenue (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 (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 Market Operator Services Limited (MOSL).

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

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

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

For measured supply of water services, the amount of consideration to which the Group is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Group (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (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 (note 25).

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.16 Revenue (continued)

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

A refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. As the number of products returned has been minimal in prior years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognised as a provision (see note 1.15).

#### 2. Empty Properties – Household revenue

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

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

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

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

#### 3. Developer services – Other water revenue

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

##### a) Network extensions

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

##### b) Service connections

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (note 1.19) 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.16 Revenue (continued)

##### *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.

##### *3. Developer services – Other water revenue (continued)*

##### *d) Infrastructure charges*

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

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

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

##### *4. Commission income*

Commission revenue from other regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when SESW collects monies from customers on behalf of the other regulated companies. SESW acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the 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 customer takes physical possession of the asset. It is also the point at which the Company has the right to consideration. Delivery and installation usually occur at the same point in time and consequently revenue is recognised for both performance obligations simultaneously.

##### *6. Garage revenue*

The Group receives 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.17 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.

#### 1.18 Rounding of amounts

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

#### 1.19 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Group meeting the performance obligation required to recognise the transaction in the profit 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.

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

Revenue that relates to carried-forward contract liabilities of £5,723k (2022: £9,306k) is recognized in the current year as money received in advance from customers as at 31 March 2022 has been billed in the current year.

#### 1.20 Leases

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

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.20 Leases (continued)

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

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

#### 1.21 Expenses

##### *Financing income and expenses*

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. 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.

#### 1.22 Taxation

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

##### *Current tax*

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

##### *Deferred tax*

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

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### 1.22 Taxation (continued)

when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

#### 1.23 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.

#### 1.24 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).

### 2 Revenue

Revenue for the group can be identified as per below:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Supply of water	113,528	100,901
Non-Water income	9,227	10,707
Non-appointed revenue	2,377	2,297
Rental income	112	121
<b>Total</b>	<b>125,244</b>	<b>114,026</b>

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

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 3 Operating cost

	Note	2023 £000	2022 £000
Wages and salaries		16,424	16,074
Social security costs		2,299	1,949
Other pension costs	19	2,473	2,324
Power		6,821	6,617
Raw material and consumables		60,316	51,140
Depreciation of owned assets		12,726	12,157
Depreciation of right-of-use assets		382	283
Depreciation of investment properties		27	27
Amortisation of intangibles		1,112	936
Impairment of intangible assets		141	-
Bad Debt provided for during the year		-	12
Fees payable to the group's auditors and its associates:			
- For the audit of parent company and consolidated financial statements		92	56
- For the audit of the financial statements of the company's subsidiaries		909	606
- Audit of regulatory financial statements		55	50
- Other assurance services		50	79
Other operating charges		21,499	17,231
Management support and Service Agreement		400	400
<b>Total operating costs</b>		<b>125,726</b>	<b>109,941</b>

Wages and salaries disclosed above are shown net of capitalised costs. During the year £4,291k (2022: £2,462k) 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 2022. In 2023 there were non audit fees of £2k (2022: nil) paid for by a parent company. No other fees were paid to PwC.

#### 4 Other Operating Income

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

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

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

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



# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 5 Directors' remuneration

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 (2022: £nil).

No pension benefits are accruing to any directors (2022: £nil).

### 6 Employees

The average monthly number of persons employed by the Group (including directors) during the year were as follows:

	<b>2023</b>	<b>2022</b>
	<b>Number</b>	<b>Number</b>
Water supply	367	345
Other activities	115	123
	<b>482</b>	<b>468</b>

The aggregate remuneration comprised:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	16,424	16,074
Social security costs	2,299	1,949
Other pensions costs (note 19)	2,473	2,324
	<b>21,196</b>	<b>20,347</b>

### 7 Finance income and finance expenses

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<i>Finance cost</i>		
Bond interest	5,547	5,005
Bond indexation	22,111	6,628
Bond amortisation cost*	(1,373)	(1,548)
<b>Total cost of bond</b>	<b>26,285</b>	<b>10,085</b>
Interest on bank overdrafts and loans	3,685	5,101
<b>Total finance expenses</b>	<b>29,970</b>	<b>15,186</b>

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 7 Finance income and finance expenses (continued)

\*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.

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

#### 8 Income tax credit/(expense)

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
UK corporation tax on profits for the current year	(4)	(3)
Adjustments in respect of prior years	99	(130)
	<b>95</b>	<b>(133)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,835)	(927)
Changes in tax rates	(1,505)	13,286
Adjustments in respect of prior years	(210)	(271)
	<b>(6,550)</b>	<b>12,088</b>
<b>Taxation (credit)/charge for the year</b>	<b>(6,455)</b>	<b>11,955</b>

The (credit)/charge for the year can be reconciled to the loss per the Statement of Profit or Loss and Other Comprehensive Income as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Loss before taxation	(30,829)	(6,911)
Expected tax credit based on a corporation tax rate of 19.00% (2022: 19.00%)	(5,858)	(1,313)
Effect of expenses not deductible in determining taxable profit	129	62
Income not taxable	(55)	(256)
Adjustment in respect of prior years	99	(130)
Effect of change in UK corporation tax rate	(1,505)	13,286
Deferred tax adjustments in respect of prior years	(210)	(271)
Other adjustments	(344)	(327)
Rolled over gains	-	374
Amounts not recognised	1,289	530
Deferred tax	-	-
<b>Taxation (credit)/charge for the year</b>	<b>(6,455)</b>	<b>11,955</b>

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 8 Taxation (continued)

#### Factors affecting future tax rate

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

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



# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 10 Intangible assets

	Software	Contracts*	Goodwill	Work in Progress	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
Balance at 1 April 2021	7,616	7,376	112,546	6,161	133,699
Additions during the year	48	-	-	7,545	7,593
Disposals	(2,836)	-	-	-	(2,836)
Transferred from under construction	8,011	-	-	(8,011)	-
Other movements	(458)	-	-	458	-
<b>Balance at 31 March 2022</b>	<b>12,381</b>	<b>7,376</b>	<b>112,546</b>	<b>6,153</b>	<b>138,456</b>
Additions during the year	-	-	-	4,131	4,131
Disposals	-	-	-	-	-
Transferred from under construction	2,039	-	-	(2,039)	-
Other movements	-	-	-	-	-
<b>Balance at 31 March 2023</b>	<b>14,420</b>	<b>7,376</b>	<b>112,546</b>	<b>8,245</b>	<b>142,587</b>
<b>Accumulated Amortisation</b>					
Balance at 1 April 2021	6,066	6,260	-	-	12,326
Charge for the year	773	163	-	-	936
Eliminated on disposal	(2,761)	-	-	-	(2,761)
<b>Balance as at 31 March 2022</b>	<b>4,078</b>	<b>6,423</b>	<b>-</b>	<b>-</b>	<b>10,501</b>
Charge for the year	949	163	-	-	1,112
Impairment for the year	141	-	-	-	141
<b>Balance as at 31 March 2023</b>	<b>5,168</b>	<b>6,586</b>	<b>-</b>	<b>-</b>	<b>11,754</b>
<b>Net book values</b>					
<b>Balance as at 31 March 2022</b>	<b>8,303</b>	<b>953</b>	<b>112,546</b>	<b>6,153</b>	<b>127,955</b>
<b>Balance as at 31 March 2023</b>	<b>9,252</b>	<b>790</b>	<b>112,546</b>	<b>8,245</b>	<b>130,833</b>

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

#### *Amortisation and impairment charge*

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 10 Intangible assets (continued)

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

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

#### *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:

	<b>Goodwill</b>	<b>Goodwill</b>
	<b>2023</b>	2022
	<b>£000</b>	£000
<b>ESH Group Cash Generating Unit</b>	<b>112,546</b>	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 post-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	2023	2022
Exit RCV multiples	1.20	1.15
Discount Rate	6.45%	4.7%
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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 10 Intangible assets (continued)

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 £3.9m as at 31 March 2023.

Details on sensitivity analysis impacting future years are explained in the Critical accounting estimates and judgements note 25.

### 11. Investment properties

	<b>Investment properties £'000</b>
<b>Cost</b>	
Balance at 1 April 2021	2,860
<b>Balance at 31 March 2022</b>	<b>2,860</b>
<b>Balance at 31 March 2023</b>	<b>2,860</b>
<b>Accumulated Depreciation</b>	
Balance at 1 April 2021	163
Charge for the year	27
Disposals	-
<b>Balance at 31 March 2022</b>	<b>190</b>
Charge for the year	27
<b>At 31 March 2023</b>	<b>217</b>
<b>Net book values</b>	
At 31 March 2022	2,670
<b>At 31 March 2023</b>	<b>2,643</b>

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.

### 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.



## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 12 Investments in subsidiaries (continued)

The principal activities for all investments are as follows:

Name of Company	Activity	Class of shares	Ownership	
			2023	2022
<i>Directly held:</i>				
East Surrey Holdings Limited	Holding Company	Ordinary	100%	100%
<i>Indirectly held:</i>				
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%

#### 13 Deferred tax liabilities

Deferred tax liabilities are attributable to the following:

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

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 13 Deferred tax liabilities (continued)

*Movement in deferred tax during the year*

	Property, plant and equipment £000	Employee benefits (pension) £000	Total £000
At 1 April 2021	38,210	3,699	41,909
Charged to the profit or loss	10,448	1,640	12,088
Charged to other comprehensive income	-	983	983
At 31 March 2022	48,658	6,322	54,980
(Credited)/charged to the profit or loss	(6,641)	91	(6,550)
Credited to other comprehensive income	-	(4,312)	(4,312)
At 31 March 2023	<b>42,017</b>	<b>2,101</b>	<b>44,118</b>

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

#### 14 Inventories

As at 31 March	2023 £000	2022 £000
Raw materials	815	782
Work in progress	43	21
Finished goods	595	579
	<b>1,453</b>	<b>1,382</b>

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

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 15 Trade and other receivables

##### As at 31 March

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	50,647	45,890
Provision for bad and doubtful debts	(12,388)	(10,272)
	<b>38,259</b>	<b>35,618</b>
Other tax and social security	364	555
Other receivables	2,395	2,327
Prepayments	4,415	3,061
Contract assets	5,864	5,594
Corporation tax receivables	590	1,723
	<b>51,887</b>	<b>48,878</b>

Movements in the expected credit losses provision were as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
At the beginning of the year	10,272	10,709
Charge for bad and doubtful debts	2,376	12
Bad debt release	-	(449)
Bad debt write-off	(260)	-
<b>At the end of the year</b>	<b>12,388</b>	<b>10,272</b>

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

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

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

	<b>Aged less than 6 months</b>	<b>Aged between 6 and 12 months</b>	<b>Aged between 12 and 48 months</b>	<b>Aged greater than 48 months</b>	<b>Total</b>
<b>Trade receivable</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 31 March 2022	1,096	768	4,642	3,766	10,272
At 31 March 2023	1,037	805	6,153	4,393	12,388

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 16 Cash and cash equivalents

As at 31 March	2023 £000	2022 £000
Cash	44,266	30,814
<b>Cash and cash equivalents</b>	<b>44,266</b>	<b>30,814</b>

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

### 17 Interest-bearing loans and borrowings

	2023 £000	2022 £000
<b>Borrowings held at amortised cost:</b>		
Long-term loans	110,875	94,825
2.874% Secured Index-Linked Bond 2027-2031	213,355	192,798
3.25% Irredeemable debentures	50	50
5% Irredeemable debentures	52	52
Short-term overdraft	15,000	0
Leases (note 22)	680	766
	340,012	288,491
Less: current portion	(15,000)	-
Non-current portion	325,012	288,491

#### Changes in liabilities from financing activities

	3.25% Irredeemable debentures £000	5% Irredeemable debentures £000	Bond £100m 2.874% (2027- 2031) £000	Bond costs £000	Other loans £000	Finance and lease contract £000	Total £000
<b>Balance at 1 April 2021</b>	50	52	192,139	(4,421)	80,000	756	268,576
<b>Changes from financing activities</b>							
Indexation	-	-	6,628	-	-	-	6,628
Amortisation of bond cost	-	-	-	444	-	-	444
Other borrowings	-	-	-	-	14,825	-	14,825
IFRS 16 – lease liability	-	-	-	-	-	10	10
Amortisation of bond revaluation	-	-	(1,992)	-	-	-	(1,992)
<b>Balance at 31 March 2022</b>	50	52	196,775	(3,977)	94,825	766	288,491
<b>Changes from financing activities</b>							
Indexation	-	-	22,111	-	-	-	22,111
Amortisation of bond cost	-	-	-	438	50	-	488
Drawdown of borrowings	-	-	-	-	35,000	-	35,000
Repayment of borrowings	-	-	-	-	(4,000)	-	(4,000)
IFRS 16 – lease liability	-	-	-	-	-	(86)	(86)
Amortisation of bond revaluation	-	-	(1,992)	-	-	-	(1,992)
<b>Balance at 31 March 2023</b>	50	52	216,894	(3,539)	125,875	680	340,012

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 17 Interest-bearing loans and borrowings (continued)

Included in other loans are:

- the £36 m loan with Pacific Life held by East Surrey Holdings Limited shown net of arrangement fees, which carries a fixed interest rate of 3.22% and is due or repayment in 2025;
- two RCF facilities with RBS held by SESW, the first is 5-year £50m facility and the second is a 3-year facility of £25m, both of which were fully drawn down at the year-end date and have a margin above SONIA rate; and
- £15m short-term overdraft from National Westminster Bank held by SESW which was fully drawn down at the year-end date and has a fixed margin above Bank of England base rate. The short-term overdraft of £15m was repaid in May 2023.

#### 18 Trade and other payables

As at 31 March

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Current</b>		
Trade payables	12,337	10,358
Other trade payables	24,727	24,977
Overdraft	7,835	9,272
Contract liabilities	6,266	5,723
Lease liabilities (see note 22)	399	335
Deposits from developers	373	344
Accruals	18,717	18,798
	<b>70,654</b>	<b>69,807</b>

#### Contract liabilities

##### Group

	<b>£000</b>
<b>Opening balance as at 1 April 2022</b>	<b>5,723</b>
Revenue recognised that was included in the contract liability balance at the beginning of the year	(5,723)
Increase due to cash received, excluding amounts recognised as revenue during the year	6,266
<b>Closing balance as at the end of the year, 31 March 2023</b>	<b>6,266</b>

#### 19 Retirement benefit schemes

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 19 Retirement benefit schemes (continued)

#### Defined benefit scheme

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

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

The risks of the scheme are as follows:

(a) Asset volatility

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

(b) Changes in Bond yields

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

(c) Life expectancy

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

(d) Inflation risk

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

#### Guaranteed Minimum Pension (GMP)

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

#### Section buy-in

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 19 Retirement benefit schemes (continued)

#### Valuation

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

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

#### Deficit contributions

The entity didn't make any deficit contributions as the scheme is in surplus.

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

Reconciliation of scheme assets and liabilities:

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

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



## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 19 Retirement benefit schemes (continued)

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

The majority of the Section assets are held within instruments with quoted market prices in active market.

The Section does not invest in property occupied by the Group or in the financial securities issued by the Group.

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

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 19 Retirement benefit schemes (continued)

*Total (expense)/credit recognized in the profit or loss*

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

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

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

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 19 Retirement benefit schemes (continued)

*Changes in net assets/(liabilities) recognised in the balance sheet*

	2023 £000	2023 £000	2023 £000	2022 £000	2022 £000	2022 £000
	WCPS	Unfunded	Total	WCPS	Unfunded	Total
Balance sheet asset/(liability) at the beginning of the year	26,265	(973)	25,292	20,476	(1,006)	19,470
Credit/(charge) recognised in profit and loss	344	(26)	318	140	(19)	121
(Loss)/gain recognised in other comprehensive Income	(17,398)	150	(17,248)	5,649	9	5,658
Company contributions paid	-	47	47	-	43	43
Balance sheet asset/(liability) at the end of the year	9,211	(802)	8,409	26,265	(973)	25,292

#### 20 Share Capital

As at 31 March	2023 £000	2022 £000
Allotted, called up and fully paid		
349,100,002 (2022: 329,100,002) ordinary shares of £0.50 each	174,550	164,550

At 28 March 2023, the company was allotted 20,000,000 ordinary shares of £0.50 each.

#### *Dividends*

The following dividends were paid during the year:

	2023 £000	2022 £000
£Nil (2022: £0.01) per qualifying ordinary share	-	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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 21 Financial instruments

#### (a) Fair values of financial instruments

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

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

#### Determining the fair value of financial liabilities

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

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

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

As at 31 March	Carrying amount	Fair value	Level 1	Level 2	Carrying amount	Fair value	Level 1	Level 2
	2023 £000	2023 £000	2023 £000	2023 £000	2022 £000	2022 £000	2022 £000	2023 £000
<b>Financial liabilities measured at amortised cost</b>								
3.22% Pacific Life loan	35,875	34,113	-	34,113	35,825	35,945	-	35,945
2.874% secured index-linked bond 2027 – 2031	213,355	241,379	241,379	-	192,798	241,379	241,379	-
<b>Total financial instruments</b>	<b>249,230</b>	<b>275,492</b>	<b>241,379</b>	<b>34,113</b>	<b>228,623</b>	<b>277,324</b>	<b>241,379</b>	<b>35,945</b>

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

#### (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)

##### (c) Liquidity risk

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

31 March 2023	Undiscounted contractual cashflows £000	1 year to less £000	1 to <5 years £000	5 years and over £000
<b>Non-derivative financial liabilities</b>				
Loan and other borrowing	75,000	-	75,000	-
Debentures	102	-	-	102
Overdrafts	7,835	7,835	-	-
Short term overdraft	15,142	15,142	-	-
Trade and other payables	62,821	62,821	-	-
Interest rate - 2.874% secured index-linked bond 2027-2031	324,936	6,024	82,882	236,030
Interest rate – 3.22%	39,477	1,159	38,318	-
	<b>525,313</b>	<b>92,981</b>	<b>196,200</b>	<b>236,132</b>

31 March 2022	Undiscounted contractual cashflows £000	1 year to less £000	1 to <5 years £000	5 years and over £000
<b>Non-derivative financial liabilities</b>				
Loan and other borrowing	59,000	-	59,000	-
Debentures	102	-	-	102
Overdrafts	9,272	9,272	-	-
Trade and other payables	60,535	60,535	-	-
Interest rate - 2.874% secured index-linked bond 2027-2031	299,488	5,327	25,534	268,627
Interest rate – 3.22%	40,119	1,159	38,960	-
	<b>468,516</b>	<b>76,293</b>	<b>123,494</b>	<b>268,729</b>

##### 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	2023 £000	2022 £000
Expiring in one year or less	-	1,000
Expiring between one and two years	-	-
Expiring in more than two years	1,000	16,000
	<b>1,000</b>	<b>17,000</b>

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 21 Financial instruments (continued)

#### (d) Market risk

##### *Financial risk management*

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

##### *Market risk — Foreign currency risk*

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

##### *Market risk — Interest rate risk*

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

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

##### *Sensitivity analysis*

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Equity</b>		
Increase	768	473
Decrease	(768)	(473)
<b>Profit or loss</b>		
Increase	(768)	(473)
Decrease	768	473

#### (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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 21 Financial instruments (continued)

#### *(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 Group's RCV and revenues; cash flow timing mismatch between allowed cost of debt and the Group's incurred cost of debt; the inflation risk premium that is generally incorporated into nominal debt costs; income statement volatility; hedging costs; debt maturity profile mismatch risk; and index-linked hedging positioning relative to the water sector.

The carrying value of index-linked debt held by the Group was £213.355 million at 31 March 2023 (2022: £192.798 million).

#### *(f) Capital management*

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

The capital structure of the Group consists of net debt and equity as disclosed in note 20. The Group's net debt is comprised of cash and cash equivalents, debentures, bank and other loans and an index-linked bond.

The group's objectives when managing capital are to:

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

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

#### **Gearing**

Consistent with others in the industry, 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 77% (2022: 72% – restated as per SES Water published annual report). The increase in gearing ratio was attributed to the additional draw-down of RCF and the indexation charge on the index-linked bond during the current year.

#### **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 November each year covering calculation period of 12 months ending 31st March and 31st October an interest cover ratio of at least 1.10:1, an adjusted interest cover ratio of at least 1.0:1.0 and a Regulated Asset Ratio of not more than 0.95:1.
- Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each scheduled price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulatory Asset Ratio of less than or equal to 0.80:1.
- Under the agreement of £36m loan, ESH will not create, assume, incur or guarantee or otherwise be or become liable in respect of any indebtedness other than under this agreement. The Group shall permit the ICR (Interest Cover Ratio) in respect of any calculation period to be less than 1.10:1 and the RAR (Regulated Asset Ratio) to exceed 0.95:1.

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



# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 21 Financial instruments (continued)

#### 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 2022 of £nil (2021: £1,750,000) and Interim dividend for the year ended 31 March 2023 of £nil (2022: £1,750,000) was paid. No further dividends have been proposed or declared.

### 22 Right-of-use assets and lease liabilities

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 recognized 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 recognized in the financial statements in relation to the leases are as follows:

*Amounts recognised in the balance sheet:*

<b>31 March 2023</b>	<b>SESW £000</b>	<b>SESWS £000</b>	<b>AML £000</b>	<b>Total £000</b>
<b>Right of use assets</b>				
Vehicles	816	-	-	816
Plant & Machinery	-	-	238	238
	816	-	238	1,054
<b>Lease liabilities</b>				
Current	307	-	92	399
Non-current	530	-	150	680
	<b>837</b>	<b>-</b>	<b>242</b>	<b>1,079</b>
<b>31 March 2022</b>				
	<b>SESW £000</b>	<b>SESWS £000</b>	<b>AML £000</b>	<b>Total £000</b>
<b>Right of use assets</b>				
Vehicles	625	-	-	625
Plant & Machinery	-	-	328	328
Buildings	-	144	-	144
	625	144	328	1,097
<b>Lease liabilities</b>				
Lease liabilities	212	33	90	335
Long-term lease liabilities	412	111	243	766
	<b>624</b>	<b>144</b>	<b>333</b>	<b>1,101</b>

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

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 22 Right-of-use assets and lease liabilities (continued)

Amounts recognised in Statement of Profit or Loss and Other Comprehensive Income:

As at 31 March 2023	SESW £000	SESWS £000	AML £000	Total £000
<b>Depreciation charge of right of use assets</b>				
Vehicles	252	-	-	252
Plant & Machinery	-	-	92	92
Buildings	-	38	-	38
	252	38	92	382
Interest expense	28	10	7	45

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

	£000	£000	£000	£000
Not later than one year	307	-	92	399
Between one and five years	559	-	161	720
Later than five years	-	-	-	-
Total gross payments	866	-	253	1,119
Impact of finance expenses	(29)	-	(11)	(40)
<b>Carrying amount of liability</b>	<b>837</b>	<b>-</b>	<b>242</b>	<b>1,079</b>

As at 31 March 2022	SESW £000	SESWS £000	AML £000	Total £000
<b>Depreciation charge of right of use assets</b>				
Vehicles	149	-	-	149
Plant & Machinery	-	-	92	92
Buildings	-	42	-	42
	149	42	92	283
Interest expense	34	1	9	44

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

	£000	£000	£000	£000
Not later than one year	212	44	98	354
Later than one year and not later than five years	427	122	252	801
Later than five years	-	-	-	-
Total gross payments	639	166	350	1,155
Impact of finance expenses	(15)	(22)	(17)	(54)
<b>Carrying amount of liability</b>	<b>624</b>	<b>144</b>	<b>333</b>	<b>1,101</b>

## Sumisho Osaka Gas Water UK Limited

### Notes to the Financial Statements

#### 23 Commitments

As at 31 March	2023 £000	2022 £000
Contracted capital commitments	3,000	10,400

#### 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.

	Administrative expenses incurred from	
	2023 £000	2022 £000
Shareholders	400	400
Other related parties	39	39
	<b>439</b>	<b>439</b>

As at 31 March	Receivables outstanding		Payables outstanding	
	2023 £000	2022 £000	2023 £000	2022 £000
Other related parties	4	5	-	22
	<b>4</b>	<b>5</b>	<b>-</b>	<b>22</b>

##### *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 (2022: nil). As also noted, no remuneration was paid to directors during the year (2022: £nil).

#### 25 Critical accounting estimates and judgements

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

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

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 25 Critical accounting estimates and judgements (continued)

#### *Goodwill*

Goodwill is assessed annually for impairments by analysing 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.

In identifying the assumptions used to assess the carrying value of goodwill, the Directors have considered a range of valuation inputs. These have included data points from market information, similar peer group companies and other utilities, and management's internal forecasting.

The key assumptions which generate material estimation uncertainty to carrying value of goodwill over the next financial year are the weighted average cost of capital ('WACC') and exit multiple applied to the assets of the appointed business.

The Directors have considered the on-going trends in the macroeconomic environment such as increases in cost of living in the UK and rising cost of debt and concluded that a reasonably possible change in the appointed business WACC assumption at 31 March 2023 is between 6.45% to 7.5% within the next financial year.

The Directors have also considered the performance in the appointed business and concluded that a reasonably possible change in the exit multiple assumption at 31 March 2023 is between 1.1x and 1.2x within the next financial year.

This is also consistent with the level of changes in these assumptions during the previous financial year to 31 March 2023.

The Directors have set out the impact on carrying value of goodwill below:

- A Discount rate of 7.5% and 1.1x exit multiple would result in an impairment of goodwill of £72m.
- A discount rate of 6.8% and 1.1x exit multiple which would result in an impairment of goodwill of £34m.
- A discount rate of 6.45% and 1.15x exit multiple which is the middle range scenario would result in an impairment of goodwill of £4m.

The company will continue to assess the carrying value of its investment and assessment of Goodwill annually.

#### *Estimate - unbilled measured income*

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

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

#### *Estimate - Defined benefit pension scheme*

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

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historical experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in note 19.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 25 Critical accounting estimates and judgements (continued)

#### *Estimate - Provision of doubtful debt*

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

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

#### *Judgement – Capitalisation of expenditure as property, plant and equipment*

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

### 26 Post Balance Sheet Events

Subsequent to the balance sheet date, 31 March 2023 management has evaluated events through 27 November 2023, which is the date the consolidated financial statements were available to be issued, there were no subsequent events that required adjustment to the group financial statements. Full details of events after reporting date are explained in the Directors' Report.

The Shareholders of the Company have engaged financial advisors to undertake a strategic review of the SOGWUK Group's business, including SESW and as of October 2023 they are in advanced negotiations with a potential buyer of the sale of the company. The potential sale is not yet finalised and remains conditional on final agreement and approvals, therefore it remains uncertain at the date of signing these accounts if the proposed sale will proceed.

### 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

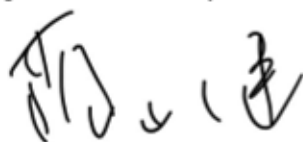
### Company Balance Sheet as at 31 March

	Note	2023 £000	2022 £000
<b>Non-current assets</b>			
Investments	33	148,499	161,600
Deferred tax assets	32	443	492
		<b>148,942</b>	<b>162,092</b>
<b>Current assets</b>			
Debtors	34	12,094	1,019
Cash at bank and in hand		1,717	2,817
		<b>13,811</b>	<b>3,836</b>
Creditors: amounts falling due within one year	35	(91)	(100)
Financial guarantee liabilities	38	(1,770)	(1,967)
<b>Net current assets</b>		<b>11,950</b>	<b>1,769</b>
<b>Net assets</b>		<b>160,892</b>	<b>163,861</b>
<b>Capital and reserves</b>			
Called up share capital	36	174,550	164,550
Profit and loss account*		(13,658)	(689)
<b>Total Shareholders' funds</b>		<b>160,892</b>	<b>163,861</b>

\* The company's loss after tax for the year ended 31 March 2023 was £12,969,000 (2022: Profit of £2,003,000).

The notes on pages 66 to 73 form part of the financial statements.

These financial statements on pages 64 to 73 were approved by the Board of Directors on 27 November 2023 and signed on its behalf by:



.....  
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 2021	164,550	808	165,358
<b>Total comprehensive income for the year</b>			
Profit for year	-	2,003	2,003
Total comprehensive income for the year	-	2,003	2,003
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
<b>Balance carried forward 31 March 2022</b>	<b>164,550</b>	<b>(689)</b>	<b>163,861</b>
Balance brought forward 1 April 2022	164,550	(689)	163,861
<b>Total comprehensive expense for the year</b>			
Loss for year	-	(12,969)	(12,969)
Total comprehensive expense for the year	-	(12,969)	(12,969)
Issue of shares	10,000	-	10,000
<b>Balance carried forward 31 March 2023</b>	<b>174,550</b>	<b>(13,658)</b>	<b>160,892</b>

The notes on pages 66 to 73 form part of the financial statements.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company 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.

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

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 loss for the year ended 31 March 2023 was £12,969,000 (2022: Profit of £ 2,003,000).

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 1<sup>st</sup> 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 Statement of Comprehensive income;
- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, intangible assets and investments;
- 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 of transactions with a management entity that provides key management personnel services to the Company;
- The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements; and
- Disclosure of financial instruments in line with IFRS 7. 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.

On 12 July 2023, the Company received a Letter of Support from Sumitomo Corporation and Osaka Gas Co. Ltd, the ultimate parent undertakings for at least 12 months from the date of signing these financial statements, and is only valid to the extent the Company remains wholly owned by its current shareholders. This obligates Sumitomo Corporation and Osaka Gas Co. Ltd to provide the Company financial support as necessary such that the Group is able to operate as a going concern.

However, as noted in the Strategic Report the Shareholders of the company are in advanced negotiations with a potential buyer for the sale of the company, which may complete within the next 12 months. The Company’s Directors do not have access to financing arrangements of the potential purchaser going forward or visibility of strategic plans or forecasts under any new ownership and therefore the directors are unable to incorporate these plans in their going concern assessment. As such, this creates a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not contain the adjustments that would arise if the Company were unable to continue as a going concern.



# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 28 Accounting policies (continued)

#### **Investments**

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

#### **Other income**

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

#### **Taxation**

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

##### *Current tax*

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

##### *Deferred tax*

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

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

#### **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 recognized in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

##### *Financial guarantee contract*

According to IFRS9, financial guarantee contract (FGC) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. An issued FGC is a financial liability and is initially recognised at fair value. If the FGC is issued to an unrelated party at arms-length, the initial fair value is likely to equal the premium received. If no premium is received (often the case in intragroup situations), the fair value must be determined using a different method that quantifies the economic benefit of the FGC to the holder. The present value of this differential over the term of the loan would therefore be the initial fair value.

Subsequently, the FGC is measured the IFRS 9 Expected Credit Loss (ECL) allowance.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 28 Accounting policies (continued)

#### **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 include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. All transactions are recognised on their transaction date.

#### **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 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 (2022: nil).

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 30 Other income

	Note	2023 £000	2022 £000
Management Fees		100	100
Interest income		16	-
Unordinary Income	38	197	-
Dividends		-	3,500

### 31 Expenses and auditors' remuneration

	2023 £000	2022 £000
Included in profit are the following:		
Auditors' remuneration:		
Audit of these financial statements	92	56
Underprovision in previous years	4	-
	96	56

In 2023 there were non audit fees of £2k (2022: nil) paid for by a parent company.

### 32 Taxation

#### A. Recognised in the profit and loss account

	2023 £000	2022 £000
<b>UK corporation tax</b>		
Current tax credit on income for the year	(4)	(5)
Deferred tax	49	(492)
<b>Tax credit on (loss)/profit</b>	<b>45</b>	<b>(497)</b>

#### B. Reconciliation of effective tax rate

The tax charge for the year is higher to (2022: lower) the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below.

	2023 £000	2022 £000
(Loss)/Profit for the year	(12,969)	2,003
Total tax charge/(credit)	45	(497)
<b>(Loss)/Profit excluding tax</b>	<b>(12,924)</b>	<b>1,506</b>
<b>Tax using the UK corporation tax rate of 19% (2022: 19%)</b>	<b>(2,456)</b>	<b>286</b>
Effect of:		
UK dividend income	-	(665)
Disallowable expense	2,490	-
Differences in tax rates	11	(118)
<b>Total tax charge/(credit)</b>	<b>45</b>	<b>(497)</b>

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 32 Taxation (continued)

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

An increase in the UK Corporation tax from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021 and confirmed on 17 October 2022 by the Chancellor of the Exchequer. This will increase the company's future current tax charge accordingly.

Deferred taxes on the balance sheet have been measured at 25% (2022: 25%) which represents the future corporation tax rate that was enacted at the balance sheet date.

#### D. Deferred tax assets

	2023 £000		2022 £000
<b>Deferred tax assets are attributable to the following:</b>			
Losses	443		492
<b>Net tax assets</b>	<b>443</b>		<b>492</b>
	2023 £000	Recognised in income statement £000	2022 £000
<b>Movements in deferred tax during the year</b>			
Losses	443	49	492
<b>Net tax assets</b>	<b>443</b>	<b>49</b>	<b>492</b>

### 33 Investments

	Subsidiary companies £'000
Details of movements in the year:	
At 1 April 2022	161,600
Additions	-
Disposals	-
<b>At 31 March 2023</b>	<b>161,600</b>
<b>Provisions for impairment:</b>	
As at 1 April 2022	-
Provision for the year	13,101
<b>At 31 March 2023</b>	<b>13,101</b>
<b>Net book value:</b>	
At 31 March 2022	161,600
At 31 March 2023	148,499

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 33 Investments (continued)

The Company performed an assessment on the carrying value of the investment it holds in ESH group. In assessing the carrying value, the Directors have considered the key assumptions when calculating the higher of value in use and fair value less cost to sell as compared to the carrying amount of the investment in the ESH Group. As a result the Directors have recognised an impairment of £13.1m for the year in the SOGWUK Company financial statements. For further details on sensitivity analysis impacting future years are explained in the Critical accounting estimates and judgements note 37.

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

<b>As at 31 March</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Due from subsidiaries	12,080	1,005
Other debtors	14	14
	<b>12,094</b>	<b>1,019</b>
Due within one year	12,094	1,019

Included in the amounts receivable from subsidiaries are unsecured, interest bearing short term shareholders loans of £7,000,000 to Sutton and East Surrey Water Plc due 7 May 2023 charging 6% interest, and £4,000,000 to Sutton and East Surrey Water Services Limited due 31 March 2024 charging 5.85% interest.

### 35 Creditors: amounts falling due within one year

<b>As at 31 March</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Due to subsidiaries	-	22
Accruals and deferred income	68	56
Other creditors	23	22
	<b>91</b>	<b>100</b>

### 36 Called up share capital

#### *Called up Share Capital*

<b>As at 31 March</b>	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully paid:</b>		
349,100,002 (2022: 329,100,002) ordinary shares of £0.50 each	174,550	164,550

During the year, 20,000,000 ordinary shares with a nominal value of £10,000,000 were issued by the Company. 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 24 August 2023, the company was allotted 4,000,000 ordinary shares with a nominal value of £0.50 each.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 36 Called up share capital (continued)

#### *Dividends*

The following interim dividends were paid during the year:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
£nil (2022: £0.01) per qualifying ordinary share	-	3,500

### 37 Critical 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 year and concluded after taking the key assumptions into account and calculating the higher of value in use and fair value less cost to sell as compared to the carrying amount of the investment in the ESH Group. The Directors have recognised an impairment of £13.1m for the year in the SOGWUK Company financial statements.

In identifying the assumptions used to assess the carrying value of investments, the Directors have considered a range of valuation inputs. These have included data points from market information, similar peer group companies and other utilities, and management's internal forecasting.

The key assumptions which generate material estimation uncertainty to carrying value of the investment in the ESH group over the next financial year are the weighted average cost of capital ("WACC") and exit multiple applied to the assets of the appointed business.

The Directors have considered the on-going trends in the macroeconomic environment such as increases in cost of living in the UK and rising cost of debt and concluded that a reasonably possible change in the appointed business WACC assumption at 31 March 2023 is between 6.45% to 7.5% within the next financial year.

The Directors have also considered the performance in the appointed business and concluded that a reasonably possible change in the exit multiple assumption at 31 March 2023 is between 1.1x and 1.2x within the next financial year.

This is also consistent with the level of changes in these assumptions during the previous financial year to 31 March 2023.

The Directors have set out the impact on carrying value of investment below:

- A Discount rate of 7.5% and 1.1x exit multiple would result in an impairment of £76m.
- A discount rate of 6.8% and 1.1x exit multiple would result in an impairment of £37m.
- A discount rate of 6.45% and 1.15x exit multiple which is the middle range scenario would result in an impairment of £8m.

The company will continue to assess investment value annually and also consider events post year end.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Company Financial Statements

### 38 Financial guarantee liabilities

Sumisho Osaka Gas Water UK Limited (SOGWUK) is a guarantor to Sutton and East Surrey Water Services Limited (SESWS) for a credit facility provided by HSBC. The total guaranteed amount is £15m as at the balance sheet date of these financial statements. The fair value of the liability for the financial guarantee has been determined using the interest rate differentials method and is amortised over 10 years on a straight line basis.

<b>As at 31 March:</b>	<b>2023</b>	<b>Amortised</b>	<b>2022</b>
	<b>£000</b>	<b>during</b>	<b>£000</b>
		<b>year</b>	
		<b>£000</b>	
Fair Value of Liability	1,770	(197)	1,967

### 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

Subsequent to the balance sheet date, 31 March 2023 management has evaluated events to 27 November 2023, which is the date the consolidated financial statements were available to be issued.

On 12 July 2023 and 11 August 2023, the Company increased its investment in East Surrey Holdings by £2 million and £5 million respectively.

On 25 August 2023 the Company issued 4,000,000 shares with nominal value of £0.50 per share with total value of £2,000,000 which were paid by Summit Water Limited and Osaka Gas UK Limited on the same day.

During the current year, SOGWUK supported SESWS, the water retail division of the Group with shareholder's loans of £4m and provided a shareholder's loan of £7m to SESW to meet its operational needs and financial covenants at the year-end date, of which the £7m loan has been fully repaid subsequent to the year end. In July 2023 and October 2023, a further £1.5m and £1.3m of shareholder's loans was provided to SESW's financial needs.

The Shareholders of the Company have engaged financial advisors to undertake a strategic review of the SOGWUK Group's business, including SESW and as of October 2023 they are in advanced negotiations with a potential buyer of the sale of the company. The potential sale is not yet finalised and remains conditional on final agreement and approvals, therefore it remains uncertain at the date of signing these accounts if the proposed sale will proceed.