# Sumisho Osaka Gas Water UK Limited

Annual Report and Financial Statements for the year ended
31 March 2020

Company Number 08369318

# Sumisho Osaka Gas Water UK Limited

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# Sumisho Osaka Gas Water UK Limited

# Group Strategic Report

The directors present the strategic report for the year ended 31 March 2020.

**Principal activities**

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

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

**Sutton and East Surrey Water Plc (SESW)**

SESW the largest company within the Group, supplies 160 million litres of clean water each day to 735,000 people in East Surrey, and parts of West Sussex, West Kent and South London. Some key highlights of 2020 include;

- Achieving the leakage reduction target for the 21st successive year meaning less water is being taken from the environment
- Very low numbers of burst mains and supply interruptions, thanks to a targeted approach to asset investment meaning customers benefit from a more robust service
- SESW is now helping more people in more ways than ever before, including providing the highest volume of payment holiday support per 10,000 customers in response to COVID-19 across the industry
- Having the fewest concerns from customers about the smell, taste or appearance of their water since the challenging target was introduced in 2015
- Reducing demand by fitting more than 8,000 new water meters during the year, including a trial of smart meters
- 89% of customers are satisfied with their water service and the vast majority believe their bill provides good value for money.

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

- Being the first Company to make a donation towards the Surrey Coronavirus Response Fund, as well as providing voluntary time to support those in need, including building hundreds of beds at a new community hospital
- Launching a charitable giving fund through the Community Foundation for Surrey which has so far benefitted more than 5,000 people
- Signing the Social Mobility Pledge and running the area’s first ever ‘Industrial Cadets’ work experience programme with the Engineering Development Trust
- Achieving Investors in People silver accreditation which reflects the many great things the Company does to lead, manage, develop and support employees
- Further expanding a trial of electric vehicles which will save 43 tonnes of $CO_2$ each year
- Speaking to over 12,000 people about their water, where it comes from and how to use it wisely through their long-running environmental education programme

# Sumisho Osaka Gas Water UK Limited

## Group Strategic Report

Incoming Chief Executive Officer Ian Cain joined the Company in February 2020: “Looking back I am really pleased to report that we have continued to meet the expectations of our customers in the areas that matter most to them. This includes delivering their top priority which is a reliable supply of high-quality water but also going further to play a bigger role in tackling wider societal and environmental challenges such as water poverty and the effects of climate change. We couldn’t have achieved all that we have without our people and there are countless examples of them going above and beyond for our customers. It is thanks to their skills and commitment that we were in a position to put forward the most ambitious plan in our history for the next five years and I look forward to seeing us deliver on our promises as one of the leading companies in the industry.”

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

SESW has 5 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:**

SESW are proud to be one of the best performers in the industry for keeping customer supply interruptions to a minimum. While SESW aim for no customers to lose supply, this year SESW are pleased to have more than met their regulatory target limit, requiring them to minimise interruptions that affect customers for longer than three hours to less than two minutes per household – that’s amongst the very best performance in the industry. Another area of very strong historical performance is the low number of burst mains year on year. The number of bursts this year has fallen again, reflecting the general good health of the network and the work that goes into maintaining it, such as pressure management and sustained targeted investment.

High-quality water is SESW’s customers’ number one priority and while the Company’s result for the 12 months to the end of 2019 is not as high as have been achieved in recent years, the result of 99.94% for the Overall Drinking Water Quality Index, just missing the target by 0.01%, still represents a good performance in respect of treated and distributed water quality.

The performance last year reflects five breaches of the water quality standards at customer properties, two due to traces of lead and three due to iron. One of the lead failures was outside of SESW’s control as it related to a high concentration of lead in the water at the customer’s tap. In the other we replaced our lead pipe and recommended that the customer replace theirs to ensure the highest standard of water quality. Three exceedances due to iron in a year is a very rare and unexpected occurrence. Thorough investigations did not identify any cause in two of the three cases, the third being due to an unusual pressure surge disturbing naturally accumulated sediment in the mains network.

SESW have a challenging target to minimise the number of customers who need to contact us about the taste, smell or appearance of their water. In 2019 we received 329 contacts, which is one contact for every 2,150 customers. This is the Company’s best result over the past five years and below the target limit of 350 contacts. It also represents some of the very best performance in the water industry in this area.

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

In total 7% of customers questioned felt that their water bill is not good value for money. The average household bill for 2019/20 was £200, which works out at just over 50p a day and a 2.7% rise on the previous year. Most of SESW's customers do not struggle to pay their bills but SESW recognise that for some people it can be a challenge, even temporarily, so SESW were very quick to introduce a three-month payment holiday for those people whose income has been affected by the COVID-19 pandemic. After this period, they were also automatically registered onto the Water Support Scheme for nine months which provides a future 50% bill discount – there are now more than 14,000 eligible customers receiving this support, significantly more than the target of 5,000.
SESW have repatriated 2,532 customers so they are billed directly by us rather than their housing association and supported this with informative drop-in sessions on all things water and in particular the extra support SESW can offer. More affordable bills for more customers means lower bad debt which is the cost of water charges that they are unlikely to collect. Unfortunately, bad debt has risen considerably this year and we have missed our target to keep it below 1% of turnover.

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

SESW had no restrictions on the use of their water this year. Like other water companies, SESW depend on winter rainfall for the water supply to customers as underground aquifers – rocks which act like a giant sponge – typically only fill up between October and March when there is less plant growth and evaporation. Approximately 85% of the water resources are supplied by these aquifers. In October 2019 SESW put out an early warning that a temporary use ban might be needed in the spring as rainfall levels had been below average for some considerable time and SESW had reached the triggers in our Drought Plan. However, no restrictions were necessary as we had one of the wettest winters on record so our groundwater levels were above average from December through to March. Overall winter rainfall was recorded at 160% of the long-term average. By March 2020 SESW's aim was for 56% of properties to be supplied by more than one treatment works, helping to keep customers' taps running, particularly during site failures and burst mains. SESW achieved this target through an ongoing investment programme which also saw the Company start work to lay a new trunk main between Blindley Heath and Outwood reservoir, approximately 4.3 kilometres in length, which will be completed later this year. SESW's work in this area is set to continue over the next five years and by 2025 SESW's target is for all customers to be supplied by more than one treatment works.

SESW have also been working hard to upskill our workforce responsible for maintaining the resilience of their network. Earlier this year 19 of the network operatives attended a one week 'Repair and Maintenance' bootcamp, as part of a joint initiative with Severn Trent Water. The post-course survey results showed a huge increase in levels of confidence among our people in using specialist equipment and techniques. It also provided a good opportunity to share learning resources across the sector.

**Aim 4 – Deliver consistently high levels of service:**

Satisfaction with the overall water service we provide is high at 89%, just below the 91% target and SESW continue to work hard to improve this further with an aim of achieving 100% customer satisfaction. This score was generated from a household satisfaction survey which was completed by a random representative sample of 400 customers during the year and asks about important topics such as continuity of supply, pressure and taste. This year SESW have been measured against C-MeX – the new industry metric for measuring customer service and experience across all companies, which replaced the Service Incentive Mechanism (SIM), the previous industry customer satisfaction measure, in shadow form from May 2019. The new metric works by scoring companies out of 100 points and is formed using two surveys – one based on customers' experiences when they have had to contact us and the other a customer experience survey, which focuses on customers who have not necessarily been in contact with us and will score us based on their perception of the Company. SESW achieved a C-MeX shadow score of 72.85, against a target of 83.0. SESW made good progress throughout the year with some targeted interventions and improvements but disappointingly have fallen short of the targets that the Company set itself. Additionally, as noted in Ofwat's Final Determination on the Business Plan for 2020 to 2025, SESW were levied with a regulatory adjustment of £2.3 million in respect of our PR14 SIM performance.

As part of the two-year customer transformation programme SESW launched a new website earlier this year, which was developed in collaboration with its customers, which is the first phase of the biggest change SESW have made to their online presence in more than ten years. The website has a new look and feel and streamlined content to make it much easier to use for customers and the feedback and usage statistics have been very positive.

With input from their customers SESW have also re-designed customer bills to make them clearer and easier to understand and will continue to make improvements to this key area of customer communication.

Meanwhile, SESW remain on course to implement a new billing solution later this year. The system will enable improvements in the quality of service they offer to customers by managing their enquiries and needs in a much more effective and efficient way, meaning SESW will be able to process customer contacts and enquiries faster than they ever have before. SESW are now at a five-year low of fewer than eight complaints per 1,000 properties and while this means SESW have not met target this year, it demonstrates that the changes being made as part of the customer transformation programme, such as increased training and simplified processes, are working, but there is clearly more to do.

**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 and a key focus. SESW have met their leakage target for the 21st successive year and continue to have one of the lowest levels of leakage in the industry. That said, SESW are of course still focused on doing more and have teamed up with Vodafone, Royal Haskoning DHV and Technology to implement groundbreaking technology to create a self-learning network that allows them to recognise and highlight issues in real-time. This innovation will speed up the response time to network events, reducing the runtime and impact of leakage, bursts and supply interruptions as well as helping SESW to better target the investment to repair and replace their water mains in the future.

SESW operate in a region which is classified as being in 'serious water stress' due to the size of the population and the amount of rainfall it receives. SESW know this is going to become even more challenging in the future because of population growth and climate change which is why SESW have a target to reduce household water use. This will help SESW increase resilience to drought and reduce how much they take from the environment. SESW have met their target this year to reduce customer usage and have continued to increase the number of water meters they have installed – over 8,000 in total this year and over 36,000 since 2015 – which is one of the most effective ways to influence behaviour and educate customers about their consumption. SESW have also trialled smart meters amongst customers living in the Tandridge area through 'Every Drop Counts' campaign. Two smart devices – standard and advanced – have been installed in 220 homes in the area, allowing customers to track usage and identify leaks at an early stage. The data and insights from this trial have already proved invaluable and the advanced 'Waterfall' device, developed in partnership with Creative EC, has already been shortlisted for an industry award.

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Meanwhile SESW's education activity with children and adults across their area continues to go from strength to strength. This year SESW have reached more than 12,000 people through school visits to Bough Beech reservoir and attending local community events to spread the water saving messages. SESW also ran their first ever week-long 'Industrial Cadets' work experience programme supported by the Engineering Development Trust (EDT), which saw 14 students aged 14 to 17 understand more about how the UK water industry works. It was so successful that it is now a regular annual fixture in the calendar.

SESW have unfortunately reported five separate pollution incidents in the past year, including one previously unreported in 2019. While this number of pollution events is higher than SESW would usually expect, they were all categorised as low level, with minimal impact on the natural water environment. All of the incidents were linked to the release of treated water associated with burst mains and have since been closed by the Environment Agency.

In the past year SESW have also increased their fleet of electric vehicles to 12 across the Company, as part of our ongoing partnership with Drax to trial Nissan electric vans for five years. The trial is expected to deliver carbon savings of at least 43 tonnes of $CO_2$ per year as well as improve the air quality in the communities we serve – extremely important as we work towards our industry commitment to achieve net zero carbon emissions by 2030.

**Sutton and East Surrey Water Services Ltd (SESWS)**

SESWS operates as two separate trading divisions: SES Business Water and SES Home Services. SES Business Water saw turnover rise substantially during the year as it continued its strategy to add business water customers outside of its original incumbent area. The business also began the process during the year to invest in a new billing system which is expected to be operational in 2020/21. This is expected to have the impact of reducing operating costs, improving customer experience and assisting cash collection in the future. It will also allow for a stronger breadth of propositions to be taken to market and the ability to more clearly differentiate ourselves.

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

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

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

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

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## Group Strategic Report

**Covid-19 Update**

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

Although it only affected the final month of the 2019/20 reporting year, in the following section we highlight the impact it has had on our businesses, the risk management approach we have taken to manage the situation and the remaining uncertainties that we face over the coming year.

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

- Staff absence - A few employees have been unable to work due to illness or self-isolation and the Group had to change the way in which the field, production, shop floor and office-based teams work to abide with the Government's lockdown and social distancing requirements to protect public health. The priority has been to maintain a high-quality service to customers, which has meant that we have not been able to carry out all business operations as we normally would and have instead had to prioritise essential areas.
- Allmat, the builders merchant closed for two months during the height of the pandemic, as of the date of these financial statements has now re-opened with a new business model now operating a click and collect service to maintain safety of employees and customers.
- Cash collection rates - We have experienced a reduction in revenue across most of the business particularly with temporary closures at Allmat, reduced volumes of water consumed by businesses and due to some household customers being unable to afford their water bills and retailers not being able to pay wholesale charges as so many businesses have been impacted
- Penalties from non-delivery of the 2020/21 Business Plan targets in order to protect the health of employees and customers. We had to prioritise emergency work and only enter customers' properties when absolutely necessary, which led us to temporarily stopping work on some of our capital investment programme, reducing our proactive leak detection activity and stopping non-essential activity such as our water efficiency home visits and meter reading. This could impact the Group's ability to meet some of the Business Plan targets at the end of this year which could result in us receiving a financial penalty within the regulated water company
- Across SESW and SESWS the risk of bad debt has increased either due to more household customers expected to find financial hardship or retail customers ceasing to trade or the external economic market conditions worsening, as a result management have increased the bad debt provision by reducing the likelihood of future collections in the expected credit loss model. This is continuously being monitored.

Across the Group, to manage the risk we have put in place our robust Business Continuity Plan, that we test regularly, to ensure our core activities keep running effectively. This progresses through key stages, from planning in February, demobilisation in March, through to stabilisation of our operations, delivery of our core service and finally, reviewing our response.

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

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

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

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

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

The principal risks and uncertainties facing the Group include;

- Cyber Attacks causing interference with operational controls or loss of personal data, mitigated through multiple layer security, controls and employee awareness training.
- Failure to comply with legal and regulatory obligations, mitigated by formal processes for compliance with market codes (e.g. MOSL) dedicated resources and independent assurance.
- Failure of economic regulation within SESW where the company has insufficient funding to fulfil its duties, mitigated by having a stable and transparent regulatory regime, detailed business planning process including consultation with customers and an effective relationship with OFWAT.
- Cash Collection – increased risk of bad debt driven by poor cash collection as household customers suffer financial hardship in a Covid driven recession and also within the non-household retail market that SES Business Water operates within as businesses continue to recover from the impact of closures and downturn in the economy, both are mitigated through regular reviews and cash collection procedures.
- Failure of the billing systems across SESW and SESWS particularly with the transition to the new billing system, mitigated through a current stable billing system supported by an experienced system provider with detailed controls for any changes to system or environment, including transition to new billing system, full disaster recovery arrangements in place and adequate liquidity for temporary loss of billing capability.
- Operational risks across the Group particularly within the operational area of SESW and SES Home Services employs gas and plumbing engineers who work closely with gas on a regular basis, mitigated by strong health and safety protocol and training.

Other risks that are closely monitored include;

- Investment risk - The key factor for the Group managing this risk is to maintain and enhance the close relationship with its customers and suppliers. The subsidiary undertakings continue to develop and provide innovative value-added services at every stage of the supply chain.
- Interest rate and liquidity risks - The Group adopts a policy of ensuring the majority of its exposure to interest rate changes on borrowings is on a fixed rate basis. The majority of the interest rates risks are associated with SESW and its index linked bond. SESW has controlled its principal interest rate risk by issuing an Index-Linked Bond, the interest rate on this Bond is 2.874% in addition to index-linking of the capital value. SESW manages its liquidity risk through the use of borrowing facilities with the Royal Bank of Scotland. As at 31st March 2020 SESW has a £35 million five-year revolving credit facility of which £4m remains unutilised. This has subsequently been renewed to a £50m 5 year RCF. Other Group companies manage their own liquidity risk through overdraft facilities and are supported by the parent entity with loans if necessary, provided at a market rate.

- Currency risks - The Group does not use derivative financial instruments to hedge its exposure to credit and interest rate in the normal course of its business. The Group has minimal exposure to currency risk since nearly all activities are conducted in the UK and all borrowings are denominated in £ sterling.
- Financial risk management – please refer to note 20(d) for details

**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 2020 was £124.8m (Restated 2019: £111.1m) an increase of 12.34%. Operating costs increased to £106.4m (Restated 2019: £95.2m) with operating profit increasing by 7.08% to £19.4m (Restated 2019: £18.1m).

Interest Charges increased by 2.32% to £9.7m (Restated 2019: £9.4m). This increase in interest is partly driven by the increase in indexation of £100m bond and partly due to the full year effect of interest charges of the new loan taken out in 2019.

Group profit before taxation was £10.4m (Restated 2019: £9.5m) and Profit After tax reduced to £4.4m (Restated 2019: £7.6m). Tax charged in the year increased by £4.1m due to the impact of a change to the UK corporation tax rate that was substantively enacted on the 17 March 2020. The UK Government confirmed that the rate of 19% was retained, rather than reducing to 17% from 1 April 2020 that had previously been legislated, resulting in an increased deferred tax charge of £4.3m. Despite seeing increased growth in revenue, this also replicated into increased costs by a similar amount.

**Capital Investment**

The majority of the capital investment happens within SESW, where the Company has continued with its five year investment programme, £36.2 million was invested in new and replacement plant in the year (2019: £25.8 million).

SESW have continued to invest in the ongoing replacement of the pipes in their distribution network, investing £5.6 million this year to provide targeted replacement based on their age, condition and performance. Other investment of £6.3 million continued across the network, primarily on the improvement of resilience mains to ensure water can be efficiently moved around their supply area and also £1.1 million in pipes to supply new developments. The remaining £22.6 million was spent in replacing equipment at SESW's treatment works, pumping stations, service reservoirs and other operational sites (£4.3 million), investment in the ongoing metering programme (£2.6 million), and investment in IT, including replacing SESW's billing system, vehicles, laboratory and office equipment (£6.1 million). Capital investment also includes the ongoing work on upgrading Elmer Water Treatment Works (£9.4 million) and £0.2 million to complete the upgrade of Woodmansterne Treatment Works (2019: £4.3 million) which was commissioned on 25 February 2020.

**Net Debt**

Net term debt for the Group is £253.5m, an increase of £20.7m (2019: £232.8m). The increase represents, £3.2m RPI indexation on the indexed linked bond, and incremental utilisation of RCF loan of £17.5m.

Cash and liquid resources increased by £7.4m in the year to £34.3m (2019: £26.9m)

**Dividends**

During the year the Group paid dividends to its parent company Summit Water Limited (SWL) and Osaka Gas UK Limited of £3.5 million (2019: £3.5million).

# Sumisho Osaka Gas Water UK Limited

# Group Strategic Report

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

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

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

**The following statement describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 of the Companies Act 2006.**

We recognise the importance of clear communication and proactive engagement with our stakeholders. Comprehensive engagement enables informed decision making and is integral to the long-term success of the Group. In the table below, and in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the 'Regulations'), we set out our stakeholder groups, as required by the Regulations, how we engage with them and the impact of that engagement.

| Stakeholder Group | How we engage | Impact of engagement |
|---|---|---|
| Customers | • Customer representation groups and panels,<br>• Regular communications via phone, personal visits or written media<br>• Market research and insight<br>• Education programme<br>• Attendance at community events | We are continuing to deliver our customer priorities through our 3 to 5 year plans. Within SESW we have clear targets agreed with our regulator on what we set out to achieve over the next five years including providing a reliable and resilient service, supporting our vulnerable customers and making sure our bills are affordable.<br><br>Through the other Group companies we pride ourselves on a personal service and expertise. Our call centres will continue to be based in our local area. |
| Employees | • Employee representation groups and panels<br>• Regular conversations with employees and managers<br>• Annual targets and appraisals<br>• Annual employee engagement survey<br>• Regular interactions and visibility of our leadership team and directors<br>• Structured development and appraisal programme | We invest in our people through new training and development opportunities, fair pay and recognition of good performance and programmes to attract and retail high-quality employees.<br><br>In 2019/20 we ran our first industrial cadets programme with SESW to attract young people to the water industry and Company |
| Communities | • Consultations with local communities<br>• Social media and news updates<br>• Media campaigns<br>• Websites<br>• Education centre | Our communities in which we serve are at the heart of everything that we do, we have provided grants to local causes through community funds, extending our education programme to reach more schools, young businesses and community groups. |

## Sumisho Osaka Gas Water UK Limited

## Group Strategic Report

| | | |
|---|---|---|
| Regulators | • Responding to consultations and information request<br>• Annual submissions<br>• Working groups and regular meetings with all our regulators | SESW works within the regulated environment managed by Ofwat and SESWS within the market controlled by MOSL<br>Within SESW we have reduced our gearing to a level that is acceptable to Ofwat, updated our dividend and executive pay policies. Lowered bills by more than 15% and committed to supporting 25,000 people with our Water Support Scheme. We have also pledged to make £9m of water efficiency savings over the next five years. |
| Local Authorities | • Meetings with chief executives<br>• Supporting local economic prosperity initiatives<br>• Participation in local resilience forums | Within SESW we have planned for a 50% increase in the number of people living in the area by 2080 |

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

Seiji Kitajima

S Kitajima
Director
Company Registration No: 08369318
25 January 2021

# Sumisho Osaka Gas Water UK Limited

## Directors' Report

The directors present their directors' report and the audited consolidated financial statements for the year ended 31 March 2020.

**Directors**

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

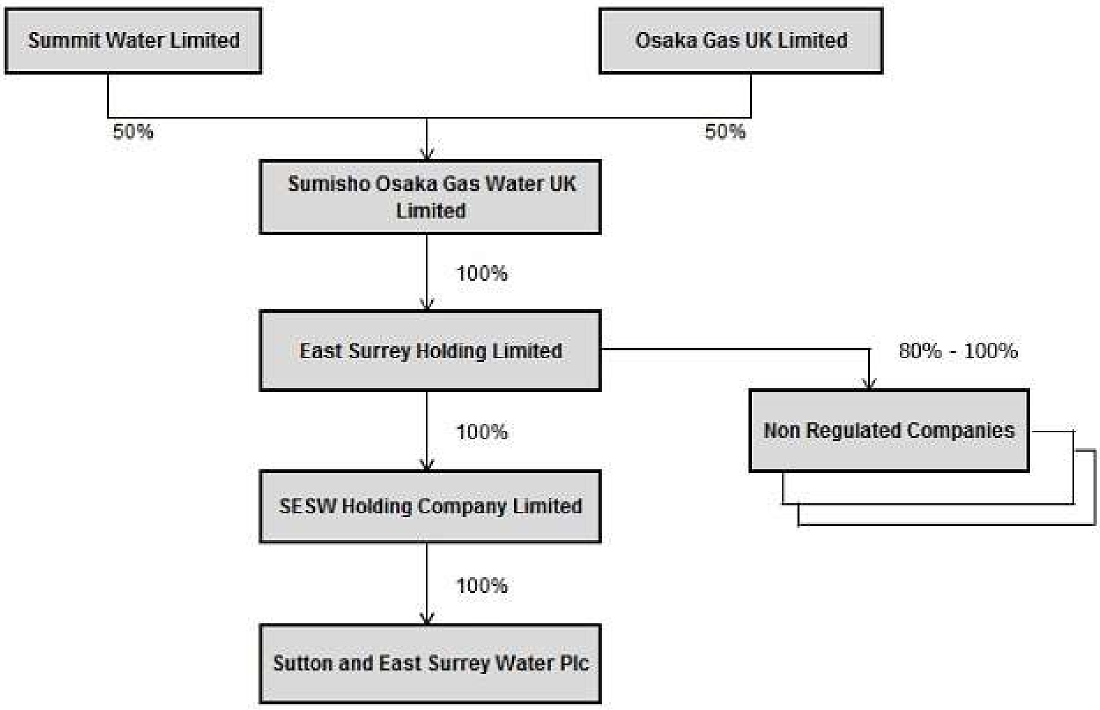
S Kitajima
M Kobayashi
K Oida (appointed 1 April 2019)
E Natsuaki (appointed 1 April 2020)
T Kamoi (resigned 31 March 2020)

**Directors' indemnities**

The Group has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in 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 Limited (OGUK), a company incorporated at 1st Floor, Carrington House, 126 - 130 Regent Street, London, W1B 5SE.



# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

**Group overview**

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

**Business review and future prospects**

The Group's turnover for the year ended 31 March 2020 increased to £124,820,000 (Restated 2019: £111,113,000). The Group profit before taxation was £10,362,000 (Restated 2019: £9,472,000).

During the year, the company paid dividends to its shareholders, Summit Water Limited (SWL) and Osaka Gas UK Limited (OGUK), of £3,500,000 (2019: £3,500,000).

SESW Turnover increased to £69,822,000 (Restated 2019: £68,339,000), Operating costs increased to £49,511,000 (Restated 2019: £50,229,000) as the Group invested in new capabilities to deliver on commitments made to customers. Consequently, operating profit increased by £690,000 to £20,430,000 (Restated 2019: £19,740,000).

During the year ended 31 March 2020, management identified errors in prior years' SESW's accounting for developer services revenue and cost and bad debt provisions. These have been recognised in restatements that are shown in more detail in note 1.4

Within SESW our future plans are set out in our business plan for 2020 to 2025. We received and accepted the final determination of our plan from Ofwat earlier this year and are now in the process of executing across this plan which reflects the priorities of our customers and stakeholders.

Within our other commercial entities, we plan to continue to grow our customer base, increasing sales and being key players in each businesses respective markets. For Sutton and East Surrey Water Services, the second largest entity in the group, we are actively increasing the volume of customers within the retail market and also looking at collaborations in which we can develop the Home Services insurance market. Both operating units provide future growth for the overall Group. The board reviews the performance of the Group on a regular basis.

**Research and development**

While the Group does not have a specific research and development function, significant innovation initiatives continue to be researched and implemented through a dedicated Innovation Manager in SESW. Activity in 2019/20 included the specification and roll-out of an industry leading smart network solution covering 6,000 properties; the installation and continued testing of the highly innovative combined smart meter and valve, for which SESW has been shortlisted for a Water Industry Award; and the successful trialling of an internet-of things low-cost energy sub-metering solution at our treatment works.

**Future developments and financial risks**

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

**Charitable and political donations**

During the year the Group made charitable donations amounting to £38,223 (2019: £18,839). This included a £30,000 donation to the Community Foundation for Surrey (CFS) for our dedicated grant fund. A further £115,000 in softening cost savings was also donated to local community funds across our supply area. There were no political donations (2019: £nil). The largest donation to UK charities was £5,000 to the Young Epilepsy, based in Lingfield, Surrey.

# Sumisho Osaka Gas Water UK Limited

# Directors' Report (Continued)

**Greenhouse gas emissions**

Greenhouse gas emissions are calculated using the UK Water Industry Research Carbon Accounting Workbook which is updated annually to reflect changes to emission factors and carbon reporting guidance from the UK Government. Net operational greenhouse gas emissions (market based reporting) in 2020 were 3,373 tonnes of carbon dioxide equivalent (tCO2e) (2019: 5,574 tCO2e), a 65% reduction on the previous year. This equates to operational emissions of 56 kgCO2e per million litres of treated water (2019: 71 kgCO2e). Operational greenhouse gas emissions for 2019/20 for the regulated business include (2019 in brackets):

- Gas consumption: 1,200,254 kWh and 245 tCO2e (1,153,315 kWh and 236 tCO2e)
- Consumption of travel fuels: 1,857 kWh and 482 tCO2e (2,026 kWh and 532 tCO2e)
- Purchase of electricity by the Company for its own use, including for transport: 51,800,997 kWh and 18 tCO2e (54,314,517 kWh and 2,594 tCO2e)

Note: All conversions are using the 2019 and 2018 greenhouse gas reporting figures on a net calorific value basis. The data for consumption of transport fuels covers vehicles for which the Group is responsible for the purchase of fuel. It does not include business miles in Company cars which are refunded through expenses. This is because the information is not practical to obtain. The Group is exploring options to digitise the expenses process to make this information more accessible.

In 2019/20, we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all half hourly metered sites. Within the Group, SESW has also made a number of investments in refurbishing and replacing inefficient pumping equipment. SESW has installed new sub-metering equipment as part of a trial at one of its treatment works to allow SESW to monitor efficiencies of pumping equipment on an ongoing basis. SESW has invested in electric vehicle charging infrastructure across a number of operational sites, including head office, and has switched 12 diesel vans for electric vans during the year. This is the first step in a wider roll-out of electric vehicles.

SESW has solar panels installed at five treatment works and at its Redhill head office. In 2020 onsite renewable electricity generation was 270,898 kWh (2019: 211,561kWh). SESW is part of the Water UK commitment for water companies in England to be net zero carbon by 2030.

**Payment to suppliers**

Settlement terms are agreed with suppliers as part of the contract terms and it is the Group's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Within SESW, the largest company within the Group, creditor days in the year were approximately 28 days (2019: 28 days).

**Employees**

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

**Employment of disabled persons**

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

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

**Going Concern**

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

The directors have considered the financial position of the Group and have concluded that they will meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements.

The directors conclusions on the going concern basis included consideration of the agreed extension of the amounts available within each companies' financing, including within SESW an extension of the revolving credit facility from £35m to £50m in May 2020 at market rates. There are no repayments of Group loans in the next 12 month period. The directors have considered reasonably plausible but severe downsides including the potential effects of COVID-19 on reduced income and cash through the household and non-household markets and external economic impacts on our commercial entities. These scenarios of reduced income and cash still enable the Group to meet its financial covenants. If required the Group has a number of mitigating actions to deal with liquidity issues, including re-scoping and deferral of capital projects.

**Post balance sheet events**

On 14 May 2020 the revolving credit facility limit with NatWest within SESW was extended to £50.0m from £35.0m.

Also within SESW, in May 2020 an interim payment of £1.0m was received in respect of an insurance claim relating to an incident at Elmer Water Treatment works.

On 30 September 2020, an interim dividend of £1.75m was declared payable from ESH to SOGWUK.

On 16 October 2020, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY 20-21.

**Independent Auditors**

PricewaterhouseCoopers LLP (PwC) is the auditor at the date of this report. PwC replaced KPMG LLP and was appointed by directors as auditor for the financial year ended 31 March 2020 onwards on 26 March 2020.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law 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 the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

# Sumisho Osaka Gas Water UK Limited

## Directors' Report (Continued)

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

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

***Directors' confirmations***

In the case of each director in office at the date the Directors' Report is approved:

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

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

Seiji Kitajima
Director

S Kitajima
Director
Company Registration No: 08369318
25 January 2021

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

# Sumisho Osaka Gas Water UK Limited

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

## Report on the audit of the financial statements

**Opinion**

In our opinion:

- Sumisho Osaka Gas Water UK Limited's group financial statements and parent company financial statements (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 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2020, Consolidated Statement of Profit and Loss and Other Comprehensive Income, the consolidated cash flow statement, the consolidated and the company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

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

*Independence*

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

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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

**Reporting on other information**

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the annual report and the financial statements set out on page 14, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

# Sumisho Osaka Gas Water UK Limited

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

*Use of this report*

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

## Other required reporting

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

Richard French

……………………………………………
Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
25 January 2021

## Sumisho Osaka Gas Water UK Limited

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

| | Note | 2020 £000 | *Restated 2019 £000 |
|---|---|---|---|
| **Revenue** | 2 | 124,820 | 111,113 |
| Operating cost | 3 | (106,445) | (95,158) |
| Other operating income | | 1,026 | 2,162 |
| **Operating profit** | | 19,401 | 18,117 |
| Finance income | 6 | 616 | 791 |
| Finance expenses | 6 | (9,655) | (9,436) |
| **Profit before tax** | | 10,362 | 9,472 |
| Taxation | 7 | (5,998) | (1,858) |
| **Profit for the year** | | 4,364 | 7,614 |
| **Other comprehensive income / (expense)** | | | |
| Actuarial gains / (losses) on pension scheme | | 10,379 | (3,960) |
| Movement on deferred tax relating to pension asset | | (1,999) | 975 |
| Exchange differences on translating foreign operations | | - | (2) |
| **Total other comprehensive income/(expense) for the year** | | 8,380 | (2,987) |
| **Total comprehensive income for the year** | | 12,744 | 4,627 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the parent | | 12,623 | 4,464 |
| Non-controlling interest | | 121 | 163 |
| **Profit for the year attributable to:** | | | |
| Equity holders of the parent | | 4,243 | 7,451 |
| Non-controlling interest | | 121 | 163 |

*A number of restatements have been made for corrections to developer services revenue and costs, bad debt provision and depreciation – see note 1.4

The notes on pages 24 to 62 form part of the financial statements.

## Sumisho Osaka Gas Water UK Limited

## Consolidated Balance Sheet as at 31 March

| | Note | 2020 £000 | *Restated 2019 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 336,403 | 313,673 |
| Intangible assets | 9 | 118,193 | 116,072 |
| Investment Properties | 10 | 2,724 | 3,415 |
| Pension Scheme Asset | 18 | 27,356 | 16,624 |
| | | 484,676 | 449,784 |
| **Current assets** | | | |
| Inventories | 13 | 1,573 | 1,342 |
| Trade and other receivables | 14 | 35,725 | 32,240 |
| Cash and cash equivalents | 15 | 34,268 | 26,946 |
| | | 71,566 | 60,528 |
| **Total assets** | | **556,242** | **510,312** |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 49,489 | 40,425 |
| | | 49,489 | 40,425 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 16 | 253,483 | 232,779 |
| Unfunded pension obligation | 18 | 994 | 1,095 |
| Deferred tax liabilities | 12 | 42,971 | 35,850 |
| | | 297,448 | 269,724 |
| **Total liabilities** | | **346,937** | **310,149** |
| **Net assets** | | **209,305** | **200,163** |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 19 | 164,550 | 164,550 |
| Translation Reserve | | (1) | (1) |
| Retained earnings | | 44,141 | 35,018 |
| | | 208,690 | 199,567 |
| **Non-controlling interest** | | 615 | 596 |
| **Total equity** | | **209,305** | **200,163** |

*A number of restatements have been made for corrections to developer services revenue and costs, bad debt provision and depreciation – see note 1.4.

The notes on pages 24 to 62 form part of the financial statements.

These financial statements on pages 19 to 23 were approved by the Board of Directors on 25 January 2021 and signed on its behalf by:

Seiji Kitajima

S Kitajima
Director
Company Registration No: 08369318

## Sumisho Osaka Gas Water UK Limited

## Consolidated Statement of Changes in Equity

| | Share capital | *Restated Retained earnings | Translation reserve | *Restated Total parent equity | Non-controlling interest | *Restated Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2018 | 164,550 | 34,232 | (1) | 198,781 | 433 | 199,214 |
| Restatements | - | (178) | - | (178) | - | (178) |
| Revised balance at 1 April 2018 | 164,550 | 34,054 | (1) | 198,603 | 433 | 199,036 |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | - | 7,750 | - | 7,750 | 163 | 7,913 |
| Restatements | - | (299) | - | (299) | - | (299) |
| Actuarial losses on pension scheme | - | (3,960) | - | (3,960) | - | (3,960) |
| Movement on deferred tax relating to pension asset | - | 975 | - | 975 | - | 975 |
| Translation Reserve | - | (2) | - | (2) | - | (2) |
| Total comprehensive income for the year | - | 4,464 | - | 4,464 | 163 | 4,627 |
| 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 restated** | **164,550** | **35,018** | **(1)** | **199,567** | **596** | **200,163** |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | - | 4,243 | - | 4,243 | 121 | 4,364 |
| Actuarial gains on pension scheme | - | 10,379 | - | 10,379 | - | 10,379 |
| Movement on deferred tax relating to pension asset | - | (1,999) | - | (1,999) | - | (1,999) |
| Total comprehensive income for the year | - | 12,623 | - | 12,623 | 121 | 12,744 |
| Transactions with owners recorded directly in equity | | | | | | |
| Dividends paid | - | (3,500) | - | (3,500) | (102) | (3,602) |
| Total transactions with Owners | - | (3,500) | - | (3,500) | (102) | (3,602) |
| **As at 31 March 2020** | **164,550** | **44,141** | **(1)** | **208,690** | **615** | **209,305** |

*Profit and loss and total equity for 2019 have been restated, see note 1.4.

This notes on pages 24 to 62 form part of the financial statements.

# Sumisho Osaka Gas Water UK Limited

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

| | Notes | 2020<br>£000 | *Restated<br>2019<br>£000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit for the year | | 4,364 | 7,614 |
| | | | |
| *Adjustments for* | | | |
| Depreciation of tangible fixed assets | 8 | 10,183 | 9,682 |
| Amortisation of intangible fixed assets | 9 | 1,213 | 1,311 |
| Impairment of Investment properties | 10 | 28 | 27 |
| IFRS 16 Adjustments | | (91) | - |
| Amortisation of Bond costs | 16 | 434 | 447 |
| Net interest receivable and similar charges | 6 | (616) | (3,350) |
| Net interest payable and similar charges | 6 | 9,655 | 11,995 |
| Profit on sale of assets on disposal of PPE | | (133) | (387) |
| Profit on sale of assets on disposal of investment property | | (893) | (165) |
| Exchange differences | | - | (2) |
| Taxation | 7 | 5,998 | 1,858 |
| | | 30,142 | 29,030 |
| | | | |
| Increase in trade and other debtors | | (3,032) | (4,077) |
| (Increase)/Decrease in stocks | | (231) | 265 |
| Increase in trade and other creditors | | 8,145 | 2,096 |
| (Decrease)/Increase in provisions and employee benefits | | (454) | 570 |
| | | 4,428 | (1,146) |
| | | | |
| Interest Paid | | (6,736) | (5,110) |
| Tax Paid | | (1,967) | (731) |
| **Net cash generated from operating activities** | | 25,867 | 22,043 |
| | | | |
| **Cash flows from investing operating activities** | | | |
| Proceeds from disposal of fixed assets | | 1,028 | 580 |
| Proceeds from disposal of investment property | | 828 | 245 |
| Interest received | | 280 | 277 |
| Acquisition of tangible fixed assets | | (32,821) | (25,114) |
| Acquisition of intangible fixed assets | | (3,334) | (596) |
| Acquisition of investment properties | | (32) | (101) |
| **Net cash generated used in investing activities** | | (34,051) | (24,709) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from loans | | 17,550 | 9,000 |
| Processing fees on loans | | - | (324) |
| Dividends paid to minority interest | | (102) | - |
| Dividends paid | | (3,500) | (3,500) |
| **Net cash generated from financing activities** | | 13,948 | 5,176 |
| | | | |
| Net increase in cash and cash equivalents | | 5,764 | 2,510 |
| Cash and cash equivalents at 1 April | | 24,146 | 21,636 |
| **Cash and cash equivalents at 31 March** | | 29,910 | 24,146 |

## Sumisho Osaka Gas Water UK Limited

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

**Relating to**:

| | 2020 | 2019 |
|---|---|---|
| | **£000** | **£000** |
| Cash and cash equivalents | 34,268 | 26,946 |
| Overdraft (included in creditors less than one year) | (4,358) | (2,800) |
| **Cash and cash equivalents at 31 March** | 29,910 | 24,146 |

*A number of restatements have been made for corrections to developer services revenue and costs, bad debt provision and depreciation – see note 1.4

The notes on pages 24 to 62 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 63 - 72.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

***1.2 New and amended Accounting Standards***

IFRS16 'leases' replaced IAS 17 'leases' and became effective for the financial year commencing on or after 1 January 2019. The Group adopted IFRS16 on the 1st April 2019. IFRS 16 details the recognition and measurement of lease arrangements in order to access the amount, timing and certainty of cashflows as a result of leases. See note 21 for details.

***1.3 Adopted accounting standards not yet applied***

These standards will become effective for the year ended 31 March 2021:

- IFRS 3: Definition of a business (Amendments)
- IAS 1 and IAS 8: Definition of Material (Amendments)
- IFRS9, IFRS 39 and IFRS 7: Interest rate Benchmark Reform (Amendments)
- IAS 1: The Conceptual Framework for Financial Reporting (Revised)
- IFRS 17: Insurance costs
- IFRS 16: Covid-19-Related Rent Concessions (Amendments to IFRS 16)

The directors are continuing to assess the impact of these standards.

***1.4 Restatements***

During the year ended 31 March 2020 management identified errors in prior years' SESW accounting for developer services revenue and cost and bad debt provisions. The 2019 profit and loss account has therefore been restated to include £1.5m of additional revenue, £1.2m of related costs (noted as 'operating costs') and £0.4m of additional bad debt provision (shown in 'operating costs').

In addition, management identified assets included in assets under construction at 31 March 2019 that had been brought into use and should have been transferred to the appropriate fixed asset category. A further restatement has been made to affect this reclassification within fixed assets in 2019 and to charge additional depreciation of £0.3m in 2019 from the date these assets were brought into use.

In aggregate, the 2019 restatement reduced profit after tax for 2019 and net assets at 31 March 2019 by £0.3m.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 1 Accounting policies (continued)

*1.4 Restatements (continued)*

| **Profit and Loss** | **As previously stated 2019 £000** | **Developer Services £000** | **Bad debt provision £000** | **Depreciation £000** | **Contract Liabilities £000** | **Other Restatements £000** | **Restated 2019 £000** |
|---|---|---|---|---|---|---|---|
| Revenue | 109,606 | 1,507 | - | - | - | - | 111,113 |
| Operating costs | (92,759) | (1,185) | (425) | (259) | - | (530) | (95,158) |
| Other operating income | 1,630 | - | - | - | - | 532 | 2,162 |
| **Operating profit** | **18,477** | **322** | **(425)** | **(259)** | **-** | **2** | **18,117** |
| | | | | | | | |
| Finance Income | 3,350 | - | - | - | - | (2,559) | 791 |
| Finance Expenses | (11,994) | - | - | - | - | 2,558 | (9,436) |
| **Profit Before Tax** | **9,833** | **322** | **(425)** | **(259)** | **-** | **1** | **9,472** |
| Tax charge on profit for the year | (1,920) | - | - | - | - | 62 | (1,858) |
| **Profit for the year** | **7,913** | **322** | **(425)** | **(259)** | **-** | **63** | **7,614** |
| | | | | | | | |
| Other comprehensive expense | | | | | | | |
| Actuarial losses on pension scheme | (3,960) | - | - | - | - | - | (3,960) |
| Movement on deferred tax relating to net pension asset | 975 | - | - | - | - | - | 975 |
| Exchange differences on translating foreign operations | (2) | - | - | - | - | - | (2) |
| **Total comprehensive income for the year** | **4,926** | **322** | **(425)** | **(259)** | **-** | **63** | **4,627** |
| | | | | | | | |
| Total comprehensive income attributable to: Equity holders of the parent | 4,763 | 322 | (425) | (259) | - | 63 | 4,464 |
| Non-controlling interest | 163 | - | - | - | - | - | 163 |

Years prior to 31 March 2019 have also been restated as noted above for developer services revenue of £2.9m and £1.8m of cost and £1.2m of additional bad debt provision. The combined impact of the restatement reduced opening 2019 retained earnings and net assets by £0.2m.

The restatements to the 2019 Profit and Loss statement in aggregate reduced the 2019 closing retained earnings and net assets as at 31 March 2019 by £0.3m.

## Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**1 Accounting policies (continued)**

***1.4 Restatements (continued)***

The 2019 balance sheet has been restated to reflect the above adjustments, namely a reduction in property, plant and equipment of £0.3m, a reduction in trade debtors for the additional £1.6m bad debt provision, and a reduction of deferred income and deposits from developers of £1.5m, in total a £0.5 reduction in net assets. In addition, adjustments were made to be consistent with 2020 presentation, primarily for a) £1.1m from trade debtors to contract liabilities for customers paying in advance, b) £2.9m within creditors for Developer Services income received in advance now included within contract liability, c) £3.9m from trade debtors to accrued income for income accruals at year end, d) Investment properties to now be shown separately from property, plant and equipment and e) Other restatements include £0.05m.

| **Balance Sheet** | As Previously Stated 2019 | Developer Services | Bad Debt provision | Depreciation | Contract Liabilities | Other Restatements | Restated 2019 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Non-current assets** | | | | | | | |
| Property plant and equipment | 313,961 | - | - | (288) | - | - | 313,673 |
| Intangible assets | 116,143 | - | - | (28) | - | (43) | 116,072 |
| Investment properties | 3,415 | - | - | - | - | - | 3,415 |
| Pension scheme asset | 16,624 | - | - | - | - | - | 16,624 |
| | **450,143** | **-** | **-** | **(316)** | **-** | **(43)** | **449,784** |
| **Current assets** | | | | | | | |
| Inventories | 1,343 | - | - | - | - | (1) | 1,342 |
| Trade and other receivables | 32,900 | (87) | (1,650) | - | 1,081 | (4) | 32,240 |
| Cash and cash equivalents | 26,946 | - | - | - | - | - | 26,946 |
| | **61,189** | **(87)** | **(1,650)** | **-** | **1,081** | **(5)** | **60,528** |
| **Total assets** | **511,332** | **(87)** | **(1,650)** | **(316)** | **1,081** | **(48)** | **510,312** |
| **Current liabilities** | | | | | | | |
| Trade and other payable | 40,939 | (1,524) | - | - | 1,081 | (71) | 40,425 |
| **Non Current Liabilities** | | | | | | | |
| Interest bearing loans and borrowings | 232,779 | - | - | - | - | - | 232,779 |
| Unfunded pension obligation | 1,095 | - | - | - | - | - | 1,095 |
| Deferred tax liabilities | 35,879 | - | - | - | - | (29) | 35,850 |
| | **269,753** | **-** | **-** | **-** | **-** | **(29)** | **269,724** |
| **Total liabilities** | **310,692** | **(1,524)** | **-** | **-** | **1,081** | **(100)** | **310,149** |
| **Net assets** | **200,640** | **1,437** | **(1,650)** | **(316)** | **-** | **52** | **200,163** |
| Equity attributable to equity holders of the parent | | | | | | | |
| Share capital | 164,550 | - | - | - | - | - | 164,550 |
| Translation Reserve | (1) | - | - | - | - | - | (1) |
| Retained earnings | 35,495 | 1,437 | (1,650) | (316) | - | 52 | 35,018 |
| | **200,044** | **1,437** | **(1,650)** | **(316)** | **-** | **52** | **199,567** |
| Non-controlling interest | 596 | - | - | - | - | - | 596 |
| **Total equity** | **200,640** | **1,437** | **(1,650)** | **(316)** | **-** | **52** | **200,163** |

**1 Accounting policies (continued)**

***1.5 Going concern***

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

The directors have considered the financial position of the Group and have concluded that they will meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements.

***1.6 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.

***1.7 Classification of financial instruments issued by the Group***

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

a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

***1.8 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.

## Notes to the Financial Statements

**1 Accounting policies (continued)**

***1.8 Non-derivative financial instruments (continued)***

*Interest-bearing borrowings*

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

***1.9 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 | 140 - 150 |
| Water mains | 100 |
| **Non- infrastructure assets** | |
| Buildings, boreholes and service reservoirs | 5 - 100 |
| Plant and machinery | 3 - 25 |
| Motor vehicles and sundry plant | 3 - 15 |

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

# Notes to the Financial Statements

## 1 Accounting policies (continued)

### *1.10 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.

### *1.11 Intangible assets and goodwill*

*Goodwill*

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

*Research and development*

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

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

*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 |

### *1.12 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.

### *1.13 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.

**1 Accounting policies (continued)**

***1.13 Impairment excluding inventories and deferred tax assets (continued)***

*Non-financial assets*

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

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

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

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

***1.14 Employee benefits***

The Group financial statements 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**1 Accounting policies (continued)**

***1.15 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.

***1.16 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.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**1 Accounting policies (continued)**

***1.16 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.

**1 Accounting policies (continued)**

***1.16 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. A bad debt provision is calculated by estimating the expected credit loss of its customers.

**1 Accounting policies (continued)**

***1.17 Leases***

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

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

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

Lease payments included in the measurement of the lease liability comprise:

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

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

Lease liability – Subsequent measurement
The lease liability is subsequently measured at amortised cost.
The lease liability is remeasured, with a corresponding adjustment to the related right-of-use asset, whenever:

- The lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets
The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for:

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

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

# Notes to the Financial Statements

**1 Accounting policies (continued)**

***1.18 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.

***1.19 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.

***1.20 Dividends***

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

***1.21 Investment Properties***

Property with freehold buildings are stated at cost less depreciation. The cost of the properties split into land and buildings which is then amortised in equal instalments over the estimated useful economic lives as shown below:

| | | |
|---|---|---|
| Land | - | Indefinite life |
| Properties | - | 60 – 250 years |

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 2 Revenue

Revenue for the group can be identified as per below:

| | **2020** **£000** | ***Restated** **2019** **£000** |
|---|---|---|
| Supply of water | 109,688 | 92,963 |
| Non-Water income | 13,067 | 14,461 |
| Non-appointed revenue | 2,065 | 3,689 |
| **Total** | **124,820** | **111,113** |

*Refer to note 1.4 for details of restatement.

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

### 3 Expenses and auditors' remuneration

| | **2020** **£000** | ***Restated** **2019** **£000** |
|---|---|---|
| Wages and salaries | 14,577 | 15,015 |
| Social security costs | 1,669 | 1,816 |
| Other pension costs | 1,683 | 2,950 |
| Power | 5,712 | 5,617 |
| Raw material and consumables | 57,602 | 45,709 |
| Depreciation of owned assets | 10,038 | 9,682 |
| Depreciation of right-of-use assets | 145 | - |
| Impairment of investment properties | 28 | 27 |
| Amortisation of intangibles | 1,213 | 1,311 |
| Amounts written off during the year in respect of bad debt provision | 324 | 282 |
| Fees payable to the group's auditors and its associates: | | |
| - For the audit of parent company and consolidated financial statements | 60 | 38 |
| - For the audit of the financial statements of the company's subsidiaries | 487 | 282 |
| - Audit of regulatory financial statements | 75 | 45 |
| - Other assurance services | 39 | 80 |
| Other operating charges | 12,393 | 11,904 |
| Management support and Service Agreement | 400 | 400 |
| **Total operating costs** | 106,445 | 95,158 |

*Refer to note 1.4 for details of restatement.

Wages and salaries disclosed above are shown net of capitalised costs. During the year £2,226,155 (2019: £2,412,911) of employment costs were capitalised as fixed assets.

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

### 4 Remuneration of directors

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

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2019: nil).

No pension benefits are accruing to any directors (2019: nil).

### 5 Employees

| The average number of persons employed by the Group (including directors) during the year were as follows: | **1 April 2019 - 31 March 2020 Number** | **1 April 2018 - 31 March 2019 Number** |
|---|---|---|
| Water supply | 314 | 297 |
| Other activities | 112 | 100 |
| | 426 | 397 |

The aggregate payroll costs of these persons were as follows:

| | **1 April 2019 - 31 March 2020 £000** | **1 April 2018 - 31 March 2019 £000** |
|---|---|---|
| Wages and salaries | 14,577 | 15,015 |
| Social security costs | 1,669 | 1,816 |
| Other pensions costs | 1,683 | 2,950 |
| | 17,929 | 19,781 |

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 6 Finance income and expense

**Recognised in profit or loss**

| | 1 April 2019 - 31 March 2020 £000 | *Restated 1 April 2018 - 31 March 2019 £000 |
|---|---|---|
| Finance income | | |
| Expected return on pension scheme assets | 2,821 | 3,073 |
| Interest on post retirement liabilities | (2,485) | (2,559) |
| Net return on pension scheme asset | 336 | 514 |
| Interest receivable and similar income | 280 | 277 |
| **Total finance income** | 616 | 791 |

| | 1 April 2019 - 31 March 2020 £000 | *Restated 1 April 2018 - 31 March 2019 £000 |
|---|---|---|
| Finance expense | | |
| **Interest payable:** | | |
| Bond - interest | 4,832 | 4,712 |
| - indexation | 4,575 | 5,160 |
| - Bond amortisation cost* | (1,558) | (1,545) |
| **Total cost of bond** | 7,849 | 8,327 |
| Other loans | 1,806 | 1,109 |
| **Total interest payable and similar charges** | 9,655 | 9,436 |

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 7 Taxation

**Recognised in the income statement**

| UK corporation tax | 1 April 2019 - 31 March 2020 £000 | *Restated 1 April 2018 - 31 March 2019 £000 |
|---|---|---|
| Current tax on income for the period | 879 | 591 |
| Adjustments in respect of prior period | (3) | 429 |
| **Group current tax charge** | **876** | **1,020** |
| **Deferred tax** | | |
| Origination of timing differences | 929 | 1,046 |
| Adjustments in respect of prior period | (52) | (111) |
| Movement in timing differences due to change in tax rate and laws | 4,224 | - |
| Pension scheme | 21 | (97) |
| **Total deferred tax** | **5,122** | **838** |
| **Tax charge on profit** | **5,998** | **1,858** |

*Refer to note 1.4 for details of restatement.

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

**Factors affecting future tax rate**

On 17 March 2020, a change to the UK corporation tax rate was substantively enacted by a resolution under the Provisional Collection of Taxes Act 1968. The UK Government confirmed that the rate of 19% was retained, rather than reducing to 17% from 1 April 2020 that had previously been legislated.

Deferred taxes at the balance sheet date have been measured using the substantively enacted tax rate of 19% and reflected in these financial statements. This has resulted in an increase in deferred tax charge of £4.3m

## Notes to the Financial Statements

**7 Taxation (continued)**

**Reconciliation of effective tax rate**

The current tax charge for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

| | 2020 £'000 | *Restated 2019 £'000 |
|---|---|---|
| Profit for the year | 4,364 | 7,614 |
| Total tax expense | 5,998 | 1,858 |
| **Profit excluding tax** | **10,362** | **9,472** |
| | | |
| **Tax using the UK corporation tax rate of 19%** | 1,969 | 1,800 |
| Effect of: | | |
| Expenses not deductible for tax purposes | 113 | 121 |
| Preference dividends paid | - | 1 |
| Remeasurement of deferred tax – change in UK tax rate | 4,224 | - |
| Differences between current and deferred tax rates (fixed assets) | 39 | (157) |
| Differences between current and deferred tax rates (pension) | (48) | (46) |
| Adjustments to tax charge in respect of previous period (current tax) | (3) | 429 |
| Adjustments to tax charge in respect of previous period (deferred tax) | (52) | (111) |
| Other Adjustments | (244) | (179) |
| **Total tax expense** | **5,998** | **1,858** |

* Refer to note 1.4 for details of restatement.

## 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 2018 | 5,089 | 2,276 | 99,450 | 47,140 | 135,079 | 4,392 | 30,393 | 323,819 |
| Restatement | (1) | 257 | 18,717 | 61,959 | 84,850 | 5,186 | 1 | 170,969 |
| Additions | - | - | 1,754 | 4,274 | 15,249 | 510 | 3,327 | 25,114 |
| Disposals | - | - | (2) | - | - | (189) | - | (191) |
| ***Restated At 31 March 2019** | 5,088 | 2,533 | 119,919 | 113,373 | 235,178 | 9,899 | 33,721 | 519,711 |
| *Restated At 1 April 2019 | 5,088 | 2,533 | 119,919 | 113,373 | 235,178 | 9,899 | 33,721 | 519,711 |
| IFRS 16 Adjustment | - | - | 90 | 137 | - | - | - | 227 |
| *Restated at 1 April 2019 | 5,088 | 2,533 | 120,009 | 113,510 | 235,178 | 9,899 | 33,721 | 519,938 |
| Additions | - | - | - | 261 | - | 950 | 31,610 | 32,821 |
| Disposals | - | - | (1) | (230) | - | (829) | - | (1,060) |
| Transfers | - | - | 9,842 | 17,585 | 4,190 | - | (31,617) | - |
| **At March 2020** | **5,088** | **2,533** | **129,850** | **131,126** | **239,368** | **10,020** | **33,714** | **551,699** |
| **Accumulated Depreciation** | | | | | | | | |
| At 1 April 2018 | - | 125 | 10,083 | 5,365 | 6,124 | 175 | - | 21,872 |
| Restatement | - | 256 | 22,241 | 60,729 | 84,850 | 6,571 | - | 174,647 |
| Charge for the year | - | 21 | 2,318 | 4,846 | 1,572 | 925 | - | 9,682 |
| Disposals | - | - | (2) | - | - | (161) | - | (163*) |
| ***Restated At 31 March 2019** | **-** | **402** | **34,640** | **70,940** | **92,546** | **7,510** | **-** | **206,038** |
| *Restated At 1 April 2019 | - | 402 | 34,640 | 70,940 | 92,546 | 7,510 | - | 206,038 |
| Charge for the year | - | 20 | 2,437 | 5,149 | 1,682 | 895 | - | 10,183 |
| Disposals | - | - | (1) | (227) | - | (697) | - | (925) |
| **At 31 March 2020** | **-** | **422** | **37,076** | **75,862** | **94,228** | **7,708** | **-** | **215,296** |
| **Net book value** | | | | | | | | |
| *Restated At 31 March 2019 | 5,088 | 2,131 | 85,279 | 42,433 | 142,632 | 2,389 | 33,721 | 313,673 |
| **At 31 March 2020** | **5,088** | **2,111** | **92,774** | **55,264** | **145,140** | **2,312** | **33,714** | **336,403** |

* Refer to note 1.4 for details of restatement. The cost and depreciation values have been restated in prior year (2019) to align presentation to that shown in the current year (2020) at a gross cost and depreciation value, this is a presentational difference and there is no change to overall net book value.
Land comprises freehold land at £4,793,000 (2019: £4,793,000) and long leasehold land at £5,000 (2019: £5,000).

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**9 Intangible assets**

| | Software £000 | Contracts** £000 | Purchased goodwill £000 | Work in Progress £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 April 2018 | 1,608 | 7,376 | 112,546 | 358 | 121,888 |
| Restatement* | 4,055 | - | - | (2) | 4,053 |
| Additions during the period | 99 | - | - | 497 | 596 |
| Transferred from under construction | 469 | - | - | (469) | - |
| **Balance at 31 March 2019** | **6,231** | **7,376** | **112,546** | **384** | **126,537** |
| Balance at 1 April 2019 | 6,231 | 7,376 | 112,546 | 384 | 126,537 |
| Additions during the period | 138 | - | - | 3,196 | 3,334 |
| Transferred from under construction | 210 | - | - | (210) | - |
| **Balance at 31 March 2020** | **6,579** | **7,376** | **112,546** | **3,370** | **129,871** |
| **Amortisation** | | | | | |
| Balance at 1 April 2018 | 667 | 4,480 | - | - | 5,147 |
| Restatement* | 4,007 | - | - | - | 4,007 |
| Charge for the year | 444 | 867 | - | - | 1,311 |
| Disposal | - | - | - | - | - |
| **At 31 March 2019** | **5,118** | **5,347** | **-** | **-** | **10,465** |
| Balance at 1 April 2019 | 5,118 | 5,347 | - | - | 10,465 |
| Charge for the year | 463 | 750 | - | - | 1,213 |
| Disposal | - | - | - | - | - |
| **At 31 March 2020** | **5,581** | **6,097** | **-** | **-** | **11,678** |
| **Net book values** | | | | | |
| Restated At 31 March 2019 | 1,113 | 2,029 | 112,546 | 384 | 116,072 |
| **At 31 March 2020** | **998** | **1,279** | **112,546** | **3,370** | **118,193** |

* The cost and amortisation values have been restated in prior year (2019) to align presentation to that shown in the current year (2020) at a gross cost and amortisation value, this is a presentational difference and there is no change to overall net book value.

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

### 9 Intangible assets (continued)

*Impairment test for Goodwill*

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

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

Goodwill recognised for the ESH Group CGU is as follows:

| | **Goodwill** | |
|---|---|---|
| | **2020** | 2019 |
| | **£000** | £000 |
| **ESH Group Cash Generating Unit** | **112,546** | 112,546 |

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

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

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

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

| Key assumptions | 2020 | 2019 |
|---|---|---|
| Exit RCV multiples | 1.15 | 1.175 |
| Discount Rate | 4.9% | 5.4% |
| Inflation RPI | 3% | 3% |
| Inflation CPI | 2% | 2% |

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

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

Overall, the total fair value less disposal cost for the ESH Group CGU exceeded its carrying amount by approximately £54m.

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

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**10. Investment Properties**

| | *Restated Investment properties £'000 |
|---|---|
| **Cost** | |
| Balance at 1 April 2018 | 3,687 |
| Additions during the year | 101 |
| Disposals | (250) |
| **Balance at 31 March 2019** | **3,538** |
| | |
| Additions during the year | 32 |
| Disposals | (710) |
| **Balance at 31 March 2020** | **2,860** |
| | |
| **Depreciation** | |
| Balance at 1 April 2018 | 101 |
| Charge for the year | 27 |
| Disposals | (5) |
| **Balance at 31 March 2019** | **123** |
| | |
| Balance at 1 April 2019 | 123 |
| Charge for the year | 28 |
| Disposal | (15) |
| **At 31 March 2020** | **136** |
| | |
| **Net book values** | |
| At 31 March 2019 | 3,415 |
| **At 31 March 2020** | **2,724** |

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

# Sumisho Osaka Gas Water UK Limited

# Notes to the Financial Statements

## 11 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** | |
|---|---|---|---|---|
| | | | **2020** | **2019** |
| ***Directly held:*** | | | | |
| East Surrey Holdings Limited | Holding Company | Ordinary | 100% | 100% |
| ***Indirectly held:*** | | | | |
| Sutton and East Surrey Water plc | Water supply | Ordinary | 100% | 100% |
| SESW Holding Company Limited | Holding Company | Ordinary | 100% | 100% |
| Surrey Downs Property Investment Limited | Property Investment | Ordinary | 100% | 100% |
| Surrey Downs Estates Limited | Property development | Ordinary | 100% | 100% |
| Allmat (East Surrey) Limited | Building supplies | Ordinary | 100% | 100% |
| Advanced Minerals Limited | 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 | Dormant | Ordinary | 100% | 100% |
| SES Business Water Limited | Dormant | Ordinary | 100% | 100% |
| SES Water Limited | Dormant | Ordinary | 100% | 100% |
| Calcite Factory B.V. | Minerals processing | Ordinary | 80% | 80% |

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 12 Deferred tax liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| As at 31 March | Assets 2020 £000 | 2019 £000 *restated | Liabilities 2020 £000 | 2019 £000 *restated |
|---|---|---|---|---|
| Property, plant and equipment | 21 | 23 | 38,021 | 33,254 |
| Other timing difference | - | 21 | - | - |
| Employee benefits (pension) | - | - | 4,971 | 2,640 |
| Balance carried forward | **21** | **44** | **42,992** | **35,894** |

*Movement in deferred tax during the year*

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

*Movement in deferred tax during the prior year*

| | *Restated 1 April 2018 £000 | *Restated Recognised in income £000 | Recognised in OCI £000 | *Restated 31 March 2019 £000 |
|---|---|---|---|---|
| Property, plant and equipment | (32,275) | (956) | - | (33,231) |
| Other Timing difference | - | 21 | - | 21 |
| Employee benefits (pension) | (3,712) | 97 | 975 | (2,640) |
| | **(35,987)** | **(838)** | **975** | **(35,850)** |

*Refer to note 1.4 for details of restatement.

### 13 Inventories

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Raw materials and consumables | 826 | 617 |
| Work in progress | 148 | 250 |
| Finished goods for resale and others | 599 | 475 |
| | **1,573** | **1,342** |

## Notes to the Financial Statements

### 14 Trade and other receivables

| As at 31 March | 2020 £000 | *Restated 2019 £000 |
|---|---|---|
| Trade receivables | 34,267 | 28,883 |
| Bad debt provision | (7,817) | (5,370) |
| Other receivables | 2,230 | 2,772 |
| Prepayments and accrued income | 6,601 | 5,955 |
| Corporation tax receivable | 444 | - |
| | **35,725** | **32,240** |

Movements in the expected credit losses provision were as follows:

| | 2020 £000 | *Restated 2019 £000 |
|---|---|---|
| At 1 April | 5,370 | 3,538 |
| Charge for bad and doubtful debts | 2,771 | 2,114 |
| Amounts written off during year | (324) | (282) |
| **At 31 March** | **7,817** | **5,370** |

*Refer to note 1.4 for details of restatement.

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

| | 2020 £000 | *Restated 2019 £000 |
|---|---|---|
| Not past due | 10,275 | 6,649 |
| Past due 0-30 days | 5,180 | 5,216 |
| Past due 31-120 days | 3,331 | 3,150 |
| More than 120 days | 15,481 | 13,868 |
| | **34,267** | **28,883** |

*Refer to note 1.4 for details of restatement.

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

| Trade receivable | Aged less than 6 months £000 | Aged between 6 and 12 months £000 | Aged between 12 and 48 months £000 | Aged greater than 48 months £000 | Total £000 |
|---|---|---|---|---|---|
| **At 31 March 2020** | 4,726 | 986 | 1,844 | 261 | **7,817** |
| At 31 March 2019 | 1,552 | 1,001 | 2,744 | 73 | **5,370** |

# Notes to the Financial Statements

## 15 Cash at bank and cash equivalents

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Cash | 34,268 | 26,946 |
| **Cash and cash equivalents** | **34,268** | **26,946** |

Within bank balances there is £5,523,326 (2019: £5,334,565) of restricted cash relating to the secured index-linked bond.

## 16 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 20.

**Non-current liabilities**

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Long-term loan | 66,726 | 49,176 |
| 2.874% Secured Index-Linked Bond 2027-2031 | 186,519 | 183,501 |
| 3.25% Irredeemable debentures | 50 | 50 |
| 5% Irredeemable debentures | 52 | 52 |
| Leases | 136 | - |
| | **253,483** | **232,779** |

*Changes in liabilities from financing activities*

| | 3.25% Irredeemable debentures £000 | 5% Irredeemable debentures £000 | Bond £100,000,00 2.874% (2027-2031) £000 | Bond costs £000 | Other loans £000 | Finance and lease contract £000 | Total £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 |
| Amortisation of bond revaluation | - | - | (1,994) | - | - | - | (1,994) |
| **Balance at 31 March 2019** | 50 | 52 | 188,791 | (5,290) | 49,176 | - | 232,779 |
| ***Changes from financing activities*** | | | | | | | |
| Indexation | - | - | 4,575 | - | - | - | 4,575 |
| Amortisation of bond cost | - | - | - | 434 | 50 | - | 484 |
| Other borrowings | - | - | - | - | 17,500 | - | 17,500 |
| IFRS 16 – lease liability | - | - | - | - | - | 136 | 136 |
| Amortisation of bond revaluation | - | - | (1,991) | - | - | - | (1,991) |
| **Balance at 31 March 2020** | 50 | 52 | 191,375 | (4,856) | 66,726 | 136 | 253,483 |

## Notes to the Financial Statements

### 17 Trade and other payables

| As at 31 March | 2020 £000 | *Restated 2019 £000 |
|---|---|---|
| **Current** | | |
| Trade payables | 7,752 | 5,219 |
| Other trade payables | 10,048 | 16,005 |
| Overdraft | 4,358 | 2,800 |
| Contract Liabilities | 7,653 | 11,400 |
| Lease liabilities (see note 21) | 142 | - |
| Deposits from developers | 429 | 359 |
| Other taxes and social security | 4 | 110 |
| Corporation tax | - | 659 |
| Non-trade payables and accrued expenses | 19,103 | 3,873 |
| | **49,489** | **40,425** |

**Contract liabilities**

| Group | *Restated £000 |
|---|---|
| **Opening balance as at 1 April 2019** | **11,400** |
| Revenue recognised that was included in the contract liability balance at the beginning of the period | (11,400) |
| Increase due to cash received, excluding amounts recognised as revenue during the period | 7,653 |
| **At the end of the year, 31 March 2020** | **7,653** |

*Refer to note 1.4 for details of restatement.

### 18 Employee Benefits

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

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

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

The results of the actuarial valuation of WCPS as at 31 March 2020 were updated to the accounting date by an independent qualified actuary in accordance with the accounting standard.

Over the year to 31 March 2020, contributions of £Nil (2019: £673,000) were made to the defined benefit scheme due to its closure at 31 March 19. Within the group a defined contribution scheme remains open to all members of the group.

# Sumisho Osaka Gas Water UK Limited

# Notes to the Financial Statements

## 18 Employee Benefits (continued)

In 31 March 2019 financial statements, SESW provided £0.6m for the estimated impact of Guaranteed Minimum Pension (GMP.) This was as a result of the high court ruling that occurred on the 26 Oct 2018 for the trustee of the Lloyds Banking Group pension scheme setting precedent to remove inequalities in scheme benefits that arose from Guaranteed Minimum Pension (GMP). This was to equalise pension payments for members who were paying into the scheme for a 7 year period in the 1990's.

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

The key IAS 19 (R) assumptions used for the scheme are set out below, along with the fair value of assets, a breakdown of the assets into the main asset classes, the present value of IAS19 (R) liabilities and the surplus of assets above IAS 19 (R) liabilities (which equal the gross pension asset).

**Assumptions**

| **As at 31 March** | **2020** | **2019** |
|---|---|---|
| Retail price index inflation | 2.9% pa | 3.5% pa |
| Consumer price index inflation | 2.2% pa | 2.8% pa |
| Discount rate | 2.3% pa | 2.3% pa |
| Pension increases (CPI) | 2.2% pa | 2.8% pa |
| Pension increases (CPI capped at 5%) | 2.2% pa | 2.8% pa |
| Salary growth | n/a | n/a |

On the basis of the assumptions used for life expectancy, a male pensioner currently 60 would be expected to live for further 28.9 years (2019: 28.8 years).

**As at 31 March**

| | **2020 Fair value £000** | **2019 Fair value £000** |
|---|---|---|
| Liability driven investment | 94,879 | 89,719 |
| Absolute Return Bonds | 27,473 | 34,891 |
| Cash | 140 | - |
| **Total** | 122,492 | 124,610 |

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

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

# Sumisho Osaka Gas Water UK Limited

# Notes to the Financial Statements

## 18 Employee Benefits (continued)

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

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Opening defined benefit obligation | 107,986 | 104,077 |
| Employer's part of current service cost | - | 881 |
| Past service costs | (200) | 600 |
| Interest cost | 2,460 | 2,533 |
| Contributions from Section members | - | 10 |
| Actuarial (gain)/loss | (8,668) | 5,123 |
| Benefits paid | (6,300) | (5,238) |
| **Closing defined benefit obligation** | **95,278** | **107,986** |

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

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Opening fair value of the Section assets | 124,610 | 125,189 |
| Interest on Section assets | 2,821 | 3,073 |
| Actual return less interest on plan assets | 1,628 | 1,221 |
| Contributions by the employer | - | 673 |
| Contributions by Section members | - | 10 |
| Benefits paid | (6,158) | (5,238) |
| Expenses | (267) | (318) |
| **Closing fair value of Section assets** | **122,634** | **124,610** |

| As at 31 March | 2020 £000 | 2019 £000 |
|---|---|---|
| Total fair value of assets | 122,634 | 124,610 |
| Present value of liabilities | (95,278) | (107,986) |
| Pension asset for the scheme | 27,356 | 16,624 |
| Unfunded former directors' pension entitlement | (994) | (1,095) |
| **Net pension scheme asset** | **26,362** | **15,529** |

The net asset has not been reduced in the Balance Sheet as the Company believes that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the Scheme.

Past service losses totalling £994,000 (2019: £1,095,000) were recognised in prior years in respect of an unfunded portion of a former Director's pension entitlement. This figure has been revalued using the same assumptions as above and is set against the net pension asset.

### 18 Employee Benefits (continued)

**Plan assets**

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Liability driven instruments | 94,879 | 90,085 |
| BMO Global Absolute Return Bond Fund | 27,473 | 34,035 |
| Cash | 140 | 490 |
| **Total** | **122,492** | **124,610** |

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

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

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

| **As at 31 March** | 2020 £000 | 2019 £000 |
|---|---|---|
| Balance Sheet asset at start of year | 16,624 | 21,112 |
| Amount recognised in profit and loss account | 436 | (1,259) |
| Amount recognised in other comprehensive income | 10,296 | (3,902) |
| Contributions paid | - | 673 |
| Balance Sheet asset for the scheme at end of year | 27,356 | 16,624 |
| Unfunded pension liability | (994) | (1,095) |
| **Net Balance Sheet asset at end of year** | **26,362** | **15,529** |

The following amounts have been recognised in profit and loss:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Employer's part of current service cost | - | 881 |
| Past service costs | (200) | 600 |
| Section Expenses | 267 | 318 |
| Net interest credit | (503) | (540) |
| **Total operating (credit)/charge** | **(436)** | **1,259** |

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

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Net actuarial gains in the year due to | | |
| – Changes in financial assumptions | (7,641) | 4,559 |
| – Changes in demographic assumptions | - | 985 |
| – Experience adjustments on benefit obligations | (1,027) | (421) |
| Actual gain on Section assets relative to interest on Section assets | (1,628) | (1,221) |
| (Gain)/loss to recognise outside profit and loss in other comprehensive income | (10,296) | 3,902 |
| (Gain)/loss on unfunded former Directors' pension entitlement | (83) | 58 |
| **Total remeasurement of deferred benefit asset recognised in other comprehensiveincome** | **(10,379)** | **3,960** |

### 18 Employee Benefits (continued)

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

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

| **As at 31 March 2019** | **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 |
| Life expectancy | (4,500) | 4,500 |

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

### 19 Share Capital

| **As at 31 March** | **2020 £000** | **2019 £000** |
|---|---|---|
| Allotted, called up and fully paid | | |
| 329,100,002 (2019: 329,100,002) ordinary shares of £0.5 each | 164,550 | 164,550 |

*Dividends*

The following dividends were paid during the period:

| | **2020 £000** | **2019 £000** |
|---|---|---|
| £0.01 (2019: £0.01) per qualifying ordinary share | 3,500 | 3,500 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. On 30 September 2020, an interim dividend of £1.75m was declared payable from ESH to SOGWUK.

### 20 Financial instruments

***20 (a) Fair values of financial instruments***

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

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

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

| As at 31 March | Carrying amount 2020 £000 | Fair value 2020 £000 | Level 1 2020 £000 | Carrying amount 2019 £000 | Fair value 2019 £000 | Level 1 2019 £000 |
|---|---|---|---|---|---|---|
| **Financial liabilities measured at amortised cost** | | | | | | |
| 2.874% secured index-linked bond 2027 – 2031 | 186,519 | 230,021 | 230,021 | 183,501 | 233,419 | 233,419 |
| Total financial instruments | **186,519** | **230,021** | **230,021** | **183,501** | **233,419** | **233,419** |

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

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

***20 (b) Credit risk***

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

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

Credit risk arises principally from trading (the supply of services to customers), the Group does not believe it is exposed to any material concentrations that could have an impact on its ability to continue as a going concern or its longer-term viability.

The Group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the majority of the Group's customer base being comprised of a large number of unrelated households or, for other services, a wide number of trade customers.

At the balance sheet date there were no significant concentrations of credit risk.

## 20 Financial instruments (continued)

### *20 (c) Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

**31 March 2020**

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

**31 March 2019 (*as restated)**

| | 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 other borrowings | 13,500 | 13,500 | - | - |
| Debentures | 102 | - | - | 102 |
| Trade and other payables | 40,425 | 40,425 | - | - |
| Interest rate - 2.874% secured index-linked bond 2027-2031 | 281,030 | 4,914 | 21,175 | 254,941 |
| Interest Rate – 3.22% | 43,583 | 1,159 | 4,637 | 37,787 |
| | **378,640** | **59,998** | **25,812** | **292,830** |

*Refer to note 1.4 for details of restatement.

**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** | **2020 £000** | **2019 £000** |
|---|---|---|
| Expiring in one year or less | 1,000 | 1,000 |
| Expiring in more than one year but not more than two years | 4,000 | 11,500 |
| | **5,000** | **12,500** |

**20 Financial instruments (continued)**

***20 (d) Market risk***

*Financial risk management*

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

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

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

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

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

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

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

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

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

*Sensitivity analysis*

A change of 100 basis points in interest rates at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for 2019.

| | 1 April 2019 – 31 March 2020 £000 | 1 April 2018 – 31 March 2019 £000 |
|---|---|---|
| **Equity** | | |
| Increase | 2,320 | 2,092 |
| Decrease | (2,320) | (2,092) |
| | | |
| **Profit or loss** | | |
| Increase | (2,320) | (2,092) |
| Decrease | 2,320 | 2,092 |

***20 (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.

**20 Financial instruments (continued)**

**20 (e) Inflation risk (continued)**

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

The carrying value of index-linked debt held by the Group was £164.939 million at 31 March 2020 (2019: £159.93 million).

***20 (f) Capital management***

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

The group's objectives when managing capital are to:

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

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

**Gearing**

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio which, in line with the prior year, it aims to maintain at 60%. Gearing is measured by the ratio of net indebtedness to regulatory capital value (RCV). The ratio at the end of the current year was 0.76, (2019: 0.73)

**Loan covenants**

Under the terms of the major borrowing facilities (as disclosed in note 16), the Group is required to comply with the following financial covenants:

- As per the agreement of £100M index linked bond, the issuer shall maintain at each calculation date 7 May and 7 Nov each year covering calculation period of 12 months ending 31-Mar and 31- Oct an interest cover ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.
- Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each scheduled price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.60:l; and a Regulated Asset Ratio of less than or equal to 0.751.
- Under the agreement of £36M loan, the Company (ESH) will not create, assume, incur or guarantee or otherwise be or become liable in respect of any indebtedness other than under this agreement. The Group shall not permit the ICR (Interest Cover Ratio) in respect of any calculation period to be less than 1.10:1 and the RAR (Regulated Asset Ratio) to exceed 0.95:1.

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

**Dividends**

The Group pays dividends to its parent if, in the view of the directors, there are sufficient distributable reserves and there is no threat to capital adequacy of the Company.

## Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**21 Leases**

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

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

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

(i) Amounts recognised in the balance sheet:

| **As at 1 April 2019** | **SESW** | **SESWS** | **AML** | **Total** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| **Right-of-use assets** | | | | |
| Plant & Machinery | - | - | 137 | 137 |
| Buildings | - | 90 | - | 90 |
| | - | 90 | 137 | 227 |
| **Lease liabilities** | | | | |
| Current | - | 43 | 86 | 129 |
| Non-current | - | 47 | 51 | 98 |
| | **-** | **90** | **137** | **227** |

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

There were no recognised lease assets and lease liabilities in 2019. Adoption of IFRS 16 was based on lease contracts commencing from April 2019.

# Sumisho Osaka Gas Water UK Limited

# Notes to the Financial Statements

**21 Leases (continued)**

(ii) Amounts recognised in the profit and loss

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

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

Non-cancellable operating lease rentals for the prior year were payable as follows:

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

## Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**22 Commitments**

| **As at 31 March** | **2020 £000** | **2019 £000** |
|---|---|---|
| Contracted capital commitments | 9,500 | 13,300 |

**23 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.

| **As at 31 March** | **Sales to** | | **Administrative expenses incurred from** | |
|---|---|---|---|---|
| | **1 April 2019 - 31 March 2020 £000** | **1 April 2018 - 31 March 2019 £000** | **1 April 2019 - 31 March 2020 £000** | **1 April 2018 - 31 March 2019 £000** |
| Shareholders | - | - | 400 | 400 |
| Other related parties | - | - | 38 | 37 |
| | **-** | **-** | **438** | **437** |

| **As at 31 March** | **Receivables Outstanding** | | **Payables outstanding** | |
|---|---|---|---|---|
| | **2020 £000** | **2019 £000** | **2020 £000** | **2019 £000** |
| Shareholders | - | - | 240 | 970 |
| Other related parties | - | - | 43 | 22 |
| | - | - | **283** | **992** |

*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 (2019: nil). As also noted, no remuneration was paid to directors during the year (2019: £nil).

### 24 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.

*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.

*Unbilled measured income*

Within SESW the measured income accrual is the estimation of the amounts consumed but yet to be billed at year end, using a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £328k.

*Defined benefit scheme*

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

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in note 18.

*Provision of doubtful debt*

The Group makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on previous experiences including historical cash collection data, review of current economic environment, the age of the debt and actual write off history. The actual level of receivables collected may differ either favourable or negatively from those estimates given. Within SESW, all debts over three years are 100% provided for. In the current year the expected future impact of the COVID-19 pandemic on the ability for customers (both household and non-household) to pay their bills has been taken into consideration based on estimates of the likelihood of the situation; within SESW this increased the provision by £0.2m. If the bad debt recovery rate was to improve or worsen by 5% for debt between 12 and 36 months the bad debt provision would reduce or increase by £284k. All debt over three years is currently provided for at 100%, if all debt over 2 years was provided for this would increase the provision by £474k.

Within SESWS, all debts over two years are 100% provided for. As noted above an estimate for the impact of Covid-19 has been applied, this increased the provision by £0.9m. Currently all debt over two years is currently provided for at 100%, if all debt over 1 years was provided for at 100% this would increase the provision by £153k. If the bad debt recovery rate was to improve or worsen by 5% for all debt the bad debt provision would reduce or increase by £751k.

**24 Key Accounting Judgements (continued)**

*Capitalisation of expenditure as fixed assets*

Within the Group, SESW makes large scale investment into its fixed assets through construction and engineering projects. Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network. Only directly attributable costs are capitalised and does not include any overheads.

**25 Post Balance Sheet Events**

On 14 May 2020 the revolving credit facility limit with NatWest was extended to £50.0m from £35.0m.

In May 2020 an interim payment of £1.0m was received in respect of an insurance claim relating to an incident at Elmer Water Treatment works.

On 30 September 2020, an interim dividend of £1.75m was declared payable from ESH to SOGWUK.

On 16 October 2020, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY 20-21.

**26 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 | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 32 | 161,600 | 161,600 |
| | | **161,600** | **161,600** |
| **Current assets** | | | |
| Debtors | 33 | 1,071 | 1,064 |
| Cash at bank and in hand | | 2,820 | 2,863 |
| | | **3,891** | **3,927** |
| Creditors: amounts falling due within one year | 34 | (103) | (63) |
| **Net current assets** | | **3,788** | **3,864** |
| **Net assets** | | **165,388** | **165,464** |
| **Capital and reserves** | | | |
| Called up share capital | 35 | 164,550 | 164,550 |
| Profit and loss account | | 838 | 914 |
| **Total Shareholders' funds** | | **165,388** | **165,464** |

The notes on pages 65 to 70 form part of the financial statements.

These financial statements were approved by the Board of Directors on 25 January 2021 and signed on its behalf by:

Seiji Kitajima

S Kitajima
Director

Company Registration No: 08369318

## Sumisho Osaka Gas Water UK Limited

## Company Statement of Changes in Equity

| | **Called up share capital** | **Profit and loss account** | **Total Shareholders' Funds** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Balance brought forward 1 April 2018 | **164,550** | **932** | **165,482** |
| **Total comprehensive income for the year** | | | |
| 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** |
| | | | |
| Balance brought forward 1 April 2019 | **164,550** | **914** | **165,464** |
| **Total comprehensive income for the year** | | | |
| Profit for year | - | 3,424 | 3,424 |
| Total comprehensive income for the year | - | 3,424 | 3,424 |
| Dividend paid | - | (3,500) | (3,500) |
| Total transactions with Owners | - | (3,500) | (3,500) |
| **Balance carried forward 31 March 2020** | **164,550** | **838** | **165,388** |

The notes on pages 65 - 70 form part of the financial statements.

# Notes to the Financial Statements

## 27 Accounting policies

**Basis of accounting**

Sumisho Osaka Gas Water UK Limited (the "Company") is a company incorporated and domiciled in the UK.

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

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

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The company's profit for the year ended 31 March 2020 is £3,424,000 (2019: £ 3,482,000)

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

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

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

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

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

**Going Concern**

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

The directors have considered the financial position of the Group and have concluded that they will meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements.

The directors conclusions on the going concern basis included consideration of the agreed extension of the amounts available within each companies' financing, including within SESW an extension of the revolving credit facility from £35m to £50m in May 2020 at market rates. There are no repayments of Group loans in the next 12 month period. The directors have considered reasonably plausible but severe downsides including the potential effects of COVID-19 on reduced income and cash through the household and non-household markets and external economic impacts on our commercial entities. These scenarios of reduced income and cash still enable the Group to meet its financial covenants. If required the Group has a number of mitigating actions to deal with liquidity issues, including re-scoping and deferral of capital projects.

**27 Accounting policies (continued)**

**Investments**

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

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

**Other income**

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

**Taxation**

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

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

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

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

**Dividends**

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

**Financial Instruments**

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

**Trade receivables**

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

**Cash and cash equivalents**

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

**27 Accounting policies (continued)**

**Financial liabilities and equity**

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

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

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

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

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

***Trade payables***

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

***Foreign currencies***

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

**28 Remuneration of directors**

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

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2019: nil).

**29 Other income**

| | **1 April 2019 - 31 March 2020 £000** | **1 April 2018 - 31 March 2019 £000** |
|---|---|---|
| Management Fees | 100 | 100 |
| Dividends | 3,500 | 3,500 |

## Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

**30 Expenses and auditors' remuneration**

| | 1 April 2019 - 31 March 2020 £000 | 1 April 2018 - 31 March 2019 £000 |
|---|---|---|
| Included in profit/loss are the following: | | |
| Auditors' remuneration: | | |
| Audit of these financial statements | 60 | 38 |

**31 Taxation**

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

| | 1 April 2019 - 31 March 2020 £000 | 1 April 2018 - 31 March 2019 £000 |
|---|---|---|
| **UK corporation tax** | | |
| Current tax charge/(credit) on income for the period | 9 | (4) |
| **Total current tax charge/(credit)** | **9** | **(4)** |
| **Deferred tax** | - | - |
| **Tax charge/(credit) on profit** | **9** | **(4)** |

**B. Reconciliation of effective tax rate**

The current tax charge/(credit) for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Profit for the year | 3,424 | 3,482 |
| Total tax charge/(credit) | 9 | (4) |
| **Profit excluding tax** | **3,433** | **3,478** |
| | | |
| **Tax using the UK corporation tax rate of 19% (2019: 19%)** | 652 | 661 |
| Effect of: | | |
| UK dividend income | (665) | (665) |
| Loss carried forward not recognized | 13 | - |
| Prior year adjustment | 9 | - |
| **Total tax charge/(credit)** | **9** | **(4)** |

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

On 17 March 2020, a change to the UK corporation tax rate was substantively enacted by a resolution under the Provisional collection of Taxes act 1968. The UK Government confirmed that the rate of 19% was retained, rather than reducing to 17% from 1 April 2020 that had previously been legislated.

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

### 32 Investments

| | Subsidiary companies £'000 |
|---|---|
| Details of movements in the year | |
| At 1 April 2019 | 161,600 |
| Additions | - |
| Disposals | - |
| **At 31 March 2020** | **161,600** |
| **Provisions for impairment:** | |
| At 1 April 2019 | - |
| Provision for the year | - |
| Disposals | - |
| **At 31 March 2020** | **-** |
| **Net book value:** | |
| At 31 March 2019 | 161,600 |
| At 31 March 2020 | 161,600 |

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.

### 33 Debtors

| **As at 31 March** | **2020 £000** | **2019 £000** |
|---|---|---|
| Due from subsidiaries | 1,060 | 1,060 |
| Other debtors | 11 | 4 |
| | **1,071** | **1,064** |
| Due within one year | 1,071 | 1,064 |

# Sumisho Osaka Gas Water UK Limited

## Notes to the Financial Statements

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

| **As at 31 March** | **2020**<br>**£000** | **2019**<br>**£000** |
|---|---|---|
| Due to subsidiaries | 43 | 22 |
| Accruals and deferred income | 50 | 40 |
| Other creditors | 10 | 1 |
| | **103** | **63** |

### 35 Called up share capital

***Share Capital***

| **As at 31 March** | **2020** | **2019** |
|---|---|---|
| | **£'000** | **£'000** |
| **Allotted, called up and fully paid:** | | |
| 329,100,002 (2019: 329,100,002) ordinary shares of £0.5 each | 164,550 | 164,550 |

***Dividends***

The following interim dividends were paid during the period:

| | **2020**<br>**£000** | **2019**<br>**£000** |
|---|---|---|
| £0.01 (2019: £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:

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 Post balance sheet events

Subsequent to the balance sheet date, 31 March 2020 management has evaluated events through 25 January 2021, which is the date the company's financial statements were available to be issued. On 16 October 2020, the Board approved interim dividend of £1.75m to its shareholders, Summit Water Limited and Osaka Gas UK Limited for FY 20-21.