Company Number: 08369318

Sumisho Osaka Gas Water UK Limited

Annual Report and Financial Statements

for the year ended 31 March 2022

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 2022.

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 and SES Home Services). The Home Services division provides plumbing and heating services together with insurance schemes, which cover domestic water and gas heating systems. The other smaller subsidiaries include Advanced Minerals which sources and processes 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 745,000 people in East Surrey, and parts of West Sussex, West Kent and South London. Some key highlights of 2022 include;

- SESW new Chair, Dave Shemmans, took over from Jeremy Pelczer in late March 2022 to lead the Company through PR24 and refresh SESW's long-term strategic planning work.
- Drinking Water Inspectorate confirmed that SESW water quality risk index score for 2021 was zero and industry leading in their July 2022 publication.
- SESW have become the first water company in the UK to have a completely smart network of pipes and mains to help deliver our performance commitments, including achieving a leakage reduction target for 2022.
- Continue to support our vulnerable customers through our financial support schemes and priority services.
- The customer transformation programme has continued with the launch of a new billing and customer relationship management system. SESW have also improved SESW data and digital capability across the business.
- SESW have welcomed more than 2,500 individuals to their state-of-the-art education centre at Bough Beech Treatment Works in the past year, allowing SESW to continue inspiring future generations.
- SESW have achieved a second Biodiversity Benchmark award from The Wildlife Trusts for enhancing and protecting the biodiversity at the Fetcham Springs site and remain the only water company to currently hold the award.
- For the first time SESW achieved a Gold Award from the Royal Society for the Prevention of Accidents (RoSPA), recognising our commitment to health, safety and wellbeing.
- SESW's charitable fund, in partnership with the Community Foundation for Surrey, has seen SESW donate more than £30,000 to support many good causes in the areas served.
- SESW have been fully compliant with our environmental licences and consents and have had zero Category 1 and Category 2 pollution incidents this year.
- In 2021, SESW published a routemap to achieving net zero operational carbon emissions by 2030, in line with the industry's Public Interest Commitment made by all English water companies. The routemap focuses on managing demand for water so that SESW need and use less of it and, in turn, emit less carbon. SESW's aim is to reduce annual emissions by 2,400 tonnes by the end of the decade.

Community Involvement key highlights:

- We have continued to provide financial support to customers through our Here For You payment support schemes, including Breathing Space – a pause on payments and Water Support – a 50 per cent bill reduction. We visit approximately 140 vulnerable customers a week, to ensure that the members of our community who need it most benefit from our support.
- We have been developing partnerships with other key organisations in our supply area to expand our reach, such as charities, community hubs and food banks. We attend around 20 community events a month with our partners, enabling us to build relationships with many more customers who need our support.
- We have been working to make it easier for customers to understand what support is available and apply for it. We have introduced a new streamlined application form for all of our support schemes and brought in new technology to make our online content more accessible to all.
- At Christmas SESW colleagues donated over £1,200 so that we could pay a special Christmas visit with a hamper to financially vulnerable customers in our area.
- As the Covid-19 pandemic continued during 2021, we engaged with our 'customers of tomorrow' by providing virtual lessons to schools and producing and distributing (via local charities and community groups) a book for children about the water cycle and the importance of reducing water use. As restrictions eased, we re-opened our state-of-the-art education centre at Bough Beech Reservoir, welcoming visitors once again to learn about the vital role we play by supplying the water our customers need, at the same time as working to benefit nature, wildlife and wider society.

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

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

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

Other ESH Group highlights:

- In response to the ongoing challenges faced by the pandemic we have continued to put the health and wellbeing of our employees and customers first, whilst striving to do the right thing across all of the industries that we operate within.
- Alongside the customer transformation programme, SESWS are also investing in the development of a new billing and customer relationship management system.
- SES Home Services continued its drive to expand beyond its traditional insurance business by developing new relationships with claims managers serving customers of other insurance companies and also provided services to customers of SES Business Water in the business water market.
- Home Services won a contract with British Gas to complete boiler installations and services on their behalf, furthermore British Gas may provide 'On Demand' work such as repairs which they cannot fulfil. This contract is expected to commence towards the end of 2022.
- Despite challenges faced by supply chain pressures as a result of Covid-19 and Russian-Ukraine conflict, Allmat our builders merchant increased turnover by £648,000 due to improved customer focus, stock management and leadership from the new general manager.
- Advanced Minerals Limited returned to profitability as the business recovers from the disruption caused by the pandemic. Its subsidiary, The Calcite Factory has achieved record sales in the financial year.

Sumisho Osaka Gas Water UK Limited

Group Strategic Report (Continued)

Sutton and East Surrey Water Services Limited (SESWS)

SESWS operates as two separate trading divisions: SES Business Water and SES Home Services. SES Business Water saw turnover increase substantially during the year mainly due to the economic recovery from Covid-19.The retail market that SES Business Water operates in remains challenging with low margins and low levels of switching between water retailers. The business also began the process during the year to invest in a new billing system. This is expected improve customer experience, assist cash collection and reduce operating costs in the future. It will also support growth by allowing for a stronger breadth of propositions to be taken to market and the ability to more clearly differentiate the business.

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.

Ongoing Covid-19 considerations

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 our top priority in the response to Covid-19 has always been to put the health and wellbeing of our employees and customers first, while striving to do the right thing and continue to provide the service and products that we do every day.

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

- Allmat our builders merchant has encountered supply chain disruptions resulting in high supplier prices, longer lead times and reduced supply.
- Staff absence - Whilst the risk of staff absence due to Covid-19 remained high throughout much of the year we saw a lower level of absenteeism than projected and routine operational delivery was not negatively impacted. We continued to manage the impact as an event and were particularly mindful of the impact on the mental health and wellbeing of our employees when both working at home and during re-mobilisation to the office. Contrary to the position in the early stages of Covid-19 when employees were nervous about seeking new opportunities, we are now faced with quite high levels of turnover as employees reconsider their options and work-life balance.

- Bad debt increase - This risk remained very high due to the financial impact the pandemic continued to have on some household customers and their ability to pay their water bills.
- Penalties from non-delivery of business plan performance commitments - Covid-19 continued to impact our ability to make as much progress against some of our performance commitments in the second year of the business plan period as expected. Lockdowns and social distancing requirements stopped us carrying out some non-essential activities. In particular, our work to reduce household consumption was impacted, as well as the next phase of our network resilience programme.

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

We have remote IT systems in place, so all office-based staff have been able to continue working and we have practised social distancing for those employees in the field, at our treatment works and in our 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 our 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%. We visit approximately 140 vulnerable customers a week, to ensure that the members of our community who need it most benefit from our support.

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

Conflict in Ukraine

Alongside the consideration of the impact of the conflict on the operational risk to SESW, we have conducted a review of our suppliers to ensure we comply with relevant sanctions. A summary of that review has been presented to the SESW Audit Committee and confirms that while we have a small number of suppliers based outside of the UK, none are directly linked to Russia. We are continuing to monitor the intelligence available as to the source of raw materials used in the manufacture of one of the chemicals critical to water conditioning that is utilised across the water industry.

Supply Chain Fragility

The compounding impact of Brexit, Covid-19 and the conflict in Ukraine results in increased disruption to the groups supply chain despite continued demand.

Rising Inflation and cost of living

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

Sumisho Osaka Gas Water UK Group (SOGWUK) Risks

The principal risks and uncertainties facing the Group include;

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

- Failure of the billing systems across SESW and SESWS particularly with the transition to the new billing system - Aptumo, 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 areas of SESW and SES Home Services which employs gas and plumbing engineers who work closely with gas on a regular basis, the risk of harm or injury is mitigated by strong health and safety protocol and training.

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 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 31March 2022 SESW has a £50 million five-year revolving credit facility which is fully drawdown down and a £25 million three-year revolving credit facility of which £16 million remains unutilised.

  Other Group companies manage their own liquidity risk through overdraft facilities and are supported by the East Surrey Holdings Limited as parent entity with loans if necessary, provided at a market rate.

  On 6 January 2023, the Company received a Letter of Support from Sumitomo Corporation, the ultimate parent undertaking for 15 months from the date of signing these financial statements. This obligates Sumitomo Corporation to provide the Company financial support as necessary such that the Group is able to operate as a going concern and to settle its liabilities as they fall due. A back to back Letter of Support on the same terms has been provided by the Company to ESH, and then by ESH to select operating companies, SESWS, Allmat and Cheam.
- 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.
- Energy costs - SESW has hedged energy costs until 2025, and is developing its purchasing strategy for 2026 onwards against the backdrop of volatile energy markets.
- Financial risk management – please refer to note 21(d) for details.

Financial Performance

The financial performance of the Group has remained challenging this year with some improvement in the retail non-household market from Covid-19. SESW revenue continues to be impacted by lower volumes than expected due to the ongoing impacts and recovery from Covid-19, under the regulatory mechanism that exists in the water industry these revenues are expected to be recovered in future periods. Group Revenue for the year ended 31 March 2022 was £114.0m (2021: £110.7m) an increase of 3.0%. Operating costs increased to £109.9m (2021: £103.7m) with operating profit decreasing by 14.1% to £7.9m (2021: £9.2m).

Finance costs increased by 108.2% to £15.2m (2021: £7.3m). This increase is driven by the indexation of the £100m bond as a result of inflation rates rising in the year. SESW also incurred a one off non-cash charge of £3.5m in financing costs relating to the renegotiation of the terms of the long dated index linked bond which was originally executed in 2001, this charge is paid evenly over the remaining years to maturity.

Group loss before taxation was £6.9m (2021: £2.6m profit) and loss after tax was £18.9m (2021: £2.2m profit), this is primarily due to the impact of UK Corporation Tax increasing to 25% from the 1 April 2023 resulting in a £13.2m deferred tax charge in the profit and loss for the year. Furthermore, Indexation on the £100m Bond increased by £3.9m inline with RPI Inflation rates.

Environmental Improvements

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

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

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

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

Capital Investment

During the second year of AMP 7 we invested £27.0m (2021: £26.5m) in our capital investment programme. Within SEWS key projects include:

- Investment in the ongoing replacement of pipes in our distribution network £6.7m (2021: £2.8m) enabling targeting replacement based on age, condition and performance of our network.
- A further £1.8m (2021: £2.3m) to improve our resilience mains (to ensure water can be efficiently moved around our supply area now, and in the future)
- £0.8m (2021: £0.8m) was spent on extending our network into new housing developments.
- £8.9m (2021: £11.4m) was invested on replacing and upgrading our treatment works, pumping stations, service reservoirs and other operational sites. Bough Beech phase 3 £4.3m.
- A further £3.2m (2021: £2.1m) was invested into our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.
- £3.1m (2021: £0.6m) was invested in IT, including replacing our billing system that went live in October 2021.
- Other expenditure on capex including facilities and our laboratories totalled £2.5m (2021: £1.9m)
- Other capex expenditure in the group of £5.4m (2021: £1.5m) included £4.3m (2021: £0.4m) of the billing system implementation in SES Business Water.

Net Debt

Net term debt for the Group is £288.5m, an increase of £19.9m (2021: £268.6m). The increase represents, £6.6m RPI indexation on the indexed linked bond and incremental utilisation of RCF loan of £14.8m. Cash and liquid resources decreased by £3.9m in the year to £30.8m (2021: £34.7m).

The level of gearing is a key ratio under the covenants associated with the £36m private placement and is measured by the ratio of total net indebtedness to regulated asset value. The ratio as defined by the £36m private placement agreement was 83% at 31 March 2022 which is within the 95% covenant. Interest cover ratio was 1.2 which is within the Group's permitted range of greater than 1.1:1.0.

Group Strategic Report (Continued)

Financial guarantee contract

Sumisho Osaka Gas Water UK Limited (SOGWUK) is a guarantor to Sutton and East Surrey Water Services Limited (SESWS) for a credit facility provided by HSBC. The total guaranteed amount is £15m as at the balance sheet date of these financial statements. The fair value of the liability for the financial guarantee has been determined using the interest rate differentials method. The net impact to the profit and loss account for single entity SOGWUK for FY22 is £2m.

Dividends

During the year the Group paid dividends to its parent company Summit Water Limited (SWL) and Osaka Gas UK Limited (OGUK) of £3.5 million (2021: £3.5 million). No further dividends have been proposed or declared up to and including the date of signing these financial statements.

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

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

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

Stakeholder group	**How we engage**	**Impact of engagement**
Customers	• Our dedicated 'Voice of the Customer' programme which includes a range of activity to better inform the decisions and improvements that we make. • Online 'Talk on Water' community. Our education programme. • Attendance at community events. Our independent Customer Scrutiny Panel.	SESW Business Plan targets reflect customer priorities including: • 15% leakage reduction. • 25,000 people on our Water Support Scheme. • 100% of people will be served by more than one treatment works. • 90% of our customers on a meter. Our call centre will continue to be based in our local area. Bills will fall by 15.6% by 2025. Significant investment in our digital capability to better serve customers.

Sumisho Osaka Gas Water UK Limited

Group Strategic Report (Continued)

Stakeholder group	How we engage	Impact of engagement
Employees	• Annual employee engagement survey. • Open forums involving all employees and the directors and CEO. • Dedicated Board member responsible for employee engagement. • Staff suggestion scheme • Senior leader visibility and accessibility Staff suggestion scheme. • Structured development and appraisal programme.	• Investors in People silver accreditation. • Performance management system and skills strategy in place. • Employee volunteering scheme. Employee Referral Scheme. • Constructive negotiation through the Joint Negotiation and Consultative Committee. • (JNCC) to secure a two-year pay deal. • More flexible working practices going forwards.
Regulators	• Regular meetings with all our regulators including by our non-executive directors. • Regulator attendance at Board meetings. • Responding to consultations and information requests. • Participation in national campaigns. • Sharing our expertise and perspective through industry-wide forums.	• For SESW - maintaining our gearing at a level that is acceptable to Ofwat. • Updated dividend and executive pay policies. Pledged to make £9 million of efficiency savings between 2020 and 2025. • Leading the industry's research and innovation programme to reduce leakage. • Participation in Ofwat's innovation competitions.
Communities	• Membership of local business forums. • Working with organisations that help vulnerable customers. • Supporting worthy local causes with volunteering time and financial donations. • Our education programme.	• More than £27,000 of community grants provided through the Community Foundation for Surrey. • Extending our education programme to reach more schools, young people, business and community groups. • Moved people living in housing association properties onto direct billing so we can provide a discount through our Water Support Scheme.
Local Authorities	• Meetings with Chief Executives. Supporting local economic prosperity initiatives. • Project-specific department engagement such as highways. Participation in local resilience forums.	• Planned for a 50% increase in the number of people living in our area by 2080. • Delaying some of our mains laying activity to minimise further disruption during the COVID-19 recovery.

Sumisho Osaka Gas Water UK Limited

Group Strategic Report (Continued)

Stakeholder group	How we engage	Impact of engagement
Environmental organisations	• Involvement in our local catchment partnerships. • One-to-one meetings. Independent Environmental Scrutiny Panel. • Involved in producing out Net Zero Carbon routemap. • We engage on a regular basis on key environmental matters and listen to priorities from outside of our organisation.	• Specific targets in our Business Plan to: Not cause pollution. • Increase biodiversity at our sites. • Reduce abstraction from two sources during low flows. • Reduce our carbon emissions. • Achieving prestigious Biodiversity Benchmark Awards for several of our sites.
Our suppliers	• Dedicated relationships depending on the scope and nature of the arrangement. • Our procurement team and supplier forums. • Annual performance reviews for business critical suppliers. • Regular planning and performance sessions.	• Productive and stable working relationships. Agile decision-making as a small company. Participation in joint industry award entries. Testimonials and PR.

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

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K Kageyama
Director
Company Registration No: 08369318
10 January 2023

Sumisho Osaka Gas Water UK Limited

Directors' Report

The directors present their directors' report and the audited consolidated financial statements for the year ended 31 March 2022.

Directors

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

K Oida
K Kageyama (appointed 1 April 2021)
T Ikuta (appointed 1 April 2022)
K Takiguchi (appointed 1 April 2022)
S Kitajima (resigned 1 April 2021)
E Natsuaki (resigned 1 April 2022)
M Kobayashi (resigned 1 April 2022)

Results and dividends

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

Ordinary dividends were paid amounting to £3,500,000 during the year (2021: £3,500,000). The directors do not recommend a payment of further dividend.

Service contracts

All current executive directors have service contracts and notice periods.

Contracts of significance

There were no contracts of significance (including provision of services) existing in the year between the Group and controlling shareholders, or to which the Group is a party and in which directors of the Group are, or were, materially interested.

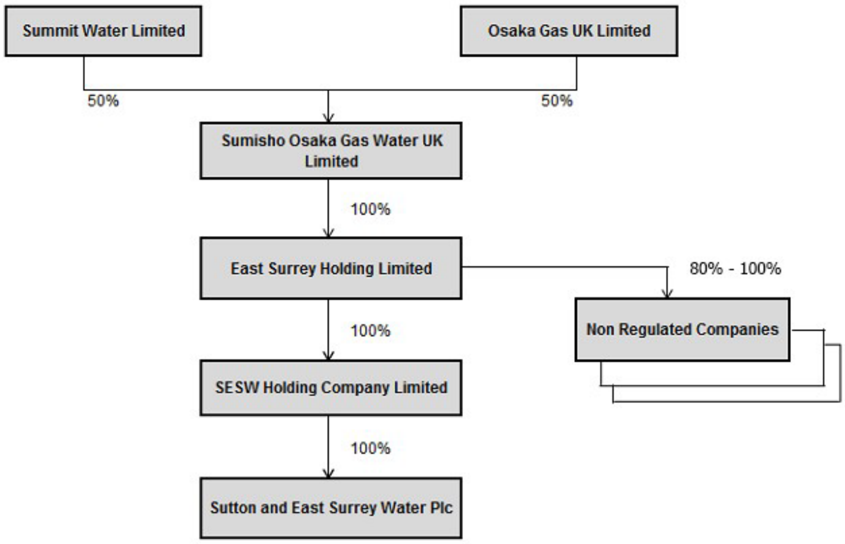
Directors' indemnities

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

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

Ownership of the company

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



Group overview

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

Business review and future prospects

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

SESW Turnover decreased to £62,953k (2021: £65,819k), Operating costs increased to £56,607k (2021: £56,909k) driven by staff costs as headcount increases by 5% and depreciation as the business continues to invest in its capital programme. As a consequence, operating profit decreased to £10,153k (2021: £11,112k).

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

SESWS Turnover increased to £51,683k (2021: £46,705k) but made a loss before tax of £2,481k (2021: £627k). In the year the SES Business Water customer list relating to customers bought at market opening in 2017 was fully impaired for £2,000,000 due to continued uncertainty in the market, this impairment was eliminated on consolidation. SESWS had net liabilities of £1,528k ((2021: Net assets of £994k).

For SESWS, the second largest entity in the group, we are actively increasing the volume of customers within the retail market and also looking at collaborations in which we can develop the Home Services insurance market. SESWS's Business Water division Turnover increased to £47,272k (2021: £43,042k), the increase in turnover was driven by increased consumption as the retail and leisure industry recover from the Covid-19 pandemic. Operating costs needed to be increased to meet the increased needs of the customers affected by increased consumption and interest costs increasing to service the increased borrowing requirements brought about due to Covid-19.

SESWS's HS division Turnover increased to £4,279k (2021: £3,664k). The increase in turnover was due to reduced government Covid-19 regulations improving demand for home services.

Group management continue to review the property portfolio that exists primarily within Surrey Downs Estates ("SDE") and Surrey Downs Property Investment ("SDPI") with opportunities to secure value from this portfolio in future periods.

Supplier payment policy

Settlement terms are agreed with suppliers as part of the contract terms and it is the Group's policy to pay in accordance with these terms. Other creditors are paid in accordance with invoice terms. Within SESW, the largest Company within the Group, creditor days in the year were approximately 17 days (2021: 15 days) due to timing of the final supplier payment run ahead of 31 March 2022 compared to prior year.

Research and development

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

Disabled persons

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

Employees

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

Post reporting date events

Subsequent to the balance sheet date, the management has evaluated events through 10 January 2023, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the financial statements.

Future developments

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

Charitable and political donations

During the year, the Group made charitable donations amounting to £34,177 (2021: £46,820). This included a £30,000 donation to the Community Foundation for Surrey. There were no political donations in the year (2021: £nil).

Greenhouse gas emissions

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

Directors' Report (Continued)

Net operational greenhouse gas emissions in 2021/22 were 2,800 tonnes of carbon dioxide equivalent (tCO2eq) (2020/21: 2,500 tCO2eq), a 9.8% reduction on the previous year. This equates to operational emissions of 46 kgCO2eq per million litres of treated water (2020/21: 40 kgCO2eq). Using 2020/21 emissions factors, operational emissions for 2021/22 would be equivalent to 42 kgCO2e per million litres of treated water.

Operational greenhouse gas emissions for 2021/22 for SESW include (2020/21 emissions are in brackets):

- Gas consumption: 1,244,341 kWh and 228 tCO2e (1,210,127 kWh and 223 tCO2e)
- Consumption of travel fuels: 4,603,677 kWh and 427 tCO2e (3,703,921 kWh and 397 tCO2e)
- Purchase of electricity by the company for its own use, including for transport: 52,506,268 kWh and 0 tCO2e (55,409,645 kWh and 0 tCO2e).

Note: all conversions are using the 2021 and 2020 greenhouse gas reporting figures on a net calorific value basis. The data for consumption of transport fuels covers vehicles for which the Company is responsible for the purchase of fuel. It does not include business miles in company cars which are refunded through expenses. This is because the information is not practical to obtain and the Company continues to explore options to digitise the expenses process to make this information more accessible.

In 2021/22 we continued to purchase 100% Renewable Energy Guarantee of Origin backed electricity for all sites. The Company has extended its electric vehicle charging infrastructure to now include 42 charging points across 100% of our operational treatment works and head office. The Company has solar panels installed at five treatment works and at its Redhill head office.

In 2021/22 these generated 290,024 kWh (2020/21: 266,045 kWh). This year, our first Air Source Heat Pump was installed to provide continuous heating to the gas storage and dosing room at one of our treatment works. This is the first step in a move to replace gas heating systems with renewable heating across all of our sites. In addition, our GHG emissions figure was impacted by COVID-19 due to increased demand for water and decreased vehicle movements during lockdowns.

The Group is part of the Water UK commitment for water companies in England to be net zero carbon by 2030. The water industry's route map to net zero carbon was published in November 2020 followed by our own route map published in June 2021.

Audit Committee

In financial year 21/22 ESH introduced audit committee meetings to run alongside the SESW committees in place, these are chaired by Murray Legg who also chairs the SESW audit committee. The main focus of the committee has been supporting and challenging management on its financial resilience and liquidity in light of the Covid-19 pandemic, ensuring that appropriately resilient plans are in place. These are in addition to the core activities of the committee ensuring compliance with statutory requirements, review of key accounting judgements as well as working alongside PwC the Group's auditors.

Going Concern

The Group's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic report. The financial position of the Group is set out on page 21. Note 1 of the financial statements sets out the Group's position in relation to risks associated with financial instruments, credit and interest rates and describes the Group's risk mitigation measures. The going concern basis has been adopted for preparing the financial statements.

The directors have considered the financial position of the Group and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. The directors' conclusions on the going concern basis include the consideration of amounts available under the SESW's committed revolving credit facility of £75m to support the regulated water company using mitigating actions as needed should any plausible downsides occur.

Directors' Report (Continued)

No repayments of SESW's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 and cost-of living crisis on reduced income and cash in the household and non-household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of the cost-of0living crisis on customers' ability to pay, were assessed against the long-dated bond financial covenants. SESW complied with such covenants under base case and downside scenarios, using serveral mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

During 2022, ESH has supported Sutton and East Surrey Water Services Limited ("SESWS"), the water retail division of the Group. A £2m RCF facility was provided in March 2022 and fully drawn down in May 2022, this facility incurs interest of 2.19% per annum and is due for repayment in March 2024. Further term loans of £2.95m have been provided between June and November 2022 which completes the support required by the subsidiary, these term loans do not accrue interest and will not be recalled during the going concern period.

ESH holds a £36m loan with PacLife with a fixed interest rate of 3.22% and is due for repayment in 2025. ESH continues to utilise and meet applicable covenants at the year end date and during the going concern period.

On 6 January 2023, the Company received a Letter of Support from Sumitomo Corporation, the ultimate parent undertaking for 15 months from the date of signing these financial statements. This obligates Sumitomo Corporation to provide the Company financial support as necessary such that the Group is able to operate as a going concern and to settle its liabilities as they fall due. A back to back Letter of Support on the same terms has been provided by the Company to ESH, and then by ESH to select operating companies, SESWS, Allmat and Cheam.

Statement of disclosure to the independent auditors

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

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

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

Independent Auditors

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

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

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

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

Directors' Report (Continued)

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, 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 company will continue in business.

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

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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

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

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

………………..
Director

K Kageyama
Director
Company Registration No: 08369318
10 January 2023

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

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

Report on the audit of the financial statements

Opinion

In our opinion:

- Sumisho Osaka Gas Water UK Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2022 and of the group's loss and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Consolidated Statement of Financial Position and Company Balance Sheet as at 31 March 2022; Consolidated Statement of Profit or Loss and Other Comprehensive Income; Consolidated and Company Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Richard French

Richard French (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

10 January 2023

Sumisho Osaka Gas Water UK Limited

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

	Note	2022 £000	2021 £000
Revenue	2	114,026	110,728
Operating cost	3	(109,941)	(103,717)
Other operating income	4	3,808	2,202
Operating profit		7,893	9,213
Finance income	7	382	717
Finance expenses	7	(15,186)	(7,294)
(Loss)/profit before tax		(6,911)	2,636
Taxation	8	(11,955)	(405)
(Loss)/profit for the year		(18,866)	2,231
Other comprehensive income/ (expense)			
Actuarial gains / (losses) on pension scheme	19	5,658	(7,184)
Movement on deferred tax relating to pension asset	13	(983)	1,365
Total other comprehensive income / (expense) for the year		4,675	(5,819)
Total comprehensive expense for the year		(14,191)	(3,588)
Total comprehensive (expense)/income attributable to:			
Equity holders of the parent		(14,242)	(3,621)
Non-controlling interest		51	33
		(14,191)	(3,588)
(Loss)/profit for the year attributable to:			
Equity holders of the parent		(18,917)	2,198
Non-controlling interest		51	33
		(18,866)	2,231

The notes on pages 25 to 62 form part of the financial statements.

Sumisho Osaka Gas Water UK Limited

Consolidated Statement of Financial Position as at 31 March

	Note	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	9	361,110	349,043
Intangible assets	10	127,955	121,373
Investment properties	11	2,670	2,697
Pension scheme asset	19	26,265	20,476
		518,000	493,589
Current assets			
Inventories	14	1,382	1,376
Trade and other receivables	15	48,878	44,438
Cash and cash equivalents	16	30,814	34,699
		81,074	80,513
Total assets		**599,074**	**574,102**
Current liabilities			
Trade and other payables	18	69,807	59,950
		69,807	59,950
Non-current liabilities			
Interest-bearing loans and borrowings	17	287,725	267,820
Lease liabilities	22	766	756
Unfunded pension obligation	19	973	1,006
Deferred tax liabilities	13	54,980	41,909
Dilapidation provisions		464	444
		344,908	311,935
Total liabilities		**414,715**	**371,885**
Net assets		**184,359**	**202,217**
Equity attributable to equity holders of the parent			
Share capital	20	164,550	164,550
Translation Reserve		(1)	(1)
Retained earnings		19,278	37,020
		183,827	201,569
Non-controlling interest		532	648
Total equity		**184,359**	**202,217**

The notes on pages 25 to 62 form part of the financial statements.
These financial statements on pages 20 to 62 were approved by the Board of Directors on 10 January 2023 and signed on its behalf by:

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

Sumisho Osaka Gas Water UK Limited

Consolidated Statement of Changes in Equity

	Share capital	Retained earnings	Translation reserve	Total parent equity	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2020	164,550	44,141	(1)	208,690	615	209,305
Total comprehensive (expense)/income for the year						
Profit or loss	-	2,198	-	2,198	33	2,231
Actuarial losses on pension scheme	-	(7,184)	-	(7,184)	-	(7,184)
Movement on deferred tax relating to pension asset	-	1,365	-	1,365	-	1,365
Total comprehensive (expense)/income for the year	-	(3,621)	-	(3,621)	33	(3,588)
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	-	(3,500)
Total transactions with Owners	-	(3,500)	-	(3,500)	-	(3,500)
As at 31 March 2021	**164,550**	**37,020**	**(1)**	**201,569**	**648**	**202,217**
Total comprehensive (expense)/income for the year						
Profit or loss	-	(18,917)	-	(18,917)	51	(18,866)
Actuarial gains on pension scheme	-	5,658	-	5,658	-	5,658
Movement on deferred tax relating to pension asset	-	(983)	-	(983)	-	(983)
Total comprehensive (expense)/income for the year	-	(14,242)	-	(14,242)	51	(14,191)
Transactions with owners recorded directly in equity						
Dividends paid	-	(3,500)	-	(3,500)	(167)	(3,667)
Total transactions with Owners	-	(3,500)	-	(3,500)	(167)	(3,667)
As at 31 March 2022	**164,550**	**19,278**	**(1)**	**183,827**	**532**	**184,359**

This notes on pages 25 to 62 form part of the financial statements.

Sumisho Osaka Gas Water UK Limited

Consolidated Cash Flow Statement for the year ended 31 March

	Note	2022 £000	2021 £000
Cash flow from operating activities			
(Loss)/profit for the year		(18,866)	2,231
Adjustments for			
Depreciation of tangible fixed assets	9	12,440	11,441
Amortisation of intangible fixed assets	10	936	648
Depreciation of Investment properties	11	27	27
Proceeds from Insurance claims		(1,970)	(1,675)
Amortisation of Bond costs	17	444	435
Net interest receivable and similar income	7	(382)	(717)
Net interest payable and similar charges	7	14,742	6,859
Profit on sale of assets on disposal of PPE		(1,283)	(527)
Provision Movements		20	444
Taxation	8	11,955	405
		18,063	19,571
Increase in trade and other debtors		(4,202)	(7,604)
Decrease in stocks	14	6	196
Increase in trade and other creditors		7,051	8,097
Decrease in provisions and employee benefits		(165)	(292)
		2,690	397
Interest paid		(10,111)	(6,095)
Income tax paid		(100)	(1,151)
Net cash generated from operating activities		10,542	12,722
Cash flows from investing operating activities			
Proceeds from disposal of fixed assets		1,562	596
Proceeds from disposal of intangibles		78	-
Proceeds from Insurance claims		1,970	1,675
Interest received	7	382	717
Acquisition of tangible fixed assets	9	(24,797)	(24,149)
Acquisition of intangible fixed assets	10	(7,593)	(3,828)
Net cash used in investing activities		(28,398)	(24,989)
Cash flows from financing activities			
Proceeds from loans	17	14,825	13,274
Payment of obligation under finance leases	22	84	739
Dividends paid to minority interest		(167)	-
Dividends paid		(3,500)	(3,500)
Net cash generated from financing activities		11,242	10,513
Net decrease in cash and cash equivalents		(6,614)	(1,754)
Cash and cash equivalents at the beginning of the year		28,156	29,910
Cash and cash equivalents at the end of the year		21,542	28,156

Sumisho Osaka Gas Water UK Limited

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

Relating to:

	2022 £000	2021 £000
Cash and cash equivalents	30,814	34,699
Overdraft (included in creditors less than one year)	(9,272)	(6,543)
Cash and cash equivalents at the end of the year	21,542	28,156

The notes on pages 25 to 62 form part of the financial statements.

Notes to the Financial Statements

1 Accounting policies

1.1 Basis of accounting

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

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

The Group financial statements consolidate those results of the Company and its subsidiaries (together referred to as the "Group"). The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS.

The Group financial statements have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 63 - 71.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 25.

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

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

1.2 Adopted accounting standards not yet applied

There are no amendments to accounting standards that are effective for the year ended 31 March 2022 that have a material impact on the Group's financial statements.

1.3 Going concern

The going concern basis has been adopted for preparing the financial statements. The directors have considered the financial position of the Group and have concluded that they will meet their liabilities as they fall due for the foreseeable future. On 6 January 2023, the Company received a Letter of Support from Sumitomo Corporation, the ultimate parent undertaking for 15 months from the date of signing these financial statements. This obligates Sumitomo Corporation to provide the Company financial support as necessary such that the Group is able to operate as a going concern and to settle its liabilities as they fall due. A back to back Letter of Support on the same terms has been provided by the Company to ESH, and then by ESH to select operating companies, SESWS, Allmat and Cheam.

For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements.

1.4 Business combinations

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

1 Accounting policies (continued)

1.5 Basis of consolidation

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

All financial statements are made up to 31 March 2022. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

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

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

1.6 Classification of financial instruments issued by the Group

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

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

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

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

1.7 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

1 Accounting policies (continued)

1.7 Non-derivative financial instruments (continued)

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.8 Property, plant and equipment

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

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. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. The estimated useful lives are as follows:

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

1.8 Property, plant and equipment (continued)

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

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

1.9 Intangible assets and goodwill

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

Goodwill

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

Research and development

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

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

Amortisation

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

	Years
Software	3-10

1.10 Investment Properties

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

	Years
Investment Properties	46-221

1.11 Inventories

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

Notes to the Financial Statements

1 Accounting policies (continued)

1.11 Inventories (continued)

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

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

Bad debt write-off policy

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

Non-financial assets

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

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

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

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

1.13 Employee benefits

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

1.14 Retirement benefits

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

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

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

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

1.15 Provisions

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

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

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

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

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

During the year The Calcite Factory recognised a dilapidation provision of £20,451 to acknowledge the liability to restore leased premises to their original condition at the expiry of the lease. Advance Minerals Limited and Allmat (East Surrey Limited) did not consider it necessary to adjust their dilapidation provisions of £300,080 and £144,406 respectively.

Provisions are not recognised for future operating losses.

1 Accounting policies (continued)

1.15 Provisions (continued)

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

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

1.16 Revenue

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

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

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when the entity satisfies a performance obligation.

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

If the Group considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (note 25).

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

Where the Group provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six-monthly in arrears (note 25).

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

1. Water services – household and wholesale revenue

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

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

1 Accounting policies (continued)

1.16 Revenue (continued)

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

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

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

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Group and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (note 25).

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

2. Empty Properties – Household revenue

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

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

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

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

1 Accounting policies (continued)

1.16 Revenue (continued)

3. Developer services – Other water revenue

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

a) Network extensions

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

b) Service connections

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

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

c) Diversions

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

d) Infrastructure charges

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

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

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

Notes to the Financial Statements

1 Accounting policies (continued)

1.16 Revenue (continued)

4. Commission income

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

5. Home Services

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

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

6. Garage revenue

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

1.17 Interest income / expense

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

1.18 Rounding of amounts

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

1.19 Contract liabilities

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

Contract liabilities have decreased to £5,723k (2021: £9,306k) due timing of money received in advance from customers that will be passed to Thames Water upon billing.

A portion of revenue recognised in the current reporting period that relates to carried-forward contract liabilities of £9,306k as money received in advance from customers as at 31 March 2021 has been billed in the current financial year.

1 Accounting policies (continued)

1.20 Leases

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

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

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

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

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

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

1.21 Expenses

Financing income and expenses

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

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

1 Accounting policies (continued)

1.22 Taxation

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

Current tax

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

Deferred tax

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

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

1.23 Dividends

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

1.24 Insurance receipts

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

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

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

Notes to the Financial Statements

2 Revenue

Revenue for the group can be identified as per below:

	2022 £000	2021 £000
Supply of water	98,749	97,545
Non-Water income	12,980	11,027
Non-appointed revenue	2,297	2,156
Total	**114,026**	**110,728**

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

3 Operating cost

	Note	2022 £000	2021 £000
Wages and salaries		16,074	15,111
Social security costs		1,949	1,821
Other pension costs	19	2,324	2,074
Power		6,617	7,401
Raw material and consumables		51,140	45,699
Depreciation of owned assets		12,157	10,980
Depreciation of right-of-use assets		283	461
Depreciation of investment properties		27	27
Amortisation of intangibles		936	648
Amounts written off during the year in respect of bad debt provision		-	76
Bad Debt provided for during the year		12	2,968
Fees payable to the group's auditors and its associates:			
- For the audit of parent company and consolidated financial statements		56	54
- For the audit of the financial statements of the company's subsidiaries		606	449
- Audit of regulatory financial statements		50	48
- Other assurance services		79	23
Other operating charges		17,231	15,477
Management support and Service Agreement		400	400
Total operating costs		109,941	103,717

Wages and salaries disclosed above are shown net of capitalised costs. During the year £2,462,498 (2021: £2,125,580) of employment costs were capitalised as fixed assets.

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

4 Other Operating Income

	2022 £000	2021 £000
Proceeds from insurance claim	1,970	1,675
Bad debt release	449	-
Other operating income	106	-
Profit on sale of fixed assets	1,283	527
Other operating income	**3,808**	**2,202**

During the year, SESW received £1,969,808 (2021: £1,674,504) insurance proceeds, relating to damage at one of its water treatment facilities which occurred in 2017.

5 Directors' remuneration

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

Directors do not have share options and did not receive awards during the year in the form of shares under long-term incentive schemes (2021: £nil).

No pension benefits are accruing to any directors (2021: £nil).

6 Employees

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

	2022 Number	2021 Number
Water supply	345	324
Other activities	123	112
	468	436

The aggregate remuneration comprised:

	2022 £000	2021 £000
Wages and salaries	16,074	15,111
Social security costs	1,949	1,821
Other pensions costs (note 19)	2,324	2,074
	20,347	19,006

Notes to the Financial Statements

7 Finance income and finance expenses

	2022 £000	2021 £000
Interest income		
Expected return on pension scheme assets	2,227	2,772
Interest on post retirement liabilities	(1,862)	(2,164)
Net return on pension scheme asset	365	608
Interest receivable and similar income	17	109
Total finance income	382	717

	2022 £000	2021 £000
Finance cost		
Bond interest	5,005	4,700
Bond indexation	6,628	2,756
Bond amortisation cost*	(1,548)	(1,557)
Total cost of bond	10,085	5,899
Interest on bank overdrafts and loans	5,101	1,395
Total finance expenses	15,186	7,294

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

There has been a £3.9m increase in non-cash indexation costs due to a rise in the current year of the RPI rate. In July 2020, the annual inflation change was 1.62%, in July 2021 it increased to 3.84%. Therefore, inflation increased by 137%, the indexation charge increased by 140%.

Other interest expenses includes a one off charge of £3.5m in financing costs relating to the renegotiation of the terms of the long dated index linked bond which was originally executed in 2001.

8 Taxation

Current tax	2022 £000	2021 £000
UK corporation tax on profits for the current year	(3)	15
Adjustments in respect of prior years	(130)	87
	(133)	**102**
Deferred tax		
Origination and reversal of temporary differences	(927)	261
Changes in tax rates	13,286	-
Adjustments in respect of prior years	(271)	(13)
Pension scheme	-	55
	12,088	**303**
Tax charge on profit	**11,955**	**405**

8 Taxation (continued)

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

	2022 £000	2021 £000
(Loss)/profit before taxation	(6,911)	2,636
Expected tax (credit)/charge based on a corporation tax rate of 19.00% (2021: 19.00%)	(1,313)	501
Effect of expenses not deductible in determining taxable profit	62	(393)
Income not taxable	(256)	-
Adjustment in respect of prior years	(130)	87
Effect of change in UK corporation tax rate	13,286	-
Deferred tax adjustments in respect of prior years	(271)	(13)
Other adjustments	(327)	(254)
Rolled over gains	374	-
Amounts not recognised	530	478
Deferred tax	-	(1)
Taxation charge for the year	11,955	405

Factors affecting future tax rate

The UK corporation tax rate for the year ended 31 March 2022 was 19% (2021: 19%). The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the Covid-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes have been substantively enacted before the balance sheet date. As a result, the deferred tax balances have been remeasured at 25% which is the tax rate that the temporary differences are expected to reverse at.

Sumisho Osaka Gas Water UK Limited

Notes to the Financial Statements

9 Property, plant and equipment

Group	Land	Collection reservoir	Building, boreholes & service reservoirs	Plant& machinery	Water mains	Motor vehicles & sundry plant	Assets under construction	Right of use assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost									
At 1 April 2020	5,088	2,533	129,850	131,126	239,368	10,020	33,714	-	551,699
Additions	-	-	-	33	-	128	22,943	1,044	24,148
Disposals	-	-	(40)	(6)	-	(452)	-	(178)	(676)
Transfers	-	-	1,699	6,591	16,015	2,472	(27,206)	429	-
At 31 March 2021	**5,088**	**2,533**	**131,509**	**137,744**	**255,383**	**12,168**	**29,451**	**1,295**	**575,171**
Additions	-	-	-	65	-	445	23,630	657	24,797
Disposals	(14)	-	-	(39)	-	(686)	-	-	(739)
Elimination	-	-	-	-	-	-	-	(373)	(373)
Transfers	-	-	4,835	20,515	5,164	943	(31,457)	-	-
At 31 March 2022	**5,074**	**2,533**	**136,344**	**158,285**	**260,547**	**12,870**	**21,624**	**1,579**	**598,856**
Accumulated Depreciation									
At 1 April 2020	-	422	37,076	75,862	94,228	7,708	-	-	215,296
Charge for the year	-	20	2,574	5,014	1,852	1,520	-	461	11,441
Disposals	-	-	(22)	(6)	-	(444)	-	(137)	(609)
At 31 March 2021	**-**	**442**	**39,628**	**80,870**	**96,080**	**8,784**	**-**	**324**	**226,128**
Charge for the year	-	20	2,641	6,604	1,902	990	-	283	12,440
Eliminated on disposals	-	-	-	(29)	-	(668)	-	-	(697)
Elimination	-	-	-	-	-	-	-	(125)	(125)
At 31 March 2022	**-**	**462**	**42,269**	**87,445**	**97,982**	**9,106**	**-**	**482**	**237,746**
Net book value									
At 31 March 2021	5,088	2,091	91,881	56,874	159,303	3,384	29,451	971	349,043
At 31 March 2022	**5,074**	**2,071**	**94,075**	**70,840**	**162,565**	**3,764**	**21,624**	**1,097**	**361,110**

10 Intangible assets

	Software	Contracts*	Goodwill	Work in Progress	Total
	£000	£000	£000	£000	£000
Cost					
Balance at 1 April 2020	6,579	7,376	112,546	3,370	129,871
Additions during the year	424	-	-	3,404	3,828
Transferred from under construction	613	-	-	(613)	-
Balance at 31 March 2021	**7,616**	**7,376**	**112,546**	**6,161**	**133,699**
Additions during the year	48	-	-	7,545	7,593
Disposals	(2,836)	-	-	-	(2,836)
Transferred from under construction	8,011	-	-	(8,011)	-
Other movements	(458)	-	-	458	-
Balance at 31 March 2022	**12,381**	**7,376**	**112,546**	**6,153**	**138,456**
Accumulated Amortisation					
Balance at 1 April 2020	5,581	6,097	-	-	11,678
Charge for the year	485	163	-	-	648
Balance as at 31 March 2021	6,066	6,260	-	-	12,326
Charge for the year	773	163	-	-	936
Eliminated on disposal	(2,761)	-	-	-	(2,761)
Balance as at 31 March 2022	**4,078**	**6,423**	**-**	**-**	10,501
Net book values					
Balance as at 31 March 2021	1,550	1,116	112,546	6,161	121,373
Balance as at 31 March 2022	**8,303**	**953**	**112,546**	**6,153**	**127,955**

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

Amortisation and impairment charge

The software included in the Group's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £505k (2021: £363k) and has a remaining amortisation period of 7 years (2021: £nil) on a straight line basis. Aptumo, SESW's new billing system went live in October 21 and is used for all customer service operations and billing management. The asset is carried at £6.5m (2021: £nil) and has a remaining amortisation period of 15 years (2021: £nil) on a straight line basis.

SES Water Services Limited's new billing system is currently under construction. It will be used for all Business Water customer service operations and billing management. The asset carried at year end is £4,284k (2021: £458k) and it not yet available for use, no depreciation has been charged against the asset.

10 Intangible assets (continued)

In addition, Home Services are improving the current systems as part of the 'Stars project' and this is currently under construction. This asset carried at the year end is £466k (2021:Nil) and it is not yet available for use, no amortisation has been charged against the asset.

Intangible assets amortisation is recorded in operating costs in the profit and loss.

Impairment test for Goodwill

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

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

Goodwill recognised for the ESH Group CGU is as follows:

	Goodwill	**Goodwill**
	2022	2021
	£000	£000
ESH Group Cash Generating Unit	**112,546**	112,546

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

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

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

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

Key assumptions	2022	2021
Exit RCV multiples	1.15	1.15
Discount Rate	4.7%	4.9%
Inflation RPI	3%	3%
Inflation CPI	2%	2%

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

10 Intangible assets (continued)

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

Overall, the total fair value less disposal cost for the ESH Group CGU exceeded its carrying amount by approximately £44m.

An increase in discount rates by more than 0.62%, or missing EBITDA forecasts by more than 18%, or a combination of an increase in discount rates by more than 0.27% and missing EBIDTA forecasts by more than 10%, would reduce the recoverable amount below the carrying amount of the CGU.

11. Investment Properties

	Investment properties £'000
Cost	
Balance at 1 April 2020	2,860
Balance at 31 March 2021	**2,860**
Additions during the year	-
Disposals	-
Balance at 31 March 2022	**2,860**
Accumulated Depreciation	
Balance at 1 April 2020	136
Charge for the year	27
Disposals	-
Balance at 31 March 2021	**163**
Charge for the year	27
Disposal	-
At 31 March 2022	**190**
Net book values	
At 31 March 2021	2,697
At 31 March 2022	**2,670**

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

12 Investments in subsidiaries

The Company has the following investments in subsidiaries.

Subsidiary undertakings

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

12 Investments in subsidiaries (continued)

The principal activities for all investments are as follows:

Name of Company	Activity	Class of shares	Ownership 2022	Ownership 2021
Directly held:				
East Surrey Holdings Limited	Holding Company	Ordinary	100%	100%
Indirectly held:				
Sutton and East Surrey Water plc	Water supply	Ordinary	100%	100%
SESW Holding Company Limited	Holding Company	Ordinary	100%	100%
Surrey Downs Property Investment Limited	Property Investment	Ordinary	100%	100%
Surrey Downs Estates Limited	Property development	Ordinary	100%	100%
Allmat (East Surrey) Limited	Building supplies	Ordinary	100%	100%
Advanced Minerals Limited	Processes and sells minerals for the bathroom industry	Ordinary	80%	80%
The Cheam Group plc	Holding company	Ordinary	100%	100%
		Preference	79%	79%
Sutton and East Surrey Water Services Limited	Water retail principally with Home Services	Ordinary	100%	100%
The Sutton District Water plc	Dormant	Ordinary 'A'	100%	100%
SES Home Services Limited	Dormant	Ordinary	100%	100%
SES Business Water Limited	Dormant	Ordinary	100%	100%
SES Water Limited	Dormant	Ordinary	100%	100%
The Calcite Factory B.V.	Minerals processing	Ordinary	80%	80%

13 Deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

Deferred tax liabilities	**2022 £000**	**2021 £000**
Property, plant and equipment	48,658	38,210
Employee benefits (pension)	6,322	3,699
Balance carried forward	**54,980**	**41,909**

13 Deferred tax liabilities (continued)

Movement in deferred tax during the year

	1 April 2021 £000	Recognised in income £000	Recognised in OCI £000	31 March 2022 £000
Property, plant and equipment	38,210	10,448	-	48,658
Employee benefits (pension)	3,699	1,640	983	6,322
	41,909	**12,088**	**983**	**54,980**

Movement in deferred tax during the prior year

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

14 Inventories

As at 31 March	**2022 £000**	**2021 £000**
Raw materials	782	707
Work in progress	21	156
Finished goods	579	513
	1,382	**1,376**

Notes to the Financial Statements

15 Trade and other receivables

As at 31 March

	2022 £000	2021 £000
Trade receivables	45,890	45,224
Provision for bad and doubtful debts	(10,272)	(10,709)
	35,618	**34,515**
Other tax and social security	555	-
Other receivables	2,327	2,367
Prepayments	8,655	6,065
Corporation tax receivables	1,723	1,491
	48,878	**44,438**

Movements in the expected credit losses provision were as follows:

	2022 £000	2021 £000
At the beginning of the year	10,709	7,817
Charge for bad and doubtful debts	12	2,968
Bad debt release	(449)	(76)
At the end of the year	**10,272**	**10,709**

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

	2022 £000	2021 £000
Not past due	7,611	11,862
Past due 0-30 days	4,357	6,758
Past due 31-120 days	5,805	3,946
More than 120 days	28,117	22,658
	45,890	**45,224**

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 2022	1,096	768	4,642	3,766	10,272
At 31 March 2021	962	1,531	5,040	3,176	10,709

16 Cash and cash equivalents

As at 31 March	2022 £000	2021 £000
Cash	30,814	34,699
Cash and cash equivalents	**30,814**	**34,699**

Within bank balances there is £5.8m (2021: £5.7m) of restricted cash relating to the secured index-linked bond.

17 Interest-bearing loans and borrowings

Borrowings held at amortised cost:	2022 £000	2021 £000
Long-term loans	94,825	80,000
2.874% Secured Index-Linked Bond 2027-2031	192,798	187,718
3.25% Irredeemable debentures	50	50
5% Irredeemable debentures	52	52
Leases (note 22)	766	756
	288,491	**268,576**

Changes in liabilities from financing activities

	3.25% Irredeemable debentures £000	5% Irredeemable debentures £000	Bond £100m 2.874% (2027-2031) £000	Bond costs £000	Other loans £000	Finance and lease contract £000	Total £000
Balance at 1 April 2020	50	52	191,375	(4,856)	66,726	136	253,483
Changes from financing activities							
Indexation	-	-	2,756	-	-	-	2,756
Amortisation of bond cost	-	-	-	435	-	-	435
Other borrowings	-	-	-	-	13,274	-	13,274
IFRS 16 – lease liability	-	-	-	-	-	620	620
Amortisation of bond revaluation	-	-	(1,992)	-	-	-	(1,992)
Balance at 31 March 2021	50	52	192,139	(4,421)	80,000	756	268,576
Changes from financing activities							
Indexation	-	-	6,628	-	-	-	6,628
Amortisation of bond cost	-	-	-	444	-	-	444
Other borrowings	-	-	-	-	14,825	-	14,825
IFRS 16 – lease liability	-	-	-	-	-	10	10
Amortisation of bond revaluation	-	-	(1,992)	-	-	-	(1,992)
Balance at 31 March 2022	50	52	196,775	(3,977)	94,825	766	288,491

Included in other loans is the £36m loan with PacLife held by East Surrey Holdings Limited shown net of arrangement fees. The loan has a fixed interest rate of 3.22% and is due for repayment in 2025. Also included are two RCF facilities with RBS held by Sutton and East Surrey Water plc, the first is a 5 year £50m facility which was fully drawn down as at the year end date. The second is a 3 year £25m facility which had £9m drawn down at the year end date. Both RCF facilities have a variable rate above base rate.

Notes to the Financial Statements

18 Trade and other payables

As at 31 March

	2022	**2021**
	£000	**£000**
Current		
Trade payables	10,358	7,359
Other trade payables	24,977	17,061
Overdraft	9,272	6,543
Contract liabilities	5,723	9,306
Lease liabilities (see note 22)	335	261
Deposits from developers	344	322
Other taxes and social security	-	154
Accruals	18,798	18,944
	69,807	**59,950**

Contract liabilities

Group

	£000
Opening balance as at 1 April 2021	**9,306**
Revenue recognised that was included in the contract liability balance at the beginning of the year	(9,306)
Increase due to cash received, excluding amounts recognised as revenue during the year	5,723
Closing balance as at the end of the year, 31 March 2022	**5,723**

Contract liabilities have decreased to £5.7m (2021: £9.3m) mainly due to reclassification of money received in advance from customers that will be passed to Thames Water upon billing.

19 Retirement benefit schemes

	2022	**2021**
Defined contribution schemes	**£000**	**£000**
Charge to profit or loss in respect of defined contribution schemes	2,324	2,074

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

Defined benefit scheme

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

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

19 Retirement benefit schemes (continued)

The risks of the scheme are as follows:

(a) Asset volatility

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

(b) Changes in Bond yields

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

(c) Life expectancy

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

(d) Inflation risk

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

Guaranteed Minimum Pension (GMP)

On 26 October 2018, a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2021 £425k); this was consulted with the scheme actuary.

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2020 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

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

Deficit contributions

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

Key assumptions	**2022**	**2021**
Discount rate	2.7%	1.9%
Retail price inflation	4.0%	3.5%
Consumer price inflation	3.5%	3.0%
Life expectancy of a male aged 60 in 2022 (Years)	26.4	26.7
Life expectancy of a male aged 60 in 2047 (Years)	28.3	28.6
Weighted average duration (Years)	14.0	15.0

19 Retirement benefit schemes (continued)

Reconciliation of scheme assets and liabilities:

	Assets	Liabilities	Carrying Amount
	£000	£000	£000
At 1 April 2021	119,642	(99,166)	20,476
Interest on benefit obligations	-	(1,843)	(1,843)
Actuarial gains/(losses) due to:			
Changes in financial assumptions	-	5,356	5,356
Changes in demographic assumptions	-	665	665
Experience adjustments on obligation	-	(1,207)	(1,207)
Benefits paid	(4,663)	4,663	-
Interest on section assets	2,227	-	2,227
Actual return less interest on plan assets	835	-	835
Expenses	(244)	-	(244)
At 31 March 2022	**117,797**	**(91,532)**	**26,265**

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

Fair value of plan assets	2022	2021
	£000	£000
At 31 March 2022		
Liability driven investments	28,220	93,837
Liquidity funds	14,208	-
BMO Global Absolute Return Bond Fund	24,317	25,243
Buy and maintain credit	50,450	-
Cash	602	562
Total	117,797	119,642

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

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

	2022	2021
	£000	£000
Change in inflation rate (+0.1%)	1,100	1,300
Change in inflation rate (-0.1%)	(1,100)	(1,300)
Change in discount rate (+0.1%)	1,400	1,600
Change in discount rate (-0.1%)	(1,300)	(1,500)
Change in life expectancy (+1 year)	4,600	4,700
Change in life expectancy (-1 year)	(4,600)	(4,700)

19 Retirement benefit schemes (continued)

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

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

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

	2022 £000	2022 £000	2022 £000	2021 £000	2021 £000	2021 £000
	WCPS	**Unfunded**	**Total**	**WCPS**	**Unfunded**	**Total**
Employer's part of current service cost						
Section expenses	(244)	-	(244)	(335)	-	(335)
Past service cost	-	-	-	(25)	-	(25)
Net interest credit/(charge)	384	(19)	365	630	(22)	608
Net credit/(expense) recognised in profit and loss for pensions schemes	140	(19)	121	270	(22)	248

Amounts recognised in other comprehensive income/(expense)

	2022 £000	2022 £000	2022 £000	2021 £000	2021 £000	2021 £000
	WCPS	**Unfunded**	**Total**	**WCPS**	**Unfunded**	**Total**
Net actuarial gains/(losses) in the year due to:						
Changes in financial assumptions	5,356	33	5,389	(14,247)	(153)	(14,400)
Changes in demographic assumptions	665	9	674	6,412	107	6,519
Experience adjustments on benefit obligations	(1,207)	(33)	(1,240)	2,054	12	2,066
Actual gain/(loss) on Section assets relative to interest on Section assets	835	-	835	(1,369)	-	(1,369)
Gain/(loss) to recognise outside profit and loss in other comprehensive income/(expense)	5,649	9	5,658	(7,150)	(34)	(7,184)

Notes to the Financial Statements

19 Retirement benefit schemes (continued)

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

	2022 £000 WCPS	2022 £000 Unfunded	2022 £000 Total	2021 £000 WCPS	2021 £000 Unfunded	2021 £000 Total
Balance sheet asset/(liability) at the beginning of the year	20,476	(1,006)	19,470	27,356	(994)	26,362
Amount recognised in profit and loss	140	(19)	121	270	(22)	248
Amount recognised in other comprehensive Income/(expense)	5,649	9	5,658	(7,150)	(34)	(7,184)
Company contributions paid	-	43	43	-	44	44
Balance sheet asset/(liability) at the end of the year	26,265	(973)	25,292	20,476	(1,006)	19,470

20 Share Capital

As at 31 March	2022 £000	2021 £000
Allotted, called up and fully paid		
329,100,002 (2021: 329,100,002) ordinary shares of £0.5 each	164,550	164,550

Dividends

The following dividends were paid during the year:

	2022 £000	2021 £000
£0.01 (2021: £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.

21 Financial instruments

(a) Fair values of financial instruments

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

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

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 2022 £000**	**Fair value 2022 £000**	**Level 1 2022 £000**	Carrying amount 2021 £000	Fair value 2021 £000	Level 1 2021 £000
Financial liabilities measured at amortised cost						
2.874% secured index-linked bond 2027 – 2031	192,798	241,379	241,379	187,718	230,808	230,808
Total financial instruments	192,798	**241,379**	**241,379**	187,718	230,808	230,808

Determining the fair value of financial liabilities
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.

(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.

21 Financial instruments (continued)

(c) Liquidity risk

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

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

31 March 2021	Undiscounted contractual cashflows £000	1 year to less £000	1 to <5 years £000	5 years and over £000
Non-derivative financial liabilities				
Loan and other borrowing	44,000	-	44,000	-
Debentures	102	-	-	102
Trade and other payables	59,952	59,952	-	-
Interest rate - 2.874% secured index-linked bond 2027-2031	295,219	4,983	27,050	263,186
Interest rate – 3.22%	38,960	1,159	37,801	-
	438,233	**66,094**	**108,851**	**263,288**

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	2022 £000	2021 £000
Expiring in one year or less	1,000	1,000
Expiring between one and two years	-	6,000
Expiring in more than two years	16,000	-
	17,000	**7,000**

21 Financial instruments (continued)

(d) Market risk

Financial risk management

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

Market risk — Foreign currency risk

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

Market risk — Interest rate risk

The Group adopts a policy of ensuring the majority of its exposure to interest rate charges on borrowings is on a fixed rate basis. The long dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked 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 Limited. The bonds and debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate, and longer-term borrowings will be at a margin above LIBOR. The Pacific Life 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 2021.

	2022 £000	2021 £000
Equity		
Increase	473	2,490
Decrease	(473)	(2,490)
Profit or loss		
Increase	(473)	(2,490)
Decrease	473	2,490

(e) Inflation risk

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

21 Financial instruments (continued)

(e) Inflation risk (continued)

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

The carrying value of index-linked debt held by the Group was £192.798 million at 31 March 2022 (2021: £187.718 million).

(f) Capital management

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

The Group's net debt is comprised of cash and cash equivalents, debentures, bank loans and an index linked bond.

The group's objectives when managing capital are to:

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

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

Gearing

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio which, in line with the prior year, it aims to maintain at 60%. Gearing is measured by the ratio of net indebtedness to regulatory capital value (RCV). The ratio at the end of the current year was 0.82 (2021: 0.82).

Loan covenants

Under the terms of the major borrowing facilities (as disclosed in note 17), the Group is required to comply with the following financial covenants:

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

- Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each scheduled price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.60:1; and a Regulated Asset Ratio of less than or equal to 0.751.

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

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

21 Financial instruments (continued)

Dividends

The Group pays dividends to its parent if, in the view of the directors, there are sufficient distributable reserves and there is no threat to capital adequacy of the Company. During the year dividends for the year ended 31 March 2021 of £1,750,000 (2020: £1,750,000) and Interim dividend for the year ended 31 March 2022 of £1,750,000 (2021: £1,750,000) was paid. No further dividends have been proposed or declared.

22 Leases

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

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

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

Amounts recognised in the balance sheet:

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

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

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

Notes to the Financial Statements

22 Leases (continued)

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

The Statement of Profit or Loss and Other Comprehensive Income shows the following amounts relating to leases:

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

Future minimum lease payments as at 31 March 2022 are as follows:

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

As at 31 March 2021	SESW £000	SESWS £000	AML £000	Allmat £000	Total £000
Depreciation charge of right of use assets					
Vehicles	51	-	-	-	51
Plant & Machinery	-	-	89	-	89
Buildings	-	43	-	65	108
	51	43	89	65	248
Interest expense	4	1	5	6	16

Future minimum lease payments as at 31 March 2021 are as follows:

	£000	£000	£000	£000	£000
Not later than one year	87	33	98	61	279
Later than one year and not later than five years	192	-	350	243	785
Later than five years	-	-	-	-	-
Total gross payments	279	33	448	304	1,064
Impact of finance expenses	(2)	-	(27)	(18)	(47)
Carrying amount of liability	277	33	421	286	1,017

Notes to the Financial Statements

23 Commitments

As at 31 March	2022 £000	2021 £000
Contracted capital commitments	10,400	7,800

24 Related parties

Identity of related parties with which the Group has transacted

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

	Administrative expenses incurred from	
	2022 £000	**2021 £000**
Shareholders	400	400
Other related parties	39	38
	439	**438**

As at 31 March	**Receivables outstanding**		**Payables outstanding**	
	2022 £000	**2021 £000**	**2022 £000**	**2021 £000**
Other related parties	5	-	22	21
	5	-	**22**	**21**

Transactions with key management personnel

The compensation of key management personnel:

As set out in note 5 and 6, the average number of persons employed by the parent company during the year is nil (2021: nil). As also noted, no remuneration was paid to directors during the year (2021: £nil).

25 Critical accounting estimates and judgements

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

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

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

25 Critical accounting estimates and judgements (continued)

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

Estimate - unbilled measured income

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

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £380k (2021: £363k).

Judgement - Defined benefit scheme

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

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

Judgement / Estimate - Provision of doubtful debt

SESW and SESWS calculate a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for.

The ongoing COVID-19 pandemic and worsening economic climate has continued to impact on the ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. In the final quarter of the year, the company restarted its debt collection activities, (which had been paused during the pandemic), with additional collection support provided by a new 3rd party debt collection agency.

The resulting increased collection performance has been judged to offset the additional risk, and as such no changes to the bad debt provision has been made from the prior year.

The Company 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, providing the assets meets the criteria to be capitalised.

25 Critical accounting estimates and judgements (continued)

Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least 3 years. Within SESW, this resulted in derecognising £0.7m of revenue in FY22, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.4m and £0.3m respectively.

26 Post Balance Sheet Events

Subsequent to the balance sheet date, 31 March 2022 management has evaluated events through 10 January 2023, which is the date the consolidated financial statements were available to be issued, there was no subsequent events that required adjustment to or disclosure in the financial statements.

27 Parent undertaking and ultimate parent undertaking

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

Sumisho Osaka Gas Water UK Limited

Company Balance Sheet as at 31 March

	Note	2022 £000	2021 £000
Non-current assets			
Investments	33	161,600	161,600
Deferred tax assets	32	492	-
		162,092	161,600
Current assets			
Debtors	34	1,019	1,013
Cash at bank and in hand		2,817	2,830
		3,836	**3,843**
Creditors: amounts falling due within one year	35	(100)	(85)
Financial guarantee liabilities	38	(1,967)	-
Net current assets		**1,769**	**3,758**
Net assets		**163,861**	**165,358**
Capital and reserves			
Called up share capital	36	164,550	164,550
Profit and loss account*		(689)	808
Total Shareholders' funds		**163,861**	**165,358**

* The company's profit after tax for the year ended 31 March 2022 was £2,003,000 (2021: £ 3,470,000).

The notes on pages 65 to 71 form part of the financial statements.

These financial statements on pages 63 to 71 were approved by the Board of Directors on 10 January 2023 and signed on its behalf by:

……………………..
K Kageyama
Director

Company Registration No: 08369318

Sumisho Osaka Gas Water UK Limited

Company Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total Shareholders' Funds
	£000	**£000**	**£000**
Balance brought forward 1 April 2020	**164,550**	**838**	**165,388**
Total comprehensive income for the year			
Profit for year	-	3,470	3,470
Total comprehensive income for the year	-	3,470	3,470
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2021	**164,550**	**808**	**165,358**
Balance brought forward 1 April 2021	**164,550**	**808**	**165,358**
Total comprehensive income for the year			
Profit for year	-	2,003	2,003
Total comprehensive income for the year	-	2,003	2,003
Dividend paid	-	(3,500)	(3,500)
Total transactions with Owners	-	(3,500)	(3,500)
Balance carried forward 31 March 2022	**164,550**	**(689)**	**163,861**

The notes on pages 65 to 71 form part of the financial statements.

Notes to the Financial Statements

28 Accounting policies

Basis of accounting

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

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

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

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. The company’s profit for the year ended 31 March 2022 is £2,003,000 (2021: £ 3,470,000).

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 investments;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

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

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

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

Going Concern

The Directors have considered the Company’s assets (and in particular its investments in associated companies) and liabilities as at the date of signing these financial statements and have concluded that the Company will continue to be able to meet its liabilities for at least twelve months from the date of signature of these financial statements. On 6 January 2023, the Company received a Letter of Support from Sumitomo Corporation, the ultimate parent undertaking for 15 months from the date of signing these financial statements. This obligates Sumitomo Corporation to provide the Company financial support as necessary such that the Company is able to operate as a going concern and to settle its liabilities as they fall due. A back to back Letter of Support on the same terms has been provided by the Company to ESH, and then by ESH to select operating companies, SESWS, Allmat and Cheam. A going concern basis has therefore been adopted.

Notes to the Financial Statements

28 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

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

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be 66ecogniz. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Dividends

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

Financial Instruments

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

28 Accounting policies (continued)

Financial guarantee contract

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

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

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

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

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

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

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

Trade payables

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

Foreign currencies

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

29 Remuneration of directors

No remuneration 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 (2021: nil).

30 Other income

	2022 £000	2021 £000
Management Fees	100	100
Dividends	3,500	3,500

31 Expenses and auditors' remuneration

	2022 £000	2021 £000
Included in profit are the following:		
Auditors' remuneration:		
Audit of these financial statements	56	54

32 Taxation

A. Recognised in the profit and loss account

UK corporation tax	**2022 £000**	**2021 £000**
Current tax credit on income for the year	(5)	-
Deferred tax	(492)	
Tax credit on profit	**(497)**	**-**

B. Reconciliation of effective tax rate

The current tax charge for the year is lower (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below.

	2022 £000	2021 £000
Profit for the year	2,003	3,470
Total tax credit	(497)	-
Profit excluding tax	**1,506**	**3,470**
Tax using the UK corporation tax rate of 19% (2021: 19%)	286	659
Effect of:		
UK dividend income	(665)	(665)
Differences in tax rates	(118)	-
Loss carried forward not recognised	-	6
Total tax credit	**(497)**	**-**

Notes to the Financial Statements

32 Taxation (continued)

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

The UK corporation tax rate for the year ended 31 March 2022 was 19% (2021: 19%).

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

D. Deferred tax assets

Deferred tax assets are attributable to the following:	2022 £000	2021 £000
Losses	492	-
Net tax assets	**492**	**-**

Movements in deferred tax during the year	2022 £000	Recognised in income statement £000	2021 £000
Losses	492	492	-
Net tax assets	**492**	**492**	**-**

33 Investments

	Subsidiary companies £'000
Details of movements in the year:	
At 1 April 2021	161,600
Additions	-
Disposals	-
At 31 March 2022	**161,600**
Provisions for impairment:	
At 1 April 2021 and 31 March 2022	**-**
Net book value:	
At 31 March 2021	161,600
At 31 March 2022	161,600

33 Investments (continued)

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

Notes to the Financial Statements

34 Debtors

As at 31 March	2022 £000	2021 £000
Due from subsidiaries	1,005	1,000
Other debtors	14	13
	1,019	**1,013**
Due within one year	1,019	1,013

35 Creditors: amounts falling due within one year

As at 31 March	2022 £000	2021 £000
Due to subsidiaries	22	21
Accruals and deferred income	56	54
Other creditors	22	10
	100	**85**

36 Called up share capital

Called up Share Capital

As at 31 March	2022 £'000	2021 £'000
Allotted, called up and fully paid:		
329,100,002 (2021: 329,100,002) ordinary shares of £0.5 each	164,550	164,550

Dividends

The following interim dividends were paid during the year:

	2022 £000	2021 £000
£0.01 (2021: £0.01) per qualifying ordinary share	3,500	3,500

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

37 Critical accounting estimates and judgements

Investments:

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

38 Financial guarantee liabilities

Sumisho Osaka Gas Water UK Limited (SOGWUK) is a guarantor to Sutton and East Surrey Water Services Limited (SESWS) for a credit facility provided by HSBC. The total guaranteed amount is £15m as at the balance sheet date of these financial statements. The fair value of the liability for the financial guarantee has been determined using the interest rate differentials method. The net impact to the profit and loss account for SOGWUK for FY22 would be £2m.

39 Parent undertaking and ultimate parent undertaking

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

40 Post balance sheet events

Subsequent to the balance sheet date, 31 March 2022 management has evaluated events 10 January 2023, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that required adjustment to or disclosure in the financial statements.