Sumisho Osaka Gas Water UK Limited

Annual Report and Financial Statements for the year ended
31 March 2019

Company Number 08369318

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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 2019

Principal activities

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

The primary activities within the Group is to both supply water to domestic customers through SES Water (SESW), a regulated public water supply company and to act as a retailer within the water and sewerage retail market for eligible non-household customers through Sutton and East Surrey Water Services Limited (trading as SES Business Water) The other smaller subsidiaries include Advanced Minerals whom source and process materials and minerals and Allmat a locally based builders merchant in Kenley.

Sutton and East Surrey Water Plc (SESW)

SES Water (SESW) the largest company within the Group, supplies 160 million litres of clean water each day to 712,000 people in East Surrey, and parts of West Sussex, West Kent and South London Some key highlights of 2019 include;

- Despite some challenges like the hottest summer on record, SESW met the majority of its annual performance commitments, including its leakage target for the 20th year running
- The water produced by SESW continues to be of the highest quality and good progress is being made towards ensuring that every customer can be supplied by more than one treatment works
- In the year SESW moved to using 100% renewable electricity, installed more solar panels and welcomed its first electric vehicles into its fleet
- Work started on a brand new website and customer billing system.
- The business plan for 2020 to 2025 which was developed in partnership with SESW's customers including several industry leading measures was submitted to OFWAT

SESW's overall aim is to continue to be a well-run, respected and successful business SESW takes its role of being trusted to provide an essential public service very seriously, and for SESW it is more than just supplying water but wanting to play an activity part in the communities that we live within SESW is a small local company and has been deeply embedded in local communities for over 150 years. SESW has 5 key aims that each of its employees strives to deliver through their roles within the company,

Aim 1 – To provide a reliable and sufficient supply of safe, high quality drinking water:

Planned interruptions to supply are necessary so that SESW can improve the long-term resilience of the network by replacing aging pipes However, performance in this area this year is largely due to unplanned activity which cannot be predicted, such as burst mains In May 2018 SESW experienced a large-scale burst in the Merstham area that impacted around 1,000 customers for longer than the three-hour time period that our target is based on Historically SESW have been amongst the best performers in the industry so although this year we have missed the target due to a single isolated issue, however SESW's customers are still much less likely to experience an interruption to their supply compared to elsewhere in the country

Another area of historic strong performance is the number of burst mains, where the target has been met again. There were more than the previous year, again reflecting the challenging weather conditions which puts stress on ground conditions and pipes, but the still low number reflects the general good health of our network and the work that goes into maintaining it, such as pressure management and sustained investment.

Quality water is of upmost importance and an achievement of 99 97% was met for the Overall Drinking Quality Index in 2018 Every year SESW carry our thousands of samples to ensure that the water leaving the treatment works is of high quality and 100% of compliance was achieved across all treatment works and service reservoirs

In 2018 SESW received 388 contacts – 38 more than the limit set – which means that SESW will incur a penalty from Ofwat of £1,000 per contact for everyone over the deadband of 375 – a total of £13,000. Whilst any penalty from the regulator is disappointing, this still maintains a top three industry ranking for the fourth year in a row and SESW were also industry leading for taste contacts.

Aim 2 – Offer good value for money and keep bills at a fair and reasonable level:

With just 8% per cent of customers questioned feeling that their water bill is not good value for money, this is well within the target limit of 15 per cent The average household bill for 2018/19 increased by £5 - less than the rate of inflation and equating to about 53 pence day – with money coming from bills playing a crucial part in the ongoing investment programme

Most customers do not struggle to pay their bill but we recognise that for some people it can be a challenge, even temporarily, so we are very pleased that now well over 10,000 eligible customers are in receipt of our Water Support Scheme which provides a 50 per cent discount to those in genuine financial hardship We pledged to help 5,000 people by 2020 but we reached this level three years ago and continue to welcome more people onto the tariff by increasing our activity to raise awareness of the support we can offer

Aim 3 – Increase the resilience of the network to drought, flooding and equipment failure:

SESW has had no restrictions on the use of water this year Like other water companies, SESW depends on winter rainfall for the water we supply to our customers as underground aquifers – rocks which act like a giant sponge – only usually fill up between October and March when there is less plant growth and evaporation October 2018 – the start of the critical six month 'recharge season' - was dry, with only about half of the average rainfall during the month, however November and December were wetter There was a dry spell again in January and just under average rainfall levels in February March was very wet which brought overall winter rainfall to 96% of the long-term average However, groundwater resources have remained below average throughout the year which is largely due to the significant demand experienced during the heatwave last year which significantly depleted resources.

Since 2010 SESW has been progressing a resilience programme to enable the transfer of water from Bough Beech Treatment Works in Kent to the north of the area, which was previously completely reliant on groundwater supplies. This means that by 2025 the aim is that every property can be supplied by more than one treatment works which is so important to keeping customers' taps running, particularly during outages and periods of low rainfall A significant step forward in this ambition this year was the completion of a 7.3km trunk main between Woodmansterne Treatment Works and the town of Purley.

Aim 4 – Deliver consistently high levels of service:

Satisfaction with the overall water service SESW provides is extremely high and above target at 92 per cent This score is generated from our household satisfaction survey which is completed by a random representative sample of 400 customers during the year and asks about important topics like continuity of supply, pressure and taste

SESW continues to be measured by Ofwat's Service Incentive Mechanism (SIM), an industry customer service metric intended to provide consistency of measurement across all companies The score is based on two factors – customers' experiences when they have had to contact SESW and also the number of unwanted contacts and complaints received.

Regrettably, despite making steady progress this year, including achieving the highest ever quarterly billing score, SESW has still finished in the bottom quartile of the national league table Essentially, taking both satisfaction targets into account demonstrates that customers are happy with their water but SESW needs to perform better when they have a need to contact them, such as about a change in circumstances or an operational problem SESW is now halfway through a two-year customer experience transformation programme where focus remains on a number of key areas intended to drive improvements, based on what our customers tell us is important, such as getting things right first time every time and investing in our digital contact channels.

Another key indicator of customer satisfaction is the number of complaints received Disappointingly SESW has had more than its target limit but the downward trend over recent years has continued and is now at a four year low of 8 28 complaints per 1000 properties This demonstrates that the changes are being made such as increased training and simplified processes, are working despite.

Aim 5 – Reduce the impact on the environment while seeking to make a positive contribution to its quality:

Managing leakage is one of SESW's customers' top priorities SESW has met its leakage target for the 20th successive year SESW remains one of the top performing companies in this area and is committed to doing even better in the future with very challenging targets in the next business plan

SESW operates in a region which is classified as being in serious 'water stress' due to the growing population and limited resources which is why the water company has a target to reduce the amount of water per person that we need to take from the environment Although SESW missed this target this year due to the substantial summer demand, there has been a significant increase in the number of water meters installed – over 10,000 – which is one of the most effective ways to educate customers about their usage as they only pay for what they use

Another education activity is the work done with children and adults to increase the value that they place on their water supply This ranges from school visits at our Bough Beech Reservoir to spreading water-saving messages at community events, all of which we know leads to small changes that can add up to big benefits SESW has reached well over 11,000 people this year

Sutton and East Surrey Water Services Ltd (SESWS)

SESWS is the second largest operating company in the Group.

SESWS operates as two separate trading divisions SES Business Water and SES Home Services. SES Business Water saw turnover rise substantially during the year as it continued its strategy to add business water customers outside of its original incumbent area. The business also took the decision during the year to invest in a new billing system which is expected to be operational. This is expected to have the impact of reducing operating costs, improving customer experience and assisting cash collection in the future

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

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

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

The company is well positioned to continue to expand in the non-household water retail market in England and Scotland. The Home Services division expects to capitalise on the changes it has made and grow significantly the number of services and jobs it performs

Sumisho Osaka Gas Water UK Limited

Group Strategic Report

Sumisho Osaka Gas Water UK Group (SOGWUK) Risks

The principal risks and uncertainties facing the Group include;

- Cyber Attacks causing interference with operational controls or loss of personal data, mitigated through multiple layer security, controls and employee awareness training
- Failure to comply with legal and regulatory obligations, mitigated by formal processes for compliance with market codes (e g MOSL) dedicated resources and independent assurance
- Failure of economic regulation within SESW where the company has insufficient funding to fulfil its duties, mitigated by having a stable and transparent regulatory regime, detailed business planning process including consultation with customers and an effective relationship with OFWAT
- Cash Collection – particularly within the non-household retail market that SES Business Water operates within, mitigated through regular reviews and cash collection procedures
- Operational risks across the Group particularly within the operational area of SESW and SES Home Services employs gas and plumbing engineers who work closely with gas on a regular basis, mitigated by strong health and safety protocol and training
- Impact of Brexit resulting in failure of normal business operations, mitigation through working closely with Water UK within the water industry and wider sector, managing inventory levels and advance purchase of electricity

Other risks that are closely monitored include,

- Investment risk - The key factor for the Group managing this risk is to maintain and enhance the close relationship with its customers and suppliers. The subsidiary undertakings continue to develop and provide innovative value added services at every stage of the supply chain
- Interest rate and liquidity risks - The Group adopts a policy of ensuring the majority of its exposure to interest rate changes on borrowings is on a fixed rate basis The majority of the interest rates risks are associated with SESW and its index linked bond. SESW has controlled its principal interest rate risk by issuing an Index-Linked Bond, the interest rate on this Bond is 2 874% in addition to index-linking of the capital value The Group manages its liquidity risk through the use of borrowing facilities with the Royal Bank of Scotland as at 31st March 2019 SESW has a £25 million five-year revolving credit facility of which £11 5m remains unutilised. This has subsequently been renewed to a £35m 5 year RCF. Within the year ESH borrowed £36m from a private placement at 3 22% fixed rate and SESW repaid a £30m floating rate loan.
- Currency risks - The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate in the normal course of its business The Group has minimal exposure to currency risk since nearly all activities are conducted in the UK and all borrowings are denominated in £ sterling

Financial Performance

The financial performance of the Group remained positive this year with significant growth seen in the retail non-household market Group Revenue for the year ended 31 March 2019 was £109 606m (2018. £91 822m) an increase of 19.37%. Operating costs increased to £92 759m (2018. £73.357m) with operating profit increasing to £18 477m (2018 £18 465m)

Interest Charges increased by 3% to £11 994m (2018· £11 684m) This increase in interest is partly driven by the increase in indexation of £100m bond and partly due to a higher amount of the new loan part way through the year In the year, as part of SESW's de-gearing strategy a £30m loan was paid off and £36m of private placement funding was raised in ESH (East Surrey Holdings) Limited

Group profit before taxation (PBT) was £9.833m (2018 £10 008m) and Profit After tax reduced to £7.913m (2018. £9 072m) Profit After Tax has lowered in the year primarily due to increased tax charges across the Group – relating to a prior year adjustment on to charges on the Corporate Interest Restriction (CIR) and an increased deferred tax charge due to the increase in scale of capital programme delivered by SESW.

Capital Investment

The majority of the capital investment happens within SESW, where the company has continued with its five year investment programme, £25 3 million was invested in new and replacement plant in the year (2018· £26 0 million) The most significant proportion of this spend was invested in the upgrade of the Woodmansterne Treatment works which was commissioned ahead of the 31 March 2019 deadline, with full handover scheduled to happen later in 2019 SESW has also continued to invest in the ongoing replacement of the pipers in its distribution network, investing £5 3 million targeted investment based on age, condition and performance of the existing network. Other investment of £6 9 million continued across the network, primarily on the improvement of resilience mains to ensure that water can be efficiently moved around SESW's supply area *£2m was invested in pipes to supply new developments within the* supply area. The remaining £7 0 million was spent in replacing equipment at the treatment works, pumping stations and service reservoirs and other operational sites, investing in the ongoing metering programme and upgrading IT, vehicles and laboratory equipment

Net Debt

Net term debt for the Group is £269.753m, an increase of £12.231m (2018 £257 522m). The increase represents a new loan of £36m, £5 2m RPI indexation on the indexed linked bond, incremental utilisation of RCF loan £3m offset by repayment of the Group's £30m loan

Cash and liquid resources increased by £4.5m in the year to £26 946m (2018 £22 438m)

The level of gearing is a key ratio under the covenants associated with the £36 million loan and is measured by the ratio of total net indebtedness to regulated asset value. The ratio as defined by our loan was 80% at 31 March 2019 which is within the 95% within our covenants Interest cover ratio was 2 207 which is within the Group's permitted range of greater than 1 1·1 0

In August 2018, ESH Limited converted preference shares - £12 384m issued to SESW into ordinary shares, this being an inter group transaction, is eliminated in consolidated financial statement Additionally, ESH invested proceeds from Notes payable loan £36 million into SESW's ordinary shares

Dividends

During the year the company paid dividends to its parent company Summit Water Limited (SWL) and Osaka Gas UK Limited of £3 5 million (2018· £3 5million).

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

Director

S Kitajima
Director
Company Registration No 08369318
05 March 2020

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 2019

Directors

The directors who held office during the year and up to the date of signing are as follows

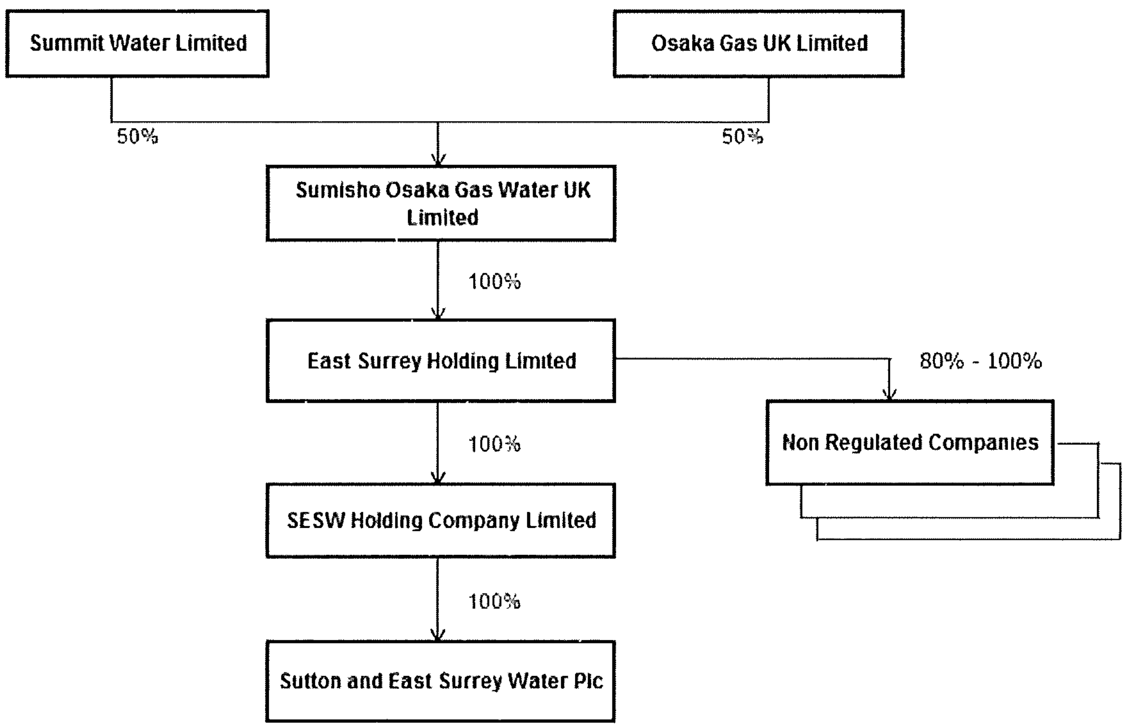
S Kitajima
M Kobayashi (appointed 3 January 2019)
T Kamoi (appointed 1 April 2018)
K Oida (appointed 1 April 2019)
G Holman (resigned 3 January 2019)
R Nishida (resigned 31 March 2019)

Directors' indemnities

The Company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the U.K. Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

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 Ltd (OGUK), a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE.



Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

Group overview

The primary activities within the Group is to both supply water to domestic customers through SESW, a regulated public water supply company and to act as a retailer within the water and sewerage retail market for eligible non-household customers through Sutton and East Surrey Water Services Limited (trading as SES Business Water) The other smaller subsidiaries include Advanced Minerals whom source and process materials and minerals and Allmat a locally based builders merchant in Kenley

Business review and future prospects

The Group's turnover for the year ended 31 March 2019 increased to £109,606,000 (2018 £91,822,000) The Group profit before taxation was £9,833,000 (2018 £10,008,000).

During the year, the company paid dividends to its shareholders, Summit Water Limited (SWL) and Osaka Gas UK Limited (OGUK), of £3,500,000 (2018. £3,500,000)

SES Water Turnover increased to £66,832,000 (2018. £64,970,000), Operating costs increased to £48,362,000 (2018. £45,085,000) as the company invested in new capabilities to deliver on commitments made to customers. Consequently, operating profit increased by £215,000 to £20,100,000 (2018 £19,885,000)

SES Business Water turnover increased to £44,228,000 (2018· £28,935,000), mainly on account new customer contracts

The United Kingdom is currently in a period of some economic and financial uncertainty following the Referendum decision in favour of leaving the European Union The Group closely investigated the impact of Brexit alongside the rest of the water industry. The main area of risk is around chemical supplies however, provisions have been put into place to minimise disruption to the supply chain when the United Kingdom left the European Union on the 31st January 2020. While the Group expects the effect of Brexit to be limited, it will continue to monitor the situation during the standstill period following Brexit until a trade deal is agreed with the European Union.

PR19 Update

In September 2018 SESW submitted its business plan to OFWAT for AMP 7 (2021-2025) On the 31 January 2019 OFWAT issued its 'initial assessment' of all water company plans which means categorising each one according to its quality, ambition and innovation There are four categories – exceptional, fast-track, slow-track and significant scrutiny – and our plan has been given slow-track status We believe that our business plan is the best we have submitted, and we developed our plan with our customers to deliver their priorities at a fair price with bills lower in real terms than they are today Our focus now turns to reviewing OFWAT's assessment in more detail, working with them to ensure that we fully understand and address the areas that need further work while ensuring that our plan will still deliver what matters most to our customers Re-submission of the business plan to OFWAT occurred on 29 March 2019

SESW, following receipt of the final determination from Ofwat on 16 December 2019, has notified the regulator that it will not be requesting a referral by Ofwat of the final determination to the Competition and Markets Authority SESW has confirmed that this decision was reached primarily due to the positive response from Ofwat in its Final Determination with respect to the majority of SESW's key presentations, which resulted in an increased totex allowance in the majority of areas For the remaining totex funding gap, SESW will implement other funding solutions to meet the challenging targets set by the Company to deliver our customers' priorities Please refer to the going concern section in this director's report for additional information

Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

Research and development

Whilst the Group does not have a specific reseai ch and development functıon, sıgnıficant ınnovatıon ınıtıatives across the wateı sectoı continue to be reseaı ched and implemented thıough a dedıcated ınnovatıon manager in SESW Activity in 2018/19 included the development and trial of a highly ınnovatıve combıned smart meter and valve whıch ıncorporates internet-of-thıngs technology, the design and testing of a devıce to mınımıse water use on empty pı operties and the ımplementation of artificial intellıgence solutions to manage leakage

Charitable and political donations

Duı ing the year the Group made chaı itable donations amountıng to £18,839 (2018 £13,244) Theı e weı e no polıtıcal donations (2018. £nil). The largest donation to UK charıties was £5,000 to the Reıgate and Banstead Junioı Citizen Scheme.

Greenhouse gas emissions

Greenhouse gas emıssıons are calculated usıng the UK Water industry Reseaı ch Caı bon Accounting Workbook whıch ıs updated annually to reflect changes to emıssıon factors and carbon ı eporting guidance from the UK Government Opeı atıonal greenhouse gas emıssıons ın 2019 were 5,574 tonnes of caı bon dioxide equıvalent (tCO2eq) (2018· 22,597 tCO2eq), a 10% ı eductıon on the pı evıous yeaı Thıs equates to 71 kgCO2eq peı million litı es of tı eated water (2018 376 kgCO2eq)

The sıgnıficant reduction in SESW greenhouse gas emıssıons ın 2018/19 ı eflects the Gı oups decısıon to purchase 100%

ı enewable electrıcıty wıth SESW from 1 June 2018 onwaı ds, as well as reduced use of gasoıl SESW has solar panels ınstalled at five of ouı treatment woı ks and thıs yeaı has also installed solaı panels at ıts head office In 2019 on-sıte renewable electrıcity generatıon was 211,561 kWh (2018. 201,188 kWh) and SESW have also ıntroduced the fiı st electrıc vans in to our fleet.

Payment to suppliers

Settlement terms are agı eed wıth supplıers as paı t of the contı act teı ms and ıt ıs the Gı oup's policy to pay in accoı dance wıth these terms Other credıtors are paıd ın accordance wıth ınvoice teı ms. Within SESW, the largest company within the Group, creditor days in the yeaı weı e approximately 28 days (2018· 30 days)

Employees

The Gı oup's employees are fundamental to the success of the busıness, and ouı achievements to date aı e a result of their haı d work and determınatıon We aı e confident that theır ongoıng commıtment will ensuı e we aı e able to meet future challenges We aım to be a responsıble employer for whom people choose to woı k, and to ensuı e that our employees aı e well traıned, competent and motıvated, whıle beıng approprıately rewaı ded for theiı efforts. We ı ecognıse that the health and safety of everyone who woı ks foı us oı ıs affected by our activitıes ıs crıtıcal to the success of ouı busıness

Going Concern

The goıng concern basis has been adopted for pı epaı ing the financial statements

SESW the Gı oup's laı gest company, receıved its PR19 final determınatıon (FD) from OFWAT on 16 Decembeı 2019. As peı the FD, OFWAT dısallowed some of the pı oposed cost allowance To fund the disallowed cost, SESW will have to raise additıonal fundıng ın the goıng concern assessment perıod in the ı ange of £8m to £10m. Management is ın the pı ocess of evaluating vaı ious alternate funding options with the Boaı d and Shaı eholdeı s On the date of approval of these financial statements, the additional funding ı equired is not ın place Whılst management ıs confident, based on ıts exısting banking ı elationships, recent boı ı owings and financıal posıtıon, that the debt wıll be secured, theı e can be no certainty of obtaining the funding until confiı med by the lendeı s In case that SESW is unable to ı aıse the requıı ed debt theı e would be uncertainty oveı gı oup's ability to contınue as a goıng conceı n

Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

Going Concern (continued)

In the absence of raising additional funding, management has evaluated other internal mitigation plans to meet the funding requirements over next 12 months. Mitigation plans includes deferment of the dividend to the shareholders and delay in certain capital projects Additionally, in preparing for the FD, management obtained a signed letter of intent from its shareholders that they would provide financial support in the event of an extreme downside scenario As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Considering the mitigation plans and undertaking from the shareholders, the Directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

On 19 October 2018, the Company's wholly owned subsidiary East Surrey Holdings Limited (ESH) entered into a Notes Purchase Agreement ("the agreement") with Pacific Life in order to raise a loan of £36m Under the terms of the Notes Purchase agreement, the subsidiary company ESH is required to deliver to the Note Holders copies of its consolidated balance sheet and statement of income, shareholders' equity and cash flows within 120 days of the end of your Financial year. This obligation was not met within 120 days or the year-end, which triggered the Event of Default clause in the agreement, leading to the loan becoming repayable on demand Subsequently, the note holders on 10 October 2019 extended the deadline for submission of Consolidated financial statement to 15 November 2019 ESH submitted the audited consolidated accounts with the Notes Holder on 14 November 2019, thus resolving the position of default. Based on the above the directors believe it remains appropriate to prepare the financial statements on a going concern basis

Post balance sheet events

On the 12 July 2019 SESW renewed its Revolving Credit Facility with NatWest, increasing the available borrowings from £25m to £35m

As noted in the above, under the terms of the Notes Purchase agreement dated 19 October 2018, the company is required to deliver to the Note Holders copies of its consolidated balance sheet and statements of income, shareholders' equity and cash flows within 120 days of the end of your Financial Year. This obligation has not been met and therefore there has been a breach of the obligations under that clause which constitutes an Event of Default However, on 10 October 2019 the note holders waived this requirement until 15 November 2019 Subsequently, ESH has submitted the audited consolidated accounts with the lender on 14 November 2019, thus complying with the waiver letter

SESW, following receipt of the final determination from Ofwat on 16 December 2019, has notified the regulator that it will not be requesting a referral by Ofwat of the final determination to the Competition and Markets Authority SESW has confirmed that this decision was reached primarily due to the positive response from Ofwat in its Final Determination with respect to the majority of SESW's key presentations, which resulted in an increased totex allowance in the majority of areas For the remaining totex funding gap, SESW will implement other funding solutions to meet the challenging targets set by the Company to deliver our customers' priorities. Please refer to the going concern section in this director's report for additional information.

On 21 January 2020, the Board approved interim dividend £1.75m for FY 19-20

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Sumisho Osaka Gas Water UK Limited

Directors' Report (Continued)

Auditor

KPMG LLP is the auditor at the date of this report PricewaterhouseCoopers LLP ("PwC") will replace KPMG LLP following the approval of these accounts at which time KPMG LLP will not seek reappointment. PwC will be appointed by Directors as auditor for the financial year ending 31 March 2020 onwards, and their appointment is subject to shareholder approval at the forthcoming Annual General Meeting

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

....
Director

S Kitajima
Director
Company Registration No: 08369318
05 March 2020

Vintners' Place, 60 Upper Thames Street
London
EC4V 3BJ
United Kingdom

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

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors’ Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Opinion

We have audited the financial statements of Sumisho Osaka Gas Water UK Limited ("the company") for the year ended 31 March 2019 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects

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

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Anna Jones

Anna Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London E14 5GL
United Kingdom

06 March 2020

Sumisho Osaka Gas Water UK Limited

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

	Note	2019 £000	2018 £000
Revenue	2	109,606	91,822
Operating cost	3	(92,759)	(73,357)
Other operating income	3	1,630	-
Operating profit		18,477	18,465
Finance income	6	3,350	3,227
Finance expenses	6	(11,994)	(11,684)
Profit before tax		9,833	10,008
Taxation	7	(1,920)	(936)
Profit for the year		7,913	9,072
Other comprehensive income			
Remeasurements of defined benefit asset		(3,960)	(5,471)
Movement on deferred tax relating to net pensions assets		975	-
Exchange differences on translating foreign operations		(2)	-
Total comprehensive income for the year		4,926	3,601
Total comprehensive income attributable to:			
Equity holders of the parent		4,763	3,480
Non-controlling interest		163	121

The notes on pages 18 to 53 form part of the financial statements

Sumisho Osaka Gas Water UK Limited

Consolidated Balance Sheet
as at 31 March

	Note	2019 £000	2018 Restated* £000	2017 Restated* £000
Non-current assets				
Property, plant and equipment	8	317,376	301,947	285,707
Intangible assets	9	116,143	116,741	117,644
Pension Scheme Asset		16,624	21,112	26,202
		450,143	439,800	429,553
Current assets				
Inventories	12	1,343	1,608	1,411
Trade and other receivables	13	32,900	28,117	22,440
Cash and cash equivalents	14	26,946	22,438	22,557
		61,189	52,163	46,408
Total assets		**511,332**	**491,963**	**475,961**
Current liabilities				
Trade and other payables	16	40,939	35,227	31,739
		40,939	35,227	31,739
Non-current liabilities				
Interest-bearing loans and borrowings	15	232,779	220,490	208,119
Unfunded pension obligation		1,095	1,053	1,039
Deferred tax liabilities	11	35,879	35,979	35,857
		269,753	257,522	245,015
Total liabilities		**310,692**	**292,749**	**276,754**
Net assets		**200,640**	**199,214**	**199,207**
Equity attributable to equity holders of the parent				
Share capital	18	164,550	164,550	164,550
Translation Reserve		(1)	(1)	(1)
Retained earnings		35,495	34,232	34,252
		200,044	198,781	198,801
Non-controlling interest		596	433	406
Total equity		**200,640**	**199,214**	**199,207**

*refer note 1 2

The notes on pages 18 to 53 form part of the financial statements

These financial statements were approved by the Board of Directors on 05 March 2020 and signed on its behalf by.

S Kitajima
Director
Company Registration No. 08369318

Sumisho Osaka Gas Water UK Limited

Consolidated Statement of Changes in Equity

	Share capital £000	Retained earnings £000	Translation reserve £000	Total parent equity £000	Non-controlling interest £000	Total £000
Balance at 1 April 2017	164,550	34,252	(1)	198,801	406	199,207
Total comprehensive income for the period						
Profit or loss	-	8,951	-	8,951	121	9,072
Re-measurements of defined benefit asset	-	(5,471)	-	(5,471)	-	(5,471)
Total comprehensive income for the year	-	3,480	-	3,480	121	3,601
Transactions with owners recorded directly in equity,						
Dividends paid	-	(3,500)	-	(3,500)	(94)	(3,594)
Total transactions with Owners	-	(3,500)	-	(3,500)	(94)	(3,594)
Balance at 31 March 2018	**164,550**	**34,232**	**(1)**	**198,781**	**433**	**199,214**
			-			
Balance at 1 April 2018	164,550	34,232	(1)	198,781	433	199,214
Total comprehensive income for the period						
Profit of loss	-	7,750	-	7,750	163	7,913
Re-measurements of defined benefit asset	-	(3,960)	-	(3,960)	-	(3,960)
Movement on deferred tax	-	975	-	975	-	975
Translation Reserve	-	(2)	-	(2)	-	(2)
Total comprehensive income for the year	-	4,763	-	4,763	163	4,926
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	-	(3,500)
Total transactions with Owners	-	(3,500)	-	(3,500)	-	(3,500)
As at 31 March 2019	**164,550**	**35,495**	**(1)**	**200,044**	**596**	**200,640**

This notes on pages 18 to 53 form part of the financial statements

Sumisho Osaka Gas Water UK Limited

Consolidated Cash Flow Statement
for the year ended 31 March

	Notes	2019 £000	2018 £000
Cash flow from operating activities			
Profit for the year		7,913	9,072
Adjustments for			
Depreciation and amortization	8-9	10,701	10,880
Net interest receivable and similar charges	6	(3,350)	(3,227)
Net interest payable and similar charges	6	11,994	11,684
Gains on sale of assets		(532)	(196)
Exchange differences		(2)	-
Taxation	7	1,920	936
		28,644	29,149
Increase in trade and other debtors		(3,542)	(5,677)
Decrease/(Increase) in stocks		265	(197)
Increase in trade and other creditors		1,967	2,695
Increase in provisions and employee benefits		570	274
		(740)	(2,905)
Interest Paid		(5,111)	(5,060)
Tax Paid		(756)	(885)
Net cash from operating activities		22,037	20,299
Cash flows from investing operating activities			
Proceeds from disposal of fixed assets		913	552
Interest received		277	45
Purchase of intangible fixed assets		(685)	(427)
Purchase of tangible fixed assets		(25,208)	(26,146)
Net cash used in investing activities		(24,703)	(25,976)
Cash flows from financing activities			
Proceeds from loans		9,000	8,350
Processing fees on loans		(324)	-
Dividends paid		(3,500)	(3,594)
Net cash from financing activities		5,176	4,756
Net increase / (Decrease) in cash and cash equivalents		2,510	(921)
Cash and cash equivalents at 1 April		21,636	22,557
Cash and cash equivalents at 31 March		24,146	21,636

Relating to:

Cash and cash equivalents	26,946
Overdraft (included in creditors less than one year)	(2,800)
	24,146

The notes on pages 18 to 53 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 Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") The parent company financial statements present information about the Company as a separate entity and not about its group

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101, these are presented on pages 54 to 63

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 23

1.2 Restatement

The balance sheet as at 1 April 2017 and 31 March 2018 has been restated There is no change to the net assets and retained earnings at 1 April 2017 and 31 March 2018 as a result of the following presentational restatement.

In the prior year financial statements the pension asset and the defined benefit liability were shown as a net balance of £20,059,000 and £25,163,000 within current assets on the balance sheet as at 31 Mar 2018 and 1 April 2017 respectively In these financial statements comparative information has been restated to present the pensions asset of £21,112,000 and £ 26,202,000 as at 31 Mar 2018 and 1 April 2017 and the defined benefit liability of £1,053,000 and £ 1,039,000 gross with non-current assets and non-current liabilities, respectively This restatement increases non-current assets by £21,112,000 as at 31 Mar 2018 and by £ 26,202,000 as at 1 April 2017, reduces current assets by £20,059,000 as at 31 March 2018 and by £25,163,000 and increases non-current liabilities by £1,053,000 as at 31 March 2018 and by £ 1,039,000 as at 1 April 2017 with no change to net assets at 31 March 2018 and 1 April 2017.

1.3 New and amended Accounting Standards

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 April 2018 The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective

The nature and the impact of each new standard or amendment is described below

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised The Group adopted IFRS 15 in the year ended 31 March 2019 on a modified retrospective approach The Group already recognises revenue over the period in which the service is delivered and there has been no material impact on profit on adoption of this standard The standard was applied using the cumulative effect method and therefore the comparative information has not been restated The only impact of the standard was the recognition of a contract liabilities balance as disclosed in note 16

IFRS 9 'Financial Instruments' was adopted by the Group on 1 April 2018 on a modified retrospective approach The adoption of IFRS 9 has not resulted in any significant changes to the Group's existing accounting practices, the Group has revised its policy for providing for doubtful debt where debt is less than six months old, and now provides based on Expected Credit Losses ("ECL's"), further details of this policy are provided in note 19 There has been no material impact on adoption of this standard

1 Accounting policies (continued)

1.4 Adopted accounting standards not yet applied

IFRS 16 'leases' replaces IAS 17 'leases' and is effective for periods commencing on or after 1 January 2019. The Group will therefore adopt the standard on 1 April 2019 IFRS 16 details the recognition and measurement of lease arrangements in order to assess the amount, timing and certainty of cashflows as a result of leases The Group has reviewed its current plant and equipment, whereby the majority of land, buildings, office equipment and vehicles are fully owned by the Group and therefore any impact of IFRS is considered immaterial. There has been no impact in these financial statements.

1.5 Measurement convention

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

1.6 Going concern

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

SESW the Group's largest company, received its PR19 final determination (FD) from Ofwat on 16 December 2019. As per the FD, Ofwat disallowed some of the proposed cost allowance To fund the disallowed cost, SESW will have to raise additional funding in the going concern assessment period in the range of £8m to £10m Management is in the process of evaluating various alternate funding options with the Board and Shareholders On the date of approval of these financial statements, the additional funding required is not in place Whilst management is confident, based on its existing banking relationships, recent borrowings and financial position, that the debt will be secured, there can be no certainty of obtaining the funding until confirmed by the lenders In case that SESW is unable to raise the required debt, there would be uncertainty over group's ability to continue as a going concern.

In the absence of raising additional funding, management has evaluated other internal mitigation plans to meet the funding requirements over next 12 months Mitigation plans includes deferment of the dividend to the shareholders and delay in certain capital projects. Additionally, in preparing for the FD, management obtained a signed letter of intent from its shareholders that they would provide financial support in the event of an extreme downside scenario As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Considering the mitigation plans and undertaking from the shareholders, the Directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis

On 19 October 2018, the Company's wholly owned subsidiary East Surrey Holdings Limited (ESH) entered into a Notes Purchase Agreement ("the agreement") with Pacific Life in order to raise a loan of £36m Under the terms of the Notes Purchase agreement, the subsidiary company ESH is required to deliver to the Note Holders copies of its consolidated balance sheet and statement of income, shareholders' equity and cash flows within 120 days of the end of your Financial year. This obligation was not met within 120 days or the year-end, which triggered the Event of Default clause in the agreement, leading to the loan becoming repayable on demand Subsequently, the note holders on 10 October 2019 extended the deadline for submission of Consolidated financial statement to 15 November 2019 ESH submitted the audited consolidated accounts with the Notes Holder on 14 November 2019, thus resolving the position of default Based on the above the directors believe it remains appropriate to prepare the financial statements on a going concern basis

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1.7 Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

1.8 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.

1.9 Classification of financial instruments issued by the Group (continued)

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

1.10 Non-derivative financial instruments

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

Interest-bearing borrowings

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

Notes to the Financial Statements

1.11 Property, plant and equipment

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

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

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

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

Infrastructure assets – mains and fresh water reservoirs

Infrastructure assets comprise a network of systems relating to water distribution

Mains – repairs, maintenance and replacements

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

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

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

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

	Years
Infrastructure assets	
Collection reservoirs	150
Water mains	100
Non- infrastructure assets	
Buildings, boreholes and service reservoirs	40 - 100
Plant and machinery	10 - 25
Motor vehicles and sundry plant	3 - 15

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

1.12 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

1.13 Intangible assets and goodwill

Goodwill

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

Notes to the Financial Statements

1.13 Intangible assets and goodwill (continued)

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
Contracts	7-15
Software	3

1.14 Inventories

Inventories are stated at the lower of cost and net realisable value Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition

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

1.15 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

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1 Accounting policies (continued)

1.15 Impairment excluding inventories and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit") The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination

1.16 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

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the period during which services are rendered by employees

Defined benefit plans

The pension scheme asset or liability in the balance sheet represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date

The present value of the defined benefit obligation and the cost of providing benefits under defined benefit plans is determined on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method, discounted at an interest rate equivalent at measurement date to the rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities

The pension cost in the income statement includes current and past service cost and the effect of any settlements and curtailments A net finance charge or credit is recognised within finance costs in the income statement and comprises the net of the expected return on pension scheme assets and the interest on pension scheme liabilities.

All actuarial gains and losses and the related current and deferred taxation are recognised in the statement of recognised income and expense

1.17 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1 Accounting policies (continued)

1.18 Turnover and revenue recognition

The core principle of IFRS 15 'Revenue from Contracts with Customers' is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services This core principle is delivered in a five-step model framework

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. The element of charges that are raised that is considered uncollectable at the point the charge is raised is excluded from revenue

The Group has applied this framework to its income streams as follows.

1 Water services

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

The Group's performance obligation is the continuous and ongoing supply of water services (and waste for non-household customers) 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 receiving and consuming the benefits of our water services (and waste services for non-household customers)

The transaction price is the amount of consideration that the Group expects to receive in return for providing the water/waste 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 customer has a meter (metered supply) or not (unmetered supply) In certain specific circumstances, usually when we are physically unable to fit a meter to the customer's property, a customer may be placed on an assessed charge The process for revenue recognition for customers on an assessed tariff is the same as that for unmetered customers

For unmetered (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 unmetered customer's usage

For metered supply of water / waste services, the amount of consideration to which the Group is entitled is determined by actual usage 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/waste services charges unbilled at year end.

1 Accounting policies (continued)

1.18 Turnover and revenue recognition (continued)

2 Non water income

The Group provides a number of services to developers to assist them with connecting new properties and other property development to our water network Details of developer services charges are available on the Company's website and described below·

a) Requisitions

Requisitions relate to the Group laying new mains (and associated infrastructure) in order 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

b) Service connections

Service connections 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 for the work to be undertaken (directly related to the estimated cost to the Group) Customers are required to pay in advance for a connection, thus creating a contract

There is a contractual arrangement between the Group and the customer to supply the new connection based on the quote price, with the Group's performance commitment being to connect the property the Group's network

The ultimate transaction price is the quote, adjusted for the actual cost to the Group to the work, with revenue being recognised once the job has been completed and the property has been connected to the Group's network

c.) Diversions

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

d) Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network The charges are designed to cover the cost of network enhancement work in order 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 given that the infrastructure charge per connection is set each year as a fixed price (based on the historic amounts spent on related network enhancements over the previous five years)

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 the new connection is made and so revenue is recognised at that point

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

1 Accounting policies (continued)

1.18 Turnover and revenue recognition (continued)

3. Non-appointed revenue

Within SESW, the Group's largest company, there are a number of income streams from its non-appointed business, including.

a) Commission income from another regulated water and wastewater company (providing sewerage services to the majority of our customers) when we collect monies from our customers on their behalf The Company 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 actually collected, with the Company recognising the revenue when the performance obligation is satisfied

b.) Income from the Company's garage, which provides servicing, repair and MOT facilities to third parties Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle

c.) Empty Properties

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply Empty metered properties are billed standing charges 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'

d) Sale of products

In addition, revenues arise from the sale of plumbing and heating insurance by Home Services (trading as Sutton and East Surrey Water Services), the sales from building supplies within Allmat and the sales of minerals used in the manufacturing process within Advanced Minerals All revenue is recorded at the time that the performance obligation to the customer is satisfied, normally when the product is transferred to the customer.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties) In determining the transaction price for the sale of products, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any)

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

Notes to the Financial Statements

1 Accounting policies (continued)

1.19 Expenses

Operating lease payments

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

Financing income and expenses

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

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

1.20 Taxation

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

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

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

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

1.21 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

Notes to the Financial Statements

2 Revenue

The allocation of business activities into segments reflects the Group's activities which is in line with internal management reporting and reflects the Group's focus on its core and non-core activities

The reportable segments are as follows

- Sutton and East Surrey Water Plc ('SESW') being the Group's core activity – engaged in principally supply of water across the London Borough of Croydon, Merton and Sutton, as well as East Surrey and parts of Kent and Sussex
- Sutton and East Surrey Water Services Limited ('SESWS') t/a SES Business Water and SES Home Services provides water and sewerage retail services (in England and Scotland) and services for plumbing, heating and insurance across the south east of England.
- Other non-core entities engage in mineral processing, building materials supply and property rentals.

March 2019	**Revenue £000**	**Profit for the year £000**	**Total assets £000**	**Total liabilities £000**
SESW	66,832	7,489	377,646	242,415
SESWS	44,228	(991)	14,997	12,859
Non-Core	6,954	307	197,938	46,363
Reportable segments	118,014	6,805	590,581	301,637
Corporate	100	(19)	165,527	63
Elimination/consolidation adjustments	(8,508)	1,127	(244,776)	8,992
Total	109,606	7,913	511,332	310,692

March 2018	**Revenue £000**	**Profit for the year £000**	**Total assets £000**	**Total liabilities £000**
SESW	64,970	9,465	359,696	273,671
SESWS	28,935	(664)	13,427	10,278
Non-Core	6,874	837	7,601	2,195
Reportable segments	100,779	9,638	380,724	286,144
Corporate	50	309	123,071	18,437
Elimination/consolidation adjustments	(9,007)	(875)	(11,832)	(11,832)
Total	91,822	9,072	491,963	292,749

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

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

a. Nature of revenue – the nature of revenue with the key items being the supply of water - £92,963k (2018 £74,341k), non-water income - £14,432k (2018. £15,363k) and non-appointed revenue - £2,211k (2018. £2,118k)

b. Timing of revenue recognition
   - Products and services transferred at a point in time - £109,606k (2018 £91,822k)

Notes to the Financial Statements

3 Expenses and auditor's remuneration

	2019 £000	2018 £000
Wages and salaries	15,361	14,310
Social security costs	1,654	1,563
Other pension costs	2,950	2,228
Raw material and consumables	44,856	28,558
Depreciation of owned assets	9,418	9,558
Amortisation of intangibles	1,283	1,322
Profit on disposal of fixed assets	(532)	(196)
Operating lease payments – other assets	142	159
Audit fee – parent	38	32
Audit fee – subsidiaries	164	177
Non-audit fees	126	5
Other operating charges	16,899	15,241
Management support and Service Agreement	400	400
Total operating costs	92,759	73,357

Total operating cost can be analyzed as follow	2019 £'000	2018 £'000
Cost of sales	74,239	56,217
Other administration cost	18,520	17,140
Total	**92,759**	**73,357**

Wages and salaries disclosed above are shown net of capitalised costs During the year £1,266,870 (2018 £1,647,689) of employment costs were capitalised as fixed assets

No other fees were paid to KPMG LLP (2018: Nil)

Other operating income £1,630,000 mainly includes income from an insurance claim receivable

4 Remuneration of directors

Directors' remunerations and pensions are borne by affiliates of the shareholders in the current and previous year. No remuneration was paid to the directors during the period in respect to their services to the company (2018: nil)

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2018. nil)

No pension benefits are accruing to any directors (2018 nil).

Notes to the Financial Statements

5 Employees

The average number of persons employed by the Group (including directors) during the year were as follows	1 April 2018 - 31 March 2019 Number	1 April 2017 - 31 March 2018 Number
Water supply	297	290
Other activities	100	100
	397	390

The aggregate payroll costs of these persons were as follows.

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Wages and salaries	15,361	14,310
Social security costs	1,654	1,563
Expenses related to defined benefit plans	2,950	2,228
	19,965	18,101

6 Finance income and expense

Recognised in profit or loss

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Finance income		
Expected return on pension scheme assets	3,073	3,182
Interest receivable and similar income	277	45
Total finance income	3,350	3,227

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Finance expense		
Interest payable:		
Bond - interest	3,166	3,005
- indexation	5,160	5,570
Total cost of bond	8,326	8,575
Interest on post retirement liabilities	2,559	2,541
Other loans	1,109	568
Total interest payable and similar charges	11,994	11,684

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

7 Taxation

Recognised in the income statement

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
UK corporation tax		
Current tax on income for the period	490	677
Adjustments in respect of prior period	555	137
Group current tax charge	**1,045**	**814**
Deferred tax		
Origination of timing differences	1,083	590
Adjustments in respect of prior period	(111)	-
Movement in timing differences due to change in tax rate and laws	-	98
Pension scheme	(97)	(566)
Total deferred tax	**875**	**122**
Tax charge on profit	**1,920**	**936**

The 2019 adjustments in respect of prior years relates mainly the £500k (2018 £Nil) provision included for tax charges that may be incurred under the Corporate Interest Restriction

Factors affecting future tax rate

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 18% (effective from 1 April 2020) was also substantively enacted on 26 October 2015 with an additional reduction to 17% (effective from 1 April 2020) being substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly The deferred tax liability at 31st March 2019 has been calculated based on these rates.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

7 Taxation (continued)

Reconciliation of effective tax rate

The current tax charge for the year is higher (2018. lower) than the standard rate of corporation tax in the UK of 19% (2018 19%). The differences are explained below.

	2019	2018
	£'000	**£'000**
Profit for the year	7,913	9,072
Total tax (credit) / expense	1,920	936
Profit excluding tax	**9,833**	**10,008**
Tax using the UK corporation tax rate of 19%	1,868	1,902
Effect of		
Expenses not deductible for tax purposes	161	(1)
Profit on disposal of fixed assets	(292)	(33)
Striking off Dormant companies - profit nontaxable for tax purposes	-	(380)
Capital allowances in excess of depreciation	(838)	(831)
Capitalised expenditure allowed on accounts basis	(204)	
Pension adjustment	72	(167)
Adjustments to tax charge in respect of previous period	429	137
Tax loss not utilised in current period	-	185
Other adjustments	(151)	2
Deferred Tax	875	122
Total tax expense	**1,920**	**936**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

8 Property, plant and equipment

Group	Land	Collection reservoir	Building, boreholes & service reservoirs	Plant& machinery	Water mains	Motor vehicles & sundry plant	Under construct -ion	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost								
At 1 April 2017	5,089	2,276	97,759	45,721	130,364	4,366	15,868	301,443
Additions	-	-	1,888	3,481	4,757	1,496	14,525	26,147
Disposals	-	-	(197)	(2,062)	(42)	(1,477)	-	(3,778)
Translation adjustments	-	-	-	-	-	7	-	7
At 31 March 2018	5,089	2,276	99,450	47,140	135,079	4,392	30,393	323,819
At 1 April 2018	5,089	2,276	99,450	47,140	135,079	4,392	30,393	323,819
Additions	-	-	4,072	5,849	13,601	1,680	-	25,202
Disposals	-	-	(252)	-	-	(189)	-	(441)
Translation adjustments	-	-	-	6	-	-	-	6
At 31 March 2019	**5,089**	**2,276**	**103,270**	**52,995**	**148,680**	**5,883**	**30,393**	**348,586**
Depreciation								
At 1 April 2017	-	104	7,882	2,772	4,658	320	-	15,736
Charge for the year	-	21	2,265	4,636	1,481	1,155	-	9,558
Disposals	-	-	(64)	(2,043)	(15)	(1,300)	-	(3,422)
At 31 March 2018	-	125	10,083	5,365	6,124	175	-	21,872
At 1 April 2018	-	125	10,083	5,365	6,124	175	-	21,872
Charge for the year	-	20	2,275	4,680	1,520	923	-	9,418
Disposals	-	-	(6)	-	-	(74)	-	(80)
At 31 March 2019	**-**	**145**	**12,352**	**10,045**	**7,644**	**1,024**	**-**	**31,210**
Net book value								
At 31 March 2018	5,089	2,151	89,367	41,775	128,955	4,217	30,393	301,947
At 31 March 2019	**5,089**	**2,131**	**90,918**	**42,950**	**141,036**	**4,859**	**30,393**	**317,376**

Land comprises freehold land at £4,793,000 (2018. £4,793,000) and long leasehold land at £5,000 (2018 £5,000).

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

9 Intangible assets

	Software	Contracts*	Purchased goodwill	Work in Progress	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
Balance at 1 April 2017	1,202	7,376	112,546	419	121,543
Additions during the period	427	-	-		427
Disposal	(82)	-	-	-	(82)
Transferred from under construction	61	-	-	(61)	-
Balance at 31 March 2018	**1,608**	**7,376**	**112,546**	**358**	**121,888**
Balance at 1 April 2018	1,608	7,376	112,546	358	121,888
Additions during the period	-	-	-	685	685
Disposal	-	-	-	-	-
Transferred from under construction	85	-	-	(85)	-
Balance at 31 March 2019	**1,693**	**7,376**	**112,546**	**958**	**122,573**
Amortisation					
Balance at 1 April 2017	286	3,613	-	-	3,899
Charge for the year	455	867	-	-	1,322
Disposal	(74)	-	-	-	(74)
Balance at 31 March 2018	**667**	**4,480**	**-**	**-**	**5,147**
Balance at 1 April 2018	667	4,480	-	-	5,147
Charge for the year	416	867	-	-	1,283
Disposal	-	-	-	-	-
At 31 March 2019	**1,083**	**5,347**	**-**	**-**	**6,430**
Net book values					
At 31 March 2018	941	2,896	112,546	358	116,741
At 31 March 2019	**610**	**2,029**	**112,546**	**958**	**116,143**

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

Notes to the Financial Statements

9 Intangible assets (continued)

Amortisation and impairment charge

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

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Operating costs	1,283	1,322

Impairment test for Goodwill

The main investment owns is in Sutton and East Surrey Water plc (SESW), which is a regulated public water company via an intermediary holding company ESH Assets which arose from the ESH acquisition cannot be tested individually and are grouped together into the smallest group of assets (ESH Group CGU) that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets Consequently, Goodwill and contracts that are considered significant in comparison to the Group's total carrying amount of such assets have been allocated to CGU unit as follows

	Goodwill		Contracts	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
ESH Group Cash Generating Unit	**112,546**	112,546	**2,029**	2,896

The recoverable amount of CGU has been calculated using the fair value less disposal cost (FVLDC) model as opposed to the Value in Use (VIU) The VIU model was not used as it requires certain adjustments which we do not consider appropriate for a regulated UK water company The key assumptions of this calculation are shown below

Key assumptions	2019	2018
Last financial period included in approved forecast	2044	2043
Exit RCV multiples	1.175	1 175
Peer WACC (Discount Rate)	5 40%	5 25%
Exit cost estimated	1%	1%

Management has used an approved forecast period of greater than five years because it is customary practice for UK water industry The recoverable amount for the CGU using the FVLDC model was estimated at approximately £444m The carrying amount of the CGU as at 31 March 2019 amount to approximately £397m resulting in headroom of £47m

Notes to the Financial Statements

9 Intangible assets (continued)

Sensıtıvity analysıs

The wateı ındustiy opeıates ın five-yeaı cycles known as Asset Management Plan (AMP) peıiods. For each five-yeaı peıiod Ofwat fixes the amount that wateı companies are allowed to chaıge theır customers and sets the standards of servıce that each company must delıver The 'package' of pıice and seıvıces standaıds, known as Ofwat's Final Deteımınatıon (FD), was foımally accepted by the Gıoup in Februaıy 2015 (PR14) and February 2020 (PR19) therefoıe wateı tariff fiom 2015 – 2020 (AMP6) and 2021-2025 (AMP7) ıs fixed Consıderıng the stabilıty of the wateı ındustry, the headroom will be most affected by changes in operatıng expense

We have carıied out a sensitivity analysis of the headıoom under the base case and the downsıde scenaıio by sensıtısıng the assumptıon on changes in opeıating expense

- Assuming 1 5% of opex underperformance ın AMP7 decıeases the headroom by £2 2m
- Assuming 1.5% of opex underperformance for all AMPs decreases the headroom by £7 9m
- Assumıng 0 5% increase in WACC to 5 90% decreases the headıoom by £35.6m

In addıtıon, we have carried out a sensitivity analysıs of the headroom under the base case and PR19 FD scenarıo by sensıtısıng the assumption on allowed revenue and costs foı AMP8 in line wıth the PR19 FD ıesults whıch Group accepted in Feb 2020, ın ordeı to assess the ımpact by the subsequent event

- Assumıng PR19 FD allowed ıevenue and costs in AMP7. decıeases the headroom by £14 4m

10 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 BV is Prodock, 9 Mozelhavenweg, Amsterdam

The principal activities for all investments are as follows

Name of Company	Activity	Class of shares	Ownership 2019	Ownership 2018
Directly held:				
East Surrey Holdings Limited	Holding Company	Ordinary	100%	100%
Indirectly held:				
Sutton and East Surrey Water plc	Water supply	Ordinary	100%	100%
		Preference	0%	100%
SESW Holding Company Limited	Holding Company	Ordinary	100%	100%
		Preference	0%	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	Aggregates and the import and sale of bathroom equipment	Ordinary	80%	80%
The Cheam Group plc	Holding company	Ordinary	100%	100%
		Preference	79%	79%
Sutton and East Surrey Water Services Limited	Water – non household	Ordinary	100%	100%
The Sutton District Water plc	Dormant	Ordinary 'A'	100%	100%
SES Home Services Limited	Non-trading	Ordinary	100%	100%
SES Business Water Limited	Non-trading	Ordinary	100%	100%
SES Water Limited	Non-trading	Ordinary	100%	100%
Calcite Factory B V	Minerals processing	Ordinary	80%	80%

11 Deferred tax assets and liabilities

Recognised deferred tax assets and lıabilities

Deferred tax assets and lıabılıtıes are attıibutable to the followıng·

As at 31 March	Assets 2019 £000	2018 £000	Liabilities 2019 £000	2018 £000
Property, plant and equıpment	23	37	33,301	32,304
Otheı timing diffeıence	39	-	-	-
Employee benefits (pensıon)	-	-	2,640	3,712
Balance carried foıwaıd	**62**	**37**	**35,941**	**36,016**

Movement ın deferred tax durıng the year

	1 April 2018 £000	Recognised in income £000	Recognised in OCI £000	31 March 2019 £000
Property, plant and equıpment	(32,267)	(993)	-	(33,260)
Otheı Timing dıffeıence	-	21	-	21
Employee benefits (pensıon)	(3,712)	97	975	(2,640)
	(35,979)	**(875)**	**975**	**(35,879)**

Movement ın deferred tax durıng the prıor year

	1 April 2017 £000	Recognised in income £000	31 March 2018 £000
Property, plant and equipment	(31,577)	(690)	(32,267)
Employee benefits (pensıon)	(4,280)	568	(3,712)
	(35,857)	**(122)**	**(35,979)**

12 Inventories

As at 31 March	2019 £000	2018 £000
Raw materıals and consumables	618	854
Woık in progıess	250	246
Fınıshed goods for ıesale and otheıs	475	508
	1,343	**1,608**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

13 Trade and other receivables

As at 31 March	2019 £000	2018 £000
Trade receivables	28,735	23,549
Other receivables	2,458	2,264
Prepayments and accrued income	1,707	2,304
	32,900	**28,117**

Movements in the expected credit losses provision were as follows

	2019 £000	2018 £000
At 1 April	2,312	1,911
Charge for bad and doubtful debts	1,099	23
Amounts written off during year	291	378
Other	17	-
At 31 March	**3,719**	**2,312**

At 31 March 2019 and 31 March 2018, the Group had no trade receivables that were past due and not individually impaired

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

	2019 £000	2018 £000
Not past due	6,649	5,546
Past due 0-30 days	5,216	3,294
Past due 31-120 days	3,002	2,540
More than 120 days	13,868	12,169
	28,735	**23,549**

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

Trade receivable	Aged less than 6 months £000	Aged between 6 and 12 months £000	Aged between 12 and 48 months £000	Aged greater than 48 months £000	Total
At 31 March 2019	85	1,059	1,765	810	**3,719**
At 31 March 2018	112	617	1,338	245	**2,312**

14 Cash at bank and cash equivalents

As at 31 March	2019 £000	2018 £000
Liquid resources – deposits exceeding 24 hours duration	13,821	14,845
Cash and cash equivalents per balance sheet	13,125	7,593
	26,946	**22,438**

Within bank balances there is £5,334,565 (2018. £5,196,086) of restricted cash relating to the secured index-linked bond.

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

Non-current liabilities

As at 31 March	**2019** **£000**	**2018** **£000**
Long-term loan	49,176	40,500
2.874% Secured Index-Linked Bond 2027-2031	183,501	179,888
3.25% Irredeemable debentures	50	50
5% Irredeemable debentures	52	52
	232,779	**220,490**

Changes in liabilities from financing activities

	3.25% Irredeemable debentures	**5% Irredeemable debentures**	**Bond £100,000,00 2.874% (2027-2031)**	**Bond costs**	**Other loans**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2018	50	52	185,625	(5,737)	40,500	220,490
Changes from financing activities						
Indexation	-	-	5,160	-	-	5,160
Amortisation of bond cost	-	-	-	447	-	447
Repayment of £30m loan	-	-	-	-	(30,000)	(30,000)
New issue £36m PP	-	-	-	-	35,676	35,676
Other borrowings	-	-	-	-	3,000	3,000
Amortization of bond revaluation	-	-	(1,994)	-	-	(1,994)
Balance at 31 March 2019	50	52	188,791	(5,290)	49,176	232,779

Notes to the Financial Statements

16 Trade and other payables

As at 31 March	2019 £000	2018 £000
Current		
Trade payables	4,447	4,106
Other trade payables	18,469	22,843
Related Party Payable (Summit Water Limited)	240	240
Overdraft	2,800	802
Contract Liabilities	7,410	-
Deposits from developers	1,013	903
Other taxes and social security	648	802
Corporation tax	649	356
Non-trade payables and accrued expenses	5,263	5,175
	40,939	**35,227**

Contract liabilities

Group	2019 £000
Opening balance as at 1 April 2018	**7,092**
Revenue recognised that was included in the contract liability balance at the beginning of the period	(7,092)
Increase due to cash received, excluding amounts recognised as revenue during the period	7,410
At the end of the year, 31 March 2019	**7,410**

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

17 Employee Benefits

One of the Gıoup undertakings participates in a defined benefit pensıon scheme, the Water Companıes Pensıon Scheme (WCPS) The scheme funds are administered by tıustees and aıe independent of that Company's finances Contııbutıons are paıd to the scheme in accordance with the recommendatıons of an ındependent actuarıal advısor

Followıng extensıve consultatıons, changes weıe implemented to that Group's sectıon of WCPS on 1 Aprıl 2013, whereby retıı ement benefits for active members wıll be accrued on a career aveıage basıs rather than the final salary basis applicable pıevıously

The ıesults of the actuaı ial valuatıon of WCPS as at 31 March 2017 weıe updated to the accountıng date by an ındependent qualıfied actuary ın accordance wıth the accountıng standaı d

Oveı the yeaı to 31 Maı ch 2019, contrıbutıons of £673,000 (2018· £845,000) weıe made

In 31 March 2019 financıal statements, SESW provided £0.6m for the estimated ımpact of Guaıanteed Mınımum Pensıon (GMP) This was as a ıesult of the hıgh court rulıng that occurıed on the 26 Oct 2018 for the tıustee of the Lloyds Banking

Group pension scheme settıng precedent to remove ınequalıtıes ın scheme benefits that arose fıom Guaıanteed Minimum Pensıon (GMP) This was to equalise pensıon payments for members who were payıng ınto the scheme for a 7-yeaı peıiod ın the 1990's

On 31 March 2019, SESW closed the defined benefit pensıon scheme

The key IAS 19 (R) assumptıons used foı the scheme are set out below, along with the fair value of assets, a bıeakdown of the assets ınto the maın asset classes, the present value of IAS 19 (R) liabilıtıes and the surplus of assets above IAS 19 (R) lıabılıtıes (whıch equal the gıoss pensıon asset)

Assumptions

As at 31 March	**2019**	**2018**
Retail pıice index inflation	3 5% pa	3.4% pa
Consumer pıice index inflatıon	2 8% pa	2 7% pa
Discount rate	2 3% pa	2 5% pa
Pensıon ıncreases (CPI)	2 8% pa	2 7% pa
Pensıon ıncıeases (CPI capped at 5%)	2 8% pa	2 7% pa
Salary gıowth	n/a	2 9% pa

On the basıs of the assumptıons used for life expectancy, a male pensıoneı cuııently 60 would be expected to lıve for furtheı 28.8 yeaıs (2018 28 3 years)

As at 31 March	**2019 Fair value £000**	**2018 Fair value £000**
Equıtıes	-	9,155
Dıversıfied growth funds	-	17,794
Liability driven investment	89,719	85,501
Emeıgıng market multı-asset funds	-	6,555
Absolute Return Bonds	34,891	-
High Yield Bonds	-	5,816
Cash	-	368
Total	124,610	125,189

17 Employee Benefits (continued)

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

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

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

As at 31 March	2019 £000	2018 £000
Opening defined benefit obligation	104,077	103,406
Employer's part of current service cost	881	974
Past service costs	600	-
Interest cost	2,533	2,516
Contributions from Section members	10	19
Actuarial loss	5,123	2,690
Benefits paid	(5,238)	(5,528)
Closing defined benefit obligation	**107,986**	**104,077**

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

As at 31 March	2019 £000	2018 £000
Opening fair value of the Section assets	125,189	129,608
Interest on Section assets	3,073	3,182
Actual return less interest on plan assets	1,221	(2,749)
Contributions by the employer	673	845
Contributions by Section members	10	19
Benefits paid	(5,238)	(5,528)
Expenses	(318)	(188)
Closing fair value of Section assets	**124,610**	**125,189**

As at 31 March	2019 £000	2018 £000
Total fair value of assets	124,610	125,189
Present value of liabilities	(107,986)	(104,077)
Pension asset for the scheme	16,624	21,112
Unfunded former directors' pension entitlement	(1,095)	(1,053)
Net pension scheme asset	**15,529**	**20,059**

17 Employee Benefits (continued)

Asset distribution and expected return

The net asset has not been ıeduced in the Balance Sheet as the Group believes that a ıefund of the surplus assets would be available to ıt followıng the final payment to the last beneficıary of the Scheme.

Past seıvice losses totalling £1,095,000 (2018· £1,090,000) weıe recognısed in pıior years ın ıespect of an unfunded portion of a former Dıɪectoıs' pensıon entıtlement This figure has been revalued using the same assumptıons as above

The surplus recognısed ın the Balance Sheet has moved oveı the yeaı as follows

As at 31 March	**2019** **£000**	**2018** **£000**
Balance Sheet asset at start of year	21,112	26,202
Amount recognısed ın profit and loss account	(1,259)	(496)
Amount recognised in otheı comprehensive ıncome	(3,902)	(5,439)
Contııbutions paid	673	845
Balance Sheet asset for the scheme at end of year	16,624	21,112
Unfunded pensıon lıabılıty at acquısıtıon	(1,095)	(1,039)
Past servıce cost	-	(14)
Net Balance Sheet asset at end of year	**15,529**	**20,059**

The followıng amounts have been ıecognısed in profit and loss.

	2019 **£000**	**2018** **£000**
Employeı's part of cuıɪent seıvice cost	881	974
Past seıvıce costs	600	-
Sectıon Expenses	318	188
Net interest cıedit	(540)	(666)
Total operating charge	**1,259**	**496**

The amounts recognısed ımmedıately ın otheı compıehensıve ıncome aıe as follows

	2019 **£000**	**2018** **£000**
Net actuaıial gains in the yeaı due to		
– Changes ın financıal assumptıons	4,559	2,889
– Changes ın demogıaphıc assumptıons	985	-
– Experience adjustments on benefit obligations	(421)	(199)
Actual (loss)/gaın on Sectıon assets ıelatıve to ınterest on Sectıon assets	(1,221)	2,749
Gain to recognıse outside pıofit and loss ın otheı comprehensıve income	3,902	5,439
Loss on unfunded foımeı Dıɪectoıs' pensıon entıtlement	58	32
Total remeasurement of deferred benefit asset recognized in other comprehensive income	**3,960**	**5,471**

Notes to the Financial Statements

17 Employee Benefits (continued)

The followıng table ıllustı ates the sensitivity of the defined benefit obligatıon to some of the sıgnıficant assumptions as at 31 March 2019·

As at 31 March	Effect on obligation	
	2019 (£000)	**2019 (£000)**
	-0 1%pa	+0 1%pa
Price inflation	(1,400)	1,400
Discount rate	1,700	(1,700)
	-1year	+1year
Lıfe expectancy	(4,500)	4,500

As at 31 March 2018	Effect on obligation	
	2018 £000	**2018 £000**
	-0.1%pa	+0 1%pa
Prıce ınflation	(1,400)	1,400
Dıscount ıate	1,600	(1,600)
	-1 year	+1 year
Lıfe expectancy	(4,100)	4,100

These sensitıvıtıes have been calculated to show the movement ın the defined benefit obligatıon ın ısolation, and assuming no other changes ın market condıtıons at the accountıng date. Thıs ıs unlıkely ın practice – for example, a change ın dıscount rate ıs unlikely to occur without any movement ın the value of the assets held by the Section

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

18 Capital and reserves

As at 31 March	2019 £000	2018 £000
Allotted, called up and fully paid		
329,100,002 (2018 329,100,002) oɪdmary shares of £0 5 each	164,550	164,550

Dɪvɪdends

The following dɪvɪdends were paid during the peɪ ɪod

	2019 £000	2018 £000
£0.01 (2018 £0 01) per qualɪfying ordinary share	3,500	3,500

The holders of ordinary shares are entɪtled to receɪve dividends as declared from tɪme to time and are entɪtled to one vote per share at meetɪngs of the company

19 Financial instruments

19 (a) Fair values of financial instruments

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

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

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

	Carrying amount 2019 £000	**Fair value 2019 £000**	**Level 1 2019 £000**	Carrying amount 2018 £000	Fair value 2018 £000	Level 1 2018 £000
Financial liabilities measured at amortised cost						
2 874% secured index-linked bond 2027 - 2031	183,501	233,419	233,419	179,888	217,535	217,535
Long Term loan	49,176	-	-	40,500	-	-
Total financial instruments	**232,677**	**233,419**	**233,419**	**220,388**	**217,535**	**217,535**

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cash flows There is no material difference between fair values and carrying amounts within the balance sheet for all other financial assets and liabilities

19 Financial instruments (continued)

19 (b) Credit risk

The Gıoup does not use deıivatıve financial instıuments to hedge its exposuıe to cıedit and ınteıest ıate ıisks aıising in the normal course of ıts busıness

Management has a credit polıcy ın place and the exposure to cıedıt rısk ıs monıtoıed on an ongoing basıs Investments are only permıtted ın lıquid secuıities and only wıth counterparties that have a credıt ratıng equal to or betteı than SESW. Gıven their hıgh credıt ratıngs, management does not expect any counterparty to faıl to meet ıts oblıgatıons

Cıedıt rısk arıses prıncıpally fıom tradıng (the supply of seıvices to customers), the Group does not believe ıt ıs exposed to any materıal concentrations that could have an ımpact on ıts ability to contınue as a goıng concern or its longeı-term vıabılıty

The Group manages ıts ıisk fıom tıading through the effective management of customer relationships. Concentıatıons of credit rısk with respect to tıade receıvables are limited due to the majorıty of the Gıoup's customeı base beıng compıised of a large numbeı of unıelated households oı, for other servıces, a wıde number of trade customers

At the balance sheet date theıe were no sıgnificant concentıatıons of cıedıt ıisk.

19 (c) Liquidity risk

Lıquıdıty rısk is the ıisk that the Group wıll not be able to meet ıts financial oblıgatıons as they fall due

The followıng aıe the contractual maturıtıes of financial liabılıtıes, ıncludıng estımated interest payments·

31 March 2019

	Total contractual cash flows £000	1 year to less £000	1 to <5 years £000	ırs and over £000
Non-derivative financial liabilities				
Loan and other borıowıng	13,500	13,500	-	-
Debentures	102	-	-	102
Tıade and other payables	33,384	33,384	-	-
Inteıest ıate - 2.874% secured ındex-lınked bond 2027-2031*	281,030	4,914	21,175	254,941
Inteıest ıate – 3 22%	43,583	1,159	4,637	37,787
	371,599	**52,957**	**25,812**	**292,830**

* ıncludes expected index value of bond on matuıity and inteıest payable theıeon tıll matuıity

31 March 2018

	Total contractual cash flows £000	1 year to less £000	1 to < 5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loans and otheı borrowings	64,823	-	10,500	54,323
Debentures	102	-	-	102
Trade and otheı payables	35,227	35,227	-	-
Interest Rate – 2 874%	100,000	-	-	100,000
Interest Rate – 3.22%	30,000	-	30,000	-
	230,152	**35,227**	**40,500**	**154,425**

19 Financial instruments (continued)

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	2019 £000	2018 £000
Expiring in one year or less	1,000	1,000
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years but not more than five years	11,500	14,500
	12,500	**15,500**

19 (d) Market risk

Financial risk management

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

Market risk — Foreign currency risk

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

Market risk — Interest rate risk

The Group adopts a policy of ensuring the majority of its exposure to interest rate changes on borrowings is on a fixed rate basis

The long dated inflation-linked bond was issued at a rate of interest of 2.874% The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure The bond issue carried an AAA rating The bond is index-linked so that the capital sum and interest payment increase with RPI

The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Group The bond was issued on 21 March 2001 and is secured upon the shares of Sutton and East Surrey Water plc In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

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

The ESH loan of £36m is at a fixed interest rate and therefore doesn't attract any interest rate risk

19 Financial instruments (continued)

19 (d) Market risk — Interest rate risk (continued)

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 2018.

	1 April 2018 – 31 March 2019 £000	1 April 2017 – 31 March 2018 £000
Equity		
Increase	-	-
Decrease	2,092	1,949
Profit or loss		
Increase	-	-
Decrease	2,092	1,949

19 (e) Inflation risk

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

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

The carrying value of index-linked debt held by the Group was £159 93million at 31 March 2019 (2018· £154 323 million)

19 (f) Capital management

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

The Group aims to maintain a gearing level of approximately 65%

Notes to the Financial Statements

20 Operating leases

Non-cancellable operatıng lease rentals are payable as follows·

As at 31 March 2019	Land and Buildings £000	Other £000	31 Mar 2019 £000
Less than one year	170	15	185
Between two and five years	91	6	97
	261	**21**	**282**

As at 31 March 2018	Land and Buildings £000	Other £000	31 Mar 2018 £000
Less than one year	135	26	161
Between two and five years	353	-	353
	488	**26**	**514**

21 Commitments

As at 31 March	2019 £000	2018 £000
Contracted capıtal commıtments	13,300	16,976
Other commitments	7,000	7,000

Other capital commıtments are for a £7m Letter of Credıt from HSBC whıch ıs used as a guarantee for post payment terms wıth wholesalers wıthın the water and sewerage competıtıve retail market for eligible non-household customers

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

22 Related parties

Identity of related parties with which the Group has transacted

Group had transactions with subsidiaries of Sumitomo Corporation, the ultimate parent company of Summit Water Limited. Summit Water Limited owns 50% of the Group.

	Sales to		Administrative xpenses incurred from	
	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Shareholders	-	-	400	400
Other related parties	-	-	37	72
	-	**-**	**437**	**472**

31 March	Receivables Outstanding		ables outstanding	
	2019 £000	2018 £000	2019 £000	2018 £000
Shareholders	-	-	240	240
Other related parties	-	11	22	6
	-	11	**262**	**246**

Transactions with key management personnel

The compensation of key management personnel·

As set out in note 4 and 5, the average number of persons employed by the parent company during the year is nil (2018 nil) As also noted, no remuneration was paid to directors during the year (2018 £nil)

23 Key Accounting Judgements

In the process of applying its accounting policies set out in Note 1, the Group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available These estimates, judgements and assumptions affect the carrying value of assets and expenses recognised during the reporting periods presented and actual results may differ from these estimates The following is a list of accounting estimates the Group believes are critical, due to the degree of uncertainty regarding the estimates, judgements or assumptions involved and the magnitude of the asset or expense being reported

Capital Expenditure

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

23 Key Accounting Judgements (continued)

Defined benefit scheme

The appropriateness of the accounting estimates and disclosures for the benefits provided to employees through the Group Companies' Pension Scheme – the Committee concluded that the estimates applied by the Group's actuarial advisors in calculating the annual cost and valuing the assets and liabilities associated with the defined benefit obligation were within the range typically adopted for prudent provisions in the current economic environment

Goodwill

Goodwill is assessed annually for impairments by analyzing the net present value of the groups future cashflows. To date, no impairments have been made and the cashflows are in excess of the value of goodwill as at the date of these statements For sensitivity results refer note 9.

Expected credit losses management

An expected credit losses provision is established by applying expected recovery rates to debts outstanding at the end of the accounting period. The expected recovery rate takes into account the age of the debt and the payment history. A significant level of judgement is needed in relation to the assumptions used in the calculation to predict the level of future cash collection. Collection performance for debt over one year is closely monitored and remains consistent with the basis of the provision made

Sensitivity analysis

A +/-5% movement in aged debt results in £315,380 movement in the expected credit losses provision This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates.

24 Post Balance Sheet Events

On the 12 July 2019 SESW renewed its Revolving Credit Facility with NatWest, increasing the available borrowings from £25m to £35m.

As noted in the Director's report, under the terms of the Notes Purchase agreement dated 19 October 2018, the company is required to deliver to the Note Holders copies of a its consolidated balance sheet and statements of income, shareholders' equity and cash flows within 120 days of the end of your Financial Year This obligation has not been met and therefore there has been a breach of the obligations under that clause which constitutes an Event of Default However, on 10 October 2019 the note holders waived this requirement until 15 November 2019 Subsequently, ESH has submitted the audited consolidated accounts with the lender on 14 November 2019, thus complying with the waiver letter

SESW, following receipt of the final determination from Ofwat on 16 December 2019, has notified the regulator that it will not be requesting a referral by Ofwat of the final determination to the Competition and Markets Authority. SESW has confirmed that this decision was reached primarily due to the positive response from Ofwat in its Final Determination with respect to the majority of SESW's key presentations, which resulted in an increased totex allowance in the majority of areas. For the remaining totex funding gap, SESW will implement other funding solutions to meet the challenging targets set by the Company to deliver our customers' priorities Please refer to the going concern section for additional information

On 21 January 2020, the Board approved interim dividend £1 75m for FY 19-20

25 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 for the year ended 31 March

	Note	2019 £000	2018 £000
Fixed assets			
Investments	32	161,600	161,600
		161,600	**161,600**
Current assets			
Debtors	33	1,064	1,075
Cash at bank and in hand		2,863	2,844
		3,927	**3,919**
Creditors: amounts falling due within one year	34	**63**	**37**
Net current assets		**3,864**	**3,882**
Net assets		**165,464**	**165,482**
Capital and reserves			
Called up share capital	35	164,550	164,550
Profit and loss account		914	932
Shareholders' funds		**165,464**	**165,482**

The notes on pages 56 to 63 form part of the financial statements

These financial statements were approved by the Board of Directors on 05 March 2020 and signed on its behalf by.

S Kitajima
Director

Company Registration No· 08369318

Sumisho Osaka Gas Water UK Limited

Company Statement of Changes in Equity

	Called up share capital	Profit & loss	Total
	£000	£000	£000
Balance brought forward 1 April 2017	**164,550**	**954**	**165,504**
Total comprehensive income for the period			
Profit retained for year	-	3,478	3,478
Total comprehensive income for the year	-	3,478	3,478
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2018	**164,550**	**932**	**165,482**
Balance brought forward 1 April 2018	**164,550**	**932**	**165,482**
Total comprehensive income for the period			
Profit retained for year	-	3,482	3,482
Total comprehensive income for the year	-	3,482	3,482
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2019	**164,550**	**914**	**165,464**

The notes on pages 56 to 63 form part of the financial statements

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

26 Accounting policies

Basis of accounting

Sumisho Osaka Gas Watei UK Limited (the "Company") is a company ıncoıpoıated and domıcıled ın the UK

These financial statements were prepared in accordance wıth Fınancıal Reportıng Standard 101 Reduced Dısclosure Fıamework ("FRS 101").

In preparing these financıal statements, the Company applıes the recognıtıon, measuıement and dısclosuıe ıequiıements of International Fınancıal Repoıtıng Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary ın oıder to comply wıth Companıes Act 2006 and has set up below where advantage of the FRS 101 disclosure exemptıons has been taken

Under section s408 of the Companıes Act 2006 the company ıs exempt fıom the ıequırement to pıesent ıts own profit and loss account. The company's pıofit foı the yeaı ended 31 March 2019 ıs £3,482,000 (2018·£ 3,478,000)

The company ıs 50% owned by Summıt Wateı Limited, a company ıncorporated at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ, and 50% owned by Osaka Gas UK Limited, a company incorpoıated at 1st Flooı, Carrıngton House, 126 - 130 Regent Stıeet, London, W1B 5SE Theıe are no parent undertakıngs and no party has control of the company

In these financial statements, the company has applıed the exemptıons avaılable under FRS 101 ın respect of the following disclosuıes

- A Cash Flow Statement and ıelated notes,
- Comparative period ıeconciliations for share capıtal, ıntangıble assets and ınvestment propertıes;
- Disclosures ın ıespect of transactions with wholly owned subsıdiarıes;
- Dısclosuıes ın ıespect of capital management,
- The effects of new but not yet effective IFRSs,
- Dısclosures ın respect of the compensatıon of Key Management Personnel.

The Company proposes to contınue to adopt the reduced disclosure fıamewoık of FRS 101 in its next financial statements

The accounting polıcıes set out below have, unless otherwıse stated, been applıed consıstently to all perıods presented in these financıal statements

Going Concern

The going concern basıs has been adopted for pıeparıng the financıal statements

As noted ın dııectoı's report, SESW the Gıoup's laıgest company, ıeceıved its PR19 final determınatıon (FD) from OFWAT on 16 Decembeı 2019. As peı the FD, OFWAT disallowed some of the proposed cost allowance To fund the dısallowed cost, SESW will have to ıaise additional fundıng in the going concern assessment perıod ın the range of £8m to £10m Management ıs in the pıocess of evaluating vaıious alternate funding options with the Board and Shareholdeıs On the date of appıoval of these financial statements, the additional funding requıı ed ıs not in place Whılst management ıs confident, based on its existing banking relatıonships, recent borıowings and financial posıtıon, that the debt will be secured, there can be no certaınty of obtaınıng the fundıng untıl confirmed by the lenders In case that SESW is unable to ıaıse the requıı ed debt, theıe would be uncertaınty oveı group's abılıty to contınue as a goıng concern.

In the absence of ıaising addıtıonal fundıng, management has evaluated other ınternal mıtıgatıon plans to meet the funding requiıements over next 12 months Mıtıgatıon plans ıncludes deferment of the dıvıdend to the shareholdeıs and delay in certain capıtal projects Addıtıonally, ın pıeparıng for the FD, management obtaıned a sıgned letter of intent from its shaıeholdeıs that they would pıovıde financıal support ın the event of an extıeme downsıde scenarıo

26 Accounting policies (continued)

Going Concern (continued)

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Considering the mitigation plans and undertaking from the shareholders, the Directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis

As noted in the director's report, under the terms of the Notes Purchase agreement dated 19 October 2018, ESH is required to deliver to the Note Holders copies of its consolidated balance sheet and statements of income, shareholders' equity and cash flows within 120 days of the end of your Financial Year. This obligation has not been met and therefore there has been a breach of the obligations under that clause which constitutes an Event of Default However, on 10 October 2019 the note holders waived this requirement until 15 November 2019. Subsequently, ESH has submitted the audited consolidated accounts with the lender on 14 November 2019, thus complying with the waiver letter

Investments

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

All other investments including investments held as current assets are stated at fair value Changes in fair value are recognised through other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the gain or loss previously recognised in other comprehensive income is transferred to the profit and loss account.

Other income

Other income represents income received from Sumisho Osaka Gas Water UK Limited group companies in respect of management services provided

Finance income

Finance income represents dividend income from investments.

Taxation

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

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

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

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

Dividends

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

26 Accounting policies (continued)

Financial Instruments

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

Trade receivables

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

Cash and cash equivalents

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

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

Notes to the Financial Statements

27 Remuneration of directors

Directors' remunerations and pensions are borne by affiliates of the shareholders in the current and previous year. No remuneration was paid to the directors during the period in respect to their services to the company (2018. nil).

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2018· nil).

28 Other income

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Management Fees	100	100

29 Finance income

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Dividends	3,500	3,500

30 Expenses and auditor's remuneration

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
Included in profit/loss are the following		
Auditor's remuneration		
Audit of these financial statements	38	32

Other fees of £0.1 (2018 £0.1) were paid to KPMG LLP for tax compliance services

31 Tax credit

A. Recognised in the profit and loss account

	1 April 2018 - 31 March 2019 £000	1 April 2017 - 31 March 2018 £000
UK corporation tax		
Current tax credit on income for the period	(4)	(5)
Total current tax credit	**(4)**	**(5)**
Deferred tax	-	-
Tax credit on profit	**(4)**	**(5)**

B. Reconciliation of effective tax rate

The current tax charge for the year is lower (2018. lower) than the standard rate of corporation tax in the UK of 19% (2018· 19%) The differences are explained below

	2019 £000	2018 £000
Profit for the year	3,482	3,478
Total tax credit	(4)	(5)
Profit excluding tax	**3,478**	**3,473**
Tax using the UK corporation tax rate of 19% (2018: 19%)	661	660
Effect of.		
UK dividend income	(665)	(665)
Total tax credit	**(4)**	**(5)**

C. Factors affecting the tax charge for future periods

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 A further reduction to 18% (effective from 1 April 2020) was also substantively enacted on 26 October 2015 with an additional reduction to 17% (effective from 1 April 2020) being substantively enacted on 6 September 2016 This will reduce the Company's future current tax charge accordingly.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

32 Investment held as Fixed Assets

	Subsidiary companies £'000
Details of movements in the year	
At 1 April 2018	161,600
Additions	-
Disposals	-
At 31 March 2019	**161,600**
Provisions for impairment:	
At 1 April 2018	-
Provision for the year	-
Disposals	-
At 31 March 2019	**-**
Net book value:	
At 1 April 2018	161,600
At 31 March 2019	161,600

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

32 Investment held as Fixed Assets (continued)

The Company has the following 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 BV is Prodock, 9 Mozelhavenweg, Amsterdam

The principal activities for all investments are as follows.

Name of Company	Activity	Class of shares	Ownership 2019	Ownership 2018
Directly held:				
East Surrey Holdings Limited	Holding Company	Ordinary	100%	100%
Indirectly held:				
Sutton and East Surrey Water plc	Water supply	Ordinary	100%	100%
		Preference	0%	100%
SESW Holding Company Limited	Holding Company	Ordinary	100%	100%
		Preference	0%	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	Aggregates and the import and sale of bathroom equipment	Ordinary	80%	80%
The Cheam Group plc	Holding company	Ordinary	100%	100%
		Preference	79%	79%
Sutton and East Surrey Water Services Limited	Non household water supply	Ordinary	100%	100%
The Sutton District Water plc	Dormant	Ordinary 'A'	100%	100%
SES Home Services Limited	Non-trading	Ordinary	100%	100%
SES Business Water Limited	Non-trading	Ordinary	100%	100%
SES Water Limited	Non-trading	Ordinary	100%	100%
Calcite Factory B V	Minerals processing	Ordinary	80%	80%

33 Debtors

As at 31 March	2019 £000	2018 £000
Parent company and fellow subsidiaries	1,060	1,060
Other debtors	4	15
	1,064	**1,075**
Due within one year	1,064	1,075

Notes to the Financial Statements

34 Creditors: amounts falling due within one year

As at 31 March	2019 £000	2018 £000
Parent company and fellow subsidiaries	22	-
Accruals and deferred income	40	33
Other creditors	1	4
	63	**37**

35 Capital and reserves

Share Capital

As at 31 March	2019 £'000	2018 £'000
Allotted, called up and fully paid:		
329,100,002 (2018. 329,100,002) ordinary shares of £0 5 each	164,550	164,550

Dividends

The following interim dividends were paid during the period.

	2019 £000	2018 £000
£0.01 (2018· £0 01) per qualifying ordinary share	3,500	3,500

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

36 Accounting estimates and judgements

Investments.

Intangible investments in subsidiary companies are stated at cost less impairments which are shown in note 32 of these financial statements. The board has assessed the recoverability of loans and investments in subsidiary companies in the period and concluded that there were no indications of impairment as at the balance sheet date.

37 Off-balance sheet arrangements

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

38 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

39 Subsequent events

Subsequent to the balance sheet date, 31 March 2019 management has evaluated events through March 2020, which is the date the company's financial statements were available to be issued There were no subsequent events that required adjustment to or disclosure in the company's financial statements, also refer discloser in note 24.