INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUTTON AND EAST SURREY WATER PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss and cash flows for the year then ended;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the balance sheet as at 31 March 2024; the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee of the company.

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 company 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

During 2023 we identified that the firm had been engaged by Sumitomo Corporation Europe Limited, a group company of Sumitomo Corporation which had joint ownership of the entity that was at that time the ultimate parent of the Company, Sumisho Osaka Gas Water UK Limited, to provide tax compliance services to entities which included Sumisho Osaka Gas Water UK Limited. These services are not permissible to a UK parent undertaking of a public interest entity and amounted to a breach of paragraph 5.40 of the FRC's Revised Ethical Standard 2019. The services were completed in March 2023. The tax balances and treatment covered by the service are not part of the Company's financial statements.

We confirm that, based on our assessment of this breach, the nature and scope of the service and the subsequent actions taken, the provision of this service has not affected our professional judgements in connection with our audit of the year ended 31 March 2024.

Other than those disclosed in note 6, we have provided no non-audit services to the company in the period under audit.

OUR AUDIT APPROACH

OVERVIEW

AUDIT SCOPE

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity. The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

KEY AUDIT MATTERS

- Assessment of recoverability of household trade debtors.
- Accuracy of measured income accrual.

MATERIALITY

- Overall materiality: £600,000 (FY23: £600,000) based on approximately 0.13% of total assets.
- Performance materiality: £450,000 (FY23: £450,000).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Salary cost capitalisation, which was a key audit matter last year, is no longer included because of the judgement and estimation being evaluated in the previous year with no material change applied in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
ASSESSMENT OF RECOVERABILITY OF HOUSEHOLD TRADE DEBTORS Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £7.5m as at 31 March 2024 (2023: £9.3m) (refer to Note 15 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. There is judgement around whether to apply overlays to the calculation; this will be necessary where there is evidence that future cash collections will not be faithfully represented by historic losses per the calculation. The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	(i)Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the company's accounting policy and FRS 101. (ii) Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions. (iii) Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. (iv) Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. (v) Challenging the appropriateness of applied overlays to the calculation for FY24 (vi) Sample testing the underlying data underpinning the historical cash collection rates, and validating the integrity of the aged debt report by sample testing to invoices. (vii) Checking that the ECL was applied to all relevant household receivable categories, including accrued income. (viii) Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements. (ix) We also considered whether there was any Management bias in how the assumptions and estimates had been derived. (x) Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.
ACCURACY OF MEASURED INCOME ACCRUAL Management have recorded a measured income accrual of £9.5m (2023: £8.4m), (refer to Note 3.1 of the financial statements), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit. This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: (i) agreeing the last meter read date to source data on a customer level; (ii) performing a recalculation of the number of days since the last meter read date to year-end; (iii) recalculating the daily average consumption rate based on the last three meter readings,comparing the recalculated average against the detailed listing; and iv) testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2024. We performed risk-based testing of the largest accruals to test for anomalous readings. In addition, we obtained a look-back assessment from Management, which compares the FY23 accrued income by customer against the amounts subsequently billed for FY23, noting the FY23 accrual to have been materially accurate. We performed sample testing to verify that the inputs to the model (i.e. the subsequent bill and FY23 accrual) agreed to source data. Our results: We found Management's estimation of the measured income accrual to be acceptable.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The company has one finance function, based in the UK, and no shared service departments.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

As part of our audit, we have made enquiries of Management to understand their process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the Environmental, Social and Governance (ESG) Committees throughout the year, in addition to attending one such Committee meeting. While management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2024. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

OVERALL COMPANY MATERIALITY	£600,000 (FY23: £600,000).
HOW WE DETERMINED IT	Approximately 0.13% of total assets (FY23: approximately 0.13% of total assets)
RATIONALE FOR BENCHMARK APPLIED	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Sutton and East Surrey Water Plc is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we determined that the total asset base is the most appropriate benchmark, aligned to the key focus of the Board and its Shareholders on the maintenance and investment in the infrastructure it owns and operates. We also concluded that total assets is a less volatile measure compared to revenue and profit based measures. For FY22 a profit-based measure was used. However, due to this volatility, and for the reasons given above, it was changed to an asset-based benchmark in FY23, and has been continued for FY24. For Public Interest Entities (PIEs) a percentage of up to 1% of total assets is typical. However, we have considered other benchmarks (such as revenue and profit before tax) and lowered the percentage down from this typical level of 1% of total company assets to approximately 0.13%, which we deemed to be most appropriate materiality and more suitable for the size and scale of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY23: 75%) of overall materiality, amounting to £450,000 (FY23: £450,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee of the company that we would report to them misstatements identified during our audit above £30,000 (FY23: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Initial discussions with Management and the Audit Committee to understand the going concern risks facing the company, which predominantly related to uncommitted funding requirements over the going concern assessment period, with such additional funding being required for the purpose of both liquidity and in order to meet debt covenant requirements.
- Review of Management's cash flow and covenant ratio forecasts, which included verifying the mathematical accuracy and performing reasonableness checks of key assumptions (such as capital spend, revenue growth and cost inflation). This allowed for the total uncommitted funding requirement over the 12 month going concern forecast period to be known, both on a base case and on severe but plausible downside scenarios.
- Reviewing the letter of support from the ultimate shareholder to verify that the appropriate level, nature and duration of commitment was included.
- Holding meetings with management representatives of the ultimate shareholder to verify that; appropriate approvals had been granted for the letter to be signed, the funding requirements of Sutton and East Surrey Water Plc were well understood (both on a base case as well as severe but plausible downside scenarios), that there were no significant conditions associated with the support committed; and, that there were sufficient cash resources available to the shareholder to provide the necessary support.
- Inspection of most recent audited financial accounts of the shareholder to verify that sufficient resources exist such that the necessary commitment could be issued.
- Review of the appropriateness of disclosures presented in the financial statements in connection with the going concern assumption.

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 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 company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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 2024 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

CORPORATE GOVERNANCE STATEMENT

- ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.
- Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:
- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee of the company.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, 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 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 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, 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 and UK Corporation Tax legislation. 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 to increase revenue, 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;
- review of corporate tax calculations and VAT filings for compliance with applicable laws and regulations;
- evaluation of Management's controls to prevent and detect irregularities;
- challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors and accuracy of the measured income accrual, including the disclosure of such matters in the financial statements;
- identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue; and
- incorporating elements of unpredictability into the audit procedures performed.

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee of the company, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 March 2020 to 31 March 2024.

OTHER VOLUNTARY REPORTING

DIRECTORS' REMUNERATION

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Richard French
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants
and Statutory Auditors

London

10 July 2024

PROFIT AND LOSS ACCOUNT
FOR YEAR-ENDED 31 MARCH

	Notes	2024 £'000	2023 £'000
Revenue	5	**72,829**	67,446
Operating costs	6	**(67,271)**	(62,818)
Other operating income	7	**117**	1,097
Net impairment losses on financial and contract assets	16	**(1,325)**	(1,458)
Operating profit		**4,350**	4,267
Finance income	9	**826**	855
Finance costs	9	**(30,491)**	(30,612)
Finance costs – net		**(29,665)**	(29,757)
Loss before income tax		**(25,315)**	(25,490)
Income tax credit	10	**6,072**	5,979
Loss for the financial year		**(19,243)**	(19,511)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR-ENDED 31 MARCH

	Notes	2024 £'000	2023 £'000
Loss for the year		**(19,243)**	(19,511)
Other comprehensive expense			
Items that will not be classified to profit or loss			
Actuarial loss on pension scheme	20	**(1,202)**	(17,248)
Movement on deferred tax relating to pension scheme	19	**301**	4,312
Total comprehensive expense for the year		**(20,144)**	(32,447)

BALANCE SHEET
AS AT 31 MARCH

	Notes	2024 £'000	2023 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**10,625**	9,659
Property, plant and equipment	12	**376,782**	369,840
Right-of-use assets	12	**1,255**	816
Pension asset	20	**6,435**	9,211
		398,184	392,613
Current Assets			
Inventories	14	**432**	377
Trade and other receivables	15	**29,784**	27,758
Contract assets		**6,654**	5,862
Cash and cash equivalents	25	**48,256**	38,957
		85,126	72,954
Total Assets		**483,310**	465,567
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(255,026)**	(272,853)
Lease liabilities	13	**(867)**	(530)
Deferred tax liabilities	19	**(34,826)**	(43,724)
Pension deficit	20	**(1,332)**	(802)
		(292,051)	(317,909)
Current Liabilities			
Borrowings	18	**(65,000)**	(22,000)
Trade and other payables	17	**(42,129)**	(42,710)
Contract liabilities		**(4,562)**	(5,366)
Lease liabilities	13	**(437)**	(307)
		(112,128)	(70,383)
Total Liabilities		**(404,179)**	(388,292)
Net Assets		**79,131**	77,275
EQUITY			
Called up share capital	21	**73,489**	51,489
Profit and loss account		**5,642**	25,786
Total Equity		**79,131**	77,275

The financial statements on pages 123 to 154 were approved by the Board of Directors on 10 July 2024 and signed on its behalf by

Ian Cain
Chief Executive Officer

Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR-ENDED 31 MARCH 2024

	Notes	Called up share capital £'000	Profit and Loss account £'000	**Total Equity £'000**
Balance at 1 April 2022		51,489	66,333	117,822
Loss for the year		–	(19,511)	(19,511)
Actuarial loss on pensions scheme	20	–	(17,248)	(17,248)
Movement on deferred tax relating to pension scheme	19	–	4,312	4,312
Total Comprehensive expense for the year		**–**	**(32,447)**	**(32,447)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(8,100)	(8,100)
Transactions with owners recognised directly in equity		**–**	**(8,100)**	**(8,100)**
Balance at 31 March 2023		**51,489**	**25,786**	**77,275**
Loss for the year		–	(19,243)	(19,243)
Actuarial loss on pensions scheme	20	–	(1,202)	(1,202)
Movement on deferred tax relating to pensions scheme	19	–	301	301
Total Comprehensive expense for the year		**–**	**(20,144)**	**(20,144)**
Transactions with owners in their capacity as owners:				
Issuance of shares	21	22,000	–	22,000
Dividends	22	–	–	–
Transaction with owners recognised directly in equity		**22,000**	**–**	**22,000**
Balance at 31 March 2024		**73,489**	**5,642**	**79,131**

CASHFLOW STATEMENT

Year ended 31 March	Notes	2024 £'000	2023 £'000
Loss for the year		**(19,243)**	(19,511)
Adjustments for:			
Finance income	9	**(826)**	(855)
Finance costs	9	**30,491**	30,612
Net impairment losses on financial and contract assets	16	**1,325**	1,458
Depreciation of property, plant and equipment	12	**13,360**	12,497
Depreciation of right-of-use assets	12	**391**	252
Amortisation of intangible assets	11	**1,151**	899
Gain on disposal of property, plant and equipment		**(117)**	(79)
Section expenses		**446**	365
Increase in inventories		**(55)**	(92)
Increase in trade and other receivables		**(2,855)**	(5,483)
(Decrease)/increase in trade and other payables		**(2,464)**	1,554
Decrease in amounts due to related companies		**(2,894)**	(777)
Income tax credit	10	**(6,072)**	(5,979)
Interest paid		**(11,180)**	(8,174)
Income taxes (paid)/refunded		**(202)**	1,512
Net cash generated by operating activities		**1,256**	8,199
Investing activities			
Purchase of property, plant and equipment		**(20,032)**	(22,499)
Purchase of intangible assets	11	**(2,117)**	(776)
Proceeds from sale of property, plant and equipment		**145**	105
Interest received	9	**454**	172
Net cash used in investing activities		**(21,550)**	(22,998)
Financing activities			
Proceeds of RCF	18	**-**	20,000
(Repayment)/proceeds of Shareholders loan	18	**(7,000)**	7,000
Proceeds of other borrowings	18	**40,000**	-
Repayment of RCF	18	**(10,000)**	(4,000)
Principal elements of lease payments	13	**(407)**	(246)
Proceeds from issuance of shares	21	**22,000**	-
Dividends paid	22	**-**	(8,100)
Net cash generated from financing activities		**44,593**	14,654
Net increase/(decrease) in cash and cash equivalents		**24,299**	(145)
Net cash and cash equivalents at the beginning of the year		**23,957**	24,102
Net cash and cash equivalents at the end of the year net of bank overdraft	25	**48,256**	23,957

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its licence and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ, United Kingdom. The Company is limited by shares

According to the licence conditions under which the Company operates as a water-only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

Following a year-long strategic review, on the 10th of January 2024, Pennon Group Plc acquired East Surrey Holdings and subsidiaries, including the Company. This was subsequently approved by the CMA on 14 June 2024.

2 MATERIAL ACCOUNTING POLICY INFORMATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with The Companies Act 2006 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS)
  - 38B-D (additional comparative information)
  - 40A (requirements for a third balance sheet)
  - 111 (statement of cashflows information), and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements)
  - 113(a) (separate sources of revenue)
  - 115 (disaggregated of revenue)
  - 118 (explanation of changes in contract assets and liabilities)
  - 120 to 121 (transaction price allocated to the remaining performance obligations)
  - 129 (practical expedients).

2.1.1 GOING CONCERN

The Company's activities, together with the factors that are likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 71.

The financial position of the Company is set out in the Financial Review. Note 2.26 of the financial statements on pages 137 and 138 sets out the Company's position in relation to risks associated with financial instruments, credit and interest rates, and describes the Company'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 Company and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For these purposes, the foreseeable future is taken to mean a period of at least 12 months from the date of approval of this Annual Report.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

In making this assessment, the directors have noted that no repayments of the Company's long-dated bond or private placement notes are due within the next 12 months and on 12 June 2024 the Company successfully refinanced its two revolving credit facilities (RCFs) (resulting in a single £65.0m RCF with an expiry date of December 2025). In addition, the directors have noted that subsequent to the re-financing and consistent with the recently submitted PR24 Business Plan, equity support will be required in the next 12 months to ensure the Company meets its liabilities as they fall due and operates within the gearing limits set out in our long-dated bond and private placement notes.

The directors' conclusions on the going concern basis therefore reflect the recent CMA approval of the Pennon Group plc's acquisition of the Company and the commitment from Pennon Group plc (the ultimate shareholders of the Company) in the form of a letter of financial support for the next 18 months to December 2025.

The directors have assessed and are satisfied with the Pennon Group plc's ability and intent to fulfil the requirement of the support letter.

The directors have also considered plausible downside scenarios having regard to operational matters, the ongoing high inflationary environment, the Company's forecast liquidity and the long-term bond covenants. If required the Company has a number of mitigating actions to deal with liquidity issues, including further future RCF and debt financing, re-scoping and deferral of capital projects, and the written commitments from Pennon Group plc through the aforementioned letter of support to address the downside scenarios.

SES Water (the 'Appointee') is the only entity within the regulatory ring-fence required by Appointee's licence. The directors have considered the financing of other entities outside of the regulatory ring-fence and within the wider SES Group Holdings, and are not aware of any entity's external debt that would result in an issue with respect to SES Water's going concern status. In accordance with SES Water's licence none of the debt outside the ring-fence is guaranteed by SES Water and there is no cross-default in SES Water's debt to the debt outside the ring-fence.

2.1.2 NEW STANDARDS, AMENDMENTS, IFRIC INTERPRETATIONS AND NEW RELEVANT DISCLOSURE REQUIREMENTS

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year-ended 31 March 2024 that have a material impact on the Company's financial statements.

The Company has evaluated the impact of the new guidance on the financial statements and does not expect these to have a material impact.

2.2 CONSOLIDATION

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly owned subsidiary of SESW Holding Company Limited, wholly owned by East Surrey Holdings Limited, and of its ultimate parent, Pennon Group plc. It will be included in the consolidated financial statements of East Surrey Holdings Limited which will be publicly available from their registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It has been included in the consolidated financial statements of Pennon Group plc which will be publicly available from their registered office, Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.

2.3 FOREIGN CURRENCY TRANSLATION

2.3.1 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in pounds sterling (£), which is also the Company's functional currency.

2.3.2 TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant & equipment:

- **Land**
- **Collections reservoir**

This is the Company's primary reservoir for collecting fresh water.

- **Buildings, including service reservoirs and boreholes**

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

- **Mains network**

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe or then it is categorised as repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

The relining of a main is the work needed to keep a main in good condition and is maintenance so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

- **Plant and machinery (heavy)**

Heavy plant and machinery consist of heavy plant used in the course of construction such as excavators, as well as water treatment equipment and water pumps.

- **Motor vehicles**

This balance includes those motor vehicles such as cars and vans.

- **Sundry plant**

Sundry plant consists of small tools used in construction as well as the company's IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost.

Borrowing costs that have been capitalised as property, plant and equipment are included within 'Purchase of property, plant and equipment' within investing activities in the statement of cashflows. All other borrowing costs are included as finance expenses within the profit and loss account. During the year £207,000 interest was capitalised by the Company at an interest rate of 6.1%.

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in 'IAS23 – Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

- The duration of the project must be for greater than six months. Any asset taking less than six months to contract would not qualify as taking a significant amount of time
- The project must be greater than £50k of a £20m capital programme per year. For the asset to be significant enough to be considered a qualifying asset it must cost at least £50k. Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were general funding not available
- Ongoing programmes in the ordinary course of business are excluded (i.e., metering and directly managed spend such as network maintenance activity)
- Developer Services capital expenditure is excluded as this is separately funded. This expenditure is funded externally by customers so it would not require external borrowing and therefore does not qualify
- Capitalisation of borrowing costs must cease when the project is deemed to have reached 'beneficial use' stage and a corresponding asset has been created. Total costs cease to have interest incurred capitalised when the project is in beneficial use or for any periods where a break from construction occurs.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
• Land	n/a
• Collections reservoirs	140-150
• Buildings including boreholes and service reservoirs	5-100
• Mains network	15-100
• Plant and machinery (heavy)	3-100
• Motor vehicles	2-6
• Sundry plant	2-26

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

2.5 INTANGIBLE ASSETS AND GOODWILL

2.5.1 SOFTWARE COSTS

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between one and 15 years.

2.5.2 INTERNALLY GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 GOODWILL

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the cash-generating unit (CGU) that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 IMPAIRMENT OF GOODWILL

The Company as a whole is defined as the CGU as assets are not able to independently generate cashflows.

The recoverable amount of the CGU is deemed to be the higher of fair value less disposal cost (FVLDC) and value in use. The best evidence for FVLDC would be an arm's length transaction, less a disposal cost.

As SES Water Group was acquired by the Pennon Group Plc on the 10th of January 2024, (through the acquisition of SES Water Plc's parent company), the acquisition cost is considered the FVLDC.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

A value in use assessment has not been required as there is no indication of impairment.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 FINANCIAL LIABILITIES

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 FINANCIAL ASSETS

Financial assets can be classified as all being held at:

- amortised cost
- fair value through profit or loss (FVTPL), and
- fair value through other comprehensive income (FVTOCI).

The classification depends on the purpose for which the financial assets were acquired, i.e., the entity's business model for managing the financial assets and/or the contractual cashflow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 FINANCIAL ASSETS AT AMORTISED COST

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms of the financial asset give rise to cashflows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'Net impairment losses on financial and contract assets'.

2.9 IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

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.

2.10 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The costs are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Management recognises a provision for obsolete stock as follows:

- between one and two years – 50%
- two years and older – 100%.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cashflows and therefore recognises them initially as current assets at fair value, unless that cashflow 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 (standard payment terms are 30 days, so this is not applicable in the ordinary course of business). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers, but not yet invoiced, have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £6.7m (2023: £5.9m) as a result of unbilled measured household income.

2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short-term highly liquid investments with maturities of less than three months, and bank overdrafts.

Included in the cash and cash equivalents is a restricted cash balance (note 25) owned by the Company relating to the secured index-linked bond.

2.13 PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cashflow 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 liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

During the year-ended 31 March 2024, the Company agreed an amendment to the terms of £100m collateral bond deed by removal of adjusted interest cover ratio to align with rest of industry. This resulted in an amendment fee of £0.75m which will be paid over the next ten years but taken to the profit and loss account in the current year.

2.15 BORROWING COSTS

General and specific 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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 TAXATION

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 POST EMPLOYMENT BENEFITS

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

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

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company 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.

2.18 PROVISIONS

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

- the Company 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, and
- the amount has been reliably estimated.

No such provision was required for FY24 or FY23. Provisions are not recognised for future operating losses.

2 MATERIAL ACCOUNTING POLICY INFORMATION 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.

2.19 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company'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, and
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 Company 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 3.5).

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 Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed six monthly in arrears (see note 3.1).

The Company has applied this framework to its revenue streams as follows:

2.19.1 WATER REVENUE (APPOINTED INCOME) – HOUSEHOLD AND WHOLESALE REVENUE

The Company 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 Company's customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers' consumption of water.

The transaction price is the amount of consideration that the Company 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 Company 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 Company'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 Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.1).

Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 EMPTY PROPERTIES – HOUSEHOLD REVENUE

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

2.19.3 DEVELOPER SERVICES (APPOINTED INCOME) – OTHER WATER REVENUE

The Company 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 Company's website and described below:

2.19.3.1 NETWORK EXTENSIONS

Network extensions relate to the Company 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'.

2.19.3.2 SERVICE CONNECTIONS

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see note 2.24) for the Company when payment of the quote is received.

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

2.19.3.3 DIVERSIONS

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

2.19.3.4 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 Company considers its performance obligation to be delivered by the connection to the network. While 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 Company 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 Company 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.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.19.4 COMMISSION INCOME – NON-APPOINTED INCOME

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

2.19.5 GARAGE REVENUE – NON-APPOINTED INCOME

The Company receives a revenue for the servicing, repair, and provision of MOT facilities to third parties by the Company'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.

2.20 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.

2.21 LEASES

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of five years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets 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. Low-value assets comprise IT equipment and small items of office furniture.

2.22 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 ROUNDING OF AMOUNTS

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

2.24 CONTRACT LIABILITIES

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company 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 £4.6m (2023: £5.4m) mainly due to a drop in monies received for the annual bill being less this year than in the prior year.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £5.4m as all the money received in advance at 31 March 2024 has been billed in the current financial year.

2.25 INSURANCE RECEIPTS

The Company recognises income from insurance policies 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 cashflow 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 cashflow management consider the nature of the transaction:

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

2.26 MANAGING RISK

2.26.1 CREDIT RISK

Management has a credit risk 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 the Company. Given their credit rating, management does not expect any counterparty to fail to meet its obligations.

2.26.2 INTEREST RISK

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.

The £100.0m 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 and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cashflow impact on the Company.

The bond was issued on 21 March 2001, carrying an AAA rating, and is secured upon the shares of Sutton and East Surrey Water Plc. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.

Unamortised issue costs of £3.1m (2023: £3.7m) are netted against the carrying value of the bond and included within the effective interest charge.

The debentures are at fixed rates of interest.

The Company also has access to borrowings in the form of a current account overdraft and during the year had access to two RCFs. Overdraft interest rates are at a variable rate above base rate, and RCF interest is at a margin above SONIA.

2 MATERIAL ACCOUNTING POLICY INFORMATION CONTINUED

2.26.3 SENSITIVITY ANALYSIS

A change of 100 basis points in interest rates of the bond 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 has been applied to risk exposures at that date.

The 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 the prior year.

As at year-ended 31 March	2024 £'000	2023 £'000
Equity		
Increase	**(749)**	(681)
Decrease	**749**	681
Profit before tax		
Increase	**(749)**	(681)
Decrease	**749**	681

2.26.4 LIQUIDITY RISK

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below:

As at year-ended 31 March	2024 £'000	2023 £'000
Maturities		
Between one and two years	**190,103**	113,060
More than five years	**129,923**	159,793
	320,026	272,853

The facilities available at the balance sheet date are unsecured. Current unutilised facilities available to the Company are set out below:

As at year-ended 31 March	2024 £'000	2023 £'000
Expiring		
In less than one year	**11,000**	–
Between one and two years	**–**	–
More than five years	**–**	1,000
Total	**11,000**	1,000

2.27 THE IMPACT OF CLIMATE CHANGE

The water industry plays a key role on the impact of climate change and management of climate-related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the goodwill impairment process.
The financial reporting impact from the physical and transitional risks of climate change can be seen on pages 48 and 51.

Management has also performed a review any other impacts of climate change on the financial reporting including review of UEL for climate risks and noted no material impact.

3 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required in the preparation of these financial statements are:

3.1 ESTIMATE – UNBILLED MEASURED INCOME ACCRUAL (CONTRACT ASSET)

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 Company uses a defined methodology based upon estimating the amount of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. The unbilled measured income accrual was £9.5m (2023: £8.4m)

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £380k (2023: £430k).

3.2 JUDGEMENT – DEFINED BENEFIT PENSION SCHEME

The Company 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 20. The carrying value of the pension asset is £6.4m (2023: £9.2m) and the liability is £1.3m (2023: £0.8m).

3.3 ESTIMATE – PROVISION FOR DOUBTFUL DEBT

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write-off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for. A management judgment is applied to the provision where appropriate. The provision of doubtful debt carrying value is £7.5m (2023: £9.3m).

3.4 JUDGEMENT – CAPITALISATION OF EXPENDITURE AS FIXED ASSETS

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 increases the capacity of the network, providing the asset meets the criteria to be capitalised. This includes an element of employee costs where the individuals contribute to the overall capital programme but not specifically on an individual project. An estimation of time spent on capex-related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

3.5 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 three years. This resulted in derecognising £1.0m of revenue in FY24, 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 £0.3m and £0.3m respectively.

4 SEGMENTAL INFORMATION

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision-Maker ('CODM') of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey, West Sussex, West Kent and South London). Management considers the UK to be the geographical location of business.

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale customers)

During the year-ended 31 March 2024, tariffs for household and non-household customers increased year on year and non-household volumes continued its steady recovery to pre-pandemic levels. The increased tariffs impacted both measured household and non-household revenues compared to the prior year.

Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue.

5 REVENUE

Year-ended 31 March	2024 £'000	2023 £'000
Unmeasured water revenue (household)	**20,657**	20,850
Measured water revenue (household)	**35,527**	31,476
Total household revenue	**56,184**	52,326
Wholesale revenue from retailers (non-household)	**11,188**	9,662
Other water revenue	**560**	778
Non-water revenue	**2,646**	2,303
Non-appointed income	**2,251**	2,377
Total revenue	**72,829**	67,446

6 OPERATING COSTS

Operating profit is stated after charging:

Year-ended 31 March	Notes	2024 £'000	2023 £'000
Wages and Salaries		**11,804**	11,835
Social Security Costs		**1,644**	1,781
Other Pension Costs	20	**2,300**	2,006
Staff Costs		**15,748**	15,622
Power		**8,264**	6,821
Raw materials and consumables		**4,848**	4,030
Rates		**3,275**	3,468
Subcontractors		**6,976**	6,875
Insurance		**1,066**	1,064
Other operating costs		**9,092**	8,388
Depreciation charge on property, plant and equipment	12	**13,360**	12,497
Depreciation of right-of-use assets	12	**391**	252
Amortisation charge on intangible assets	11	**1,151**	899
Legal and professional fees (excluding auditors' fees)		**2,643**	2,363
Fees payable to the Company auditor for the audit of annual financial statements		**341**	434
Fees payable to the Company's auditor and associates for other services:			
• Audit of regulatory financial statements		**58**	55
• Audit-related assurance services		**58**	50
Operating Costs		**67,271**	62,818

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £3,441,867 (2023: £3,629,472) were capitalised to fixed assets.

Net Operating Costs can be analysed as:

	2024 £'000	2023 £'000
Cost of sales	**48,878**	45,709
Administration expenses	**18,393**	17,109
	67,271	62,818

7 OTHER OPERATING INCOME

Year-ended 31 March	2024 £'000	2023 £'000
Other operating income	-	1,018
Profit on sale of fixed assets	117	79
Other operating income	**117**	1,097

8 EMPLOYEES AND DIRECTORS

The average number of employees in the year was:

Year-ended 31 March	2024 number	2023 number
Operations	181	177
Retail	83	79
Support	85	89
Other	1	1
Total	**350**	346

DIRECTORS' EMOLUMENTS

Directors' emoluments for the year were as follows:

Year-ended 31 March	2024 £'000	2023 £'000
Aggregate emoluments	1,459	1,092
Aggregate amounts receivable under long-term incentive schemes	216	200

The above emoluments amount includes pension related costs of £50,000 (2023: £46,000).

HIGHEST PAID DIRECTOR

The highest paid director's emoluments were as follows:

Year-ended 31 March	2024 £'000	2023 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	700*	544

* Included in the emoluments amount was a payment from the shareholder of £120k for services on the sale of East Surrey Holdings group. These were funded directly by the shareholder and not paid for out of the Company.

The above total emoluments amounts includes pension related costs of £24,000 (2023: £22,000).

9 FINANCE COST – NET

Year-ended 31 March	2024 £'000	2023 £'000
Finance income		
Expected return on pension scheme assets	**3,634**	3,124
Interest paid on post-retirement liabilities	**(3,262)**	(2,441)
Other interest receivable	**454**	172
Total finance income	**826**	855
Finance expense		
Interest on index-linked bond	**6,225**	5,547
Indexation of bond	**18,180**	22,111
Bond fee amortisation	**1,218**	569
Other interest expenses	**4,868**	2,385
Total finance expenses	**30,491**	30,612
Net finance cost	**29,665**	29,757

During the year the Company incurred £30.5m of finance costs (2023: £30.6m) mainly relating to accretion of the index-linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £3.9m decrease in indexation costs due to a drop in the current year of the Retail Price Index (RPI) rate. In July 2022, the annual inflation change was 12.3%, in July 2023 it decreased to 9.0%. Inflation slowed down by 3.3 percentage points and the indexation charge decreased by 17.8%. There is an 8 month lag between publication of the RPI in July and the Company March year end.

Bond fee amortisation increased due to an amendment to the terms of £100m collateral bond deed by removal of adjusted interest cover ratio. This resulted in a fee of £0.75m to be paid over the next ten years, however was included in the profit and loss statement at its present value.

10 INCOME TAX CREDIT

Year-ended 31 March	Notes	2024 £'000	2023 £'000
Tax (credit)/charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**(157)**	–
Adjustments in respect of prior periods		**537**	528
Total current tax		**380**	528
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**11**	69
Origination and reversal of temporary differences – other		**(2,943)**	(2,207)
Tax losses		**(3,192)**	(2,664)
Impact of change in tax rate		**–**	(1,495)
Adjustments in respect of prior periods		**(328)**	(210)
Total deferred tax		**(6,452)**	(6,507)
Income tax credit		**(6,072)**	(5,979)
Tax credit included in other comprehensive expense:			
Deferred tax:			
Movement in relation to pension scheme	19	**301**	4,312
Total tax credit included in other comprehensive expense		**301**	4,312

10 INCOME TAX CREDIT CONTINUED

Tax credit for the year is lower (2023: higher) than the standard rate of corporation tax in the UK for the year-ended 31 March 2024 of 25% (2023: 19%). The differences are explained below:

	2024 £'000	2023 £'000
Loss before taxation	**(25,315)**	(25,489)
Loss before taxation multiplied by the standard rate of tax in the UK of 25% (2023: 19%)	**(6,329)**	(4,843)
Effects of:		
Expenses not deductible for tax purposes	**48**	41
Remeasurement of deferred tax – change in UK tax rate	**-**	(1,495)
Adjustments in respect of prior periods	**209**	318
Tax credit	**(6,072)**	(5,979)

The standard rate of UK corporation tax for the year-ended 31 March 2024 is 25%.

FACTORS AFFECTING FUTURE TAX CHARGES

The Chancellor announced in the November 2023 Autumn Statement that full expensing on qualifying plant & machinery has been made permanent. This applied to plant and machinery (with an expected life of less than 25 years). The 50% first year allowance on long life plant and machinery has also been made permanent.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Group operates. The legislation will be effective for the Group's financial year beginning 1 April 2024. The Group has performed an assessment of the Group's potential exposure to Pillar two income taxes.

This assessment is based on the most recent financial information available regarding the financial performance of the constituent entities in the Group. Based on the assessment performed, the Pillar Two effective tax rates in the only jurisdiction in which the Group operates, i.e. the UK, is above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Group does not expect a potential exposure to Pillar Two top-up taxes.

11 INTANGIBLE ASSETS

	Goodwill £'000	Software £'000	Work in Progress £'000	**Total Software and Work in Progress £'000**
Cost:				
At 1 April 2023	19,454	13,854	366	**14,220**
Additions	–	–	2,117	**2,117**
Transfer	–	1,051	(1,051)	**-**
As at 31 March 2024	**19,454**	**14,905**	**1,432**	**16,337**
Accumulated amortisation and impairment				
At 1 April 2023	16,367	4,561	–	**4,561**
Amortisation	–	1,151	–	**1,151**
As at 31 March 2024	**16,367**	**5,712**	**-**	**5,712**
Net book Value 31 March 2024	**3,087**	**9,193**	**1,432**	**10,625**
Net book Value 31 March 2023	3,087	9,293	366	**9,659**

The software included in the Company'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 £368k (2023: £441k) and has a remaining amortisation period of five years (2023: six years) on a straight-line basis. Aptumo, the new billing system, went live in October 2021 and is used for all customer service operations and billing management. The asset is carried at £6.3m (2023: £6.9m) and has a remaining amortisation period of 13 years (2023: 14 years) on a straight-line basis.

12 PROPERTY PLANT AND EQUIPMENT & RIGHT-OF-USE ASSETS

	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes & service reservoirs) £'000	Mains network £'000	Plant and machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	**Total £'000**	Right-of-use assets £'000	**Total £'000**
Cost:											
At 1 April 2023	5,097	2,533	137,154	278,070	174,984	3,315	7,506	8,229	**616,888**	1,294	**1,294**
Additions	–	–	–	–	–	–	–	20,330	**20,330**	830	**830**
Transfer	7	–	186	11,207	11,570	31	510	(23,511)	**-**	–	**-**
Disposals	–	–	–	–	–	(370)	–	–	**(370)**	–	**-**
As at 31 March 2024	5,104	2,533	137,340	289,277	186,554	2,976	8,016	5,048	**636,848**	2,124	**2,124**
Accumulated depreciation and impairment											
At 1 April 2023	–	484	44,932	100,021	93,019	2,872	5,720	–	**247,048**	478	**478**
Depreciation charge	–	20	2,675	2,251	7,787	173	454	–	**13,360**	391	**391**
Disposals	–	–	–	–	–	(342)	–	–	**(342)**	–	**-**
As at 31 March 2024	–	504	47,607	102,272	100,806	2,703	6,174	–	**260,066**	869	**869**
Net book Value 31 March 2024	5,104	2,029	89,733	187,005	85,748	273	1,842	5,048	**376,782**	1,255	**1,255**
Net book Value 31 March 2023	5,097	2,049	92,222	178,049	81,965	443	1,786	8,229	**369,840**	816	**816**

Land comprises freehold land at £5,063k (2023: £5,056k) and long-leasehold land at £41k (£2023: £41k).

Included in assets under construction is £0.5m of capitalised costs relating to works completed on the PR24 price review in financial year ending March 23. These costs were incurred to March 23 but identified for capitalisation in year ending March 24 when the project completed its first milestone of submission to Ofwat.

13 LEASE LIABILITIES

The Company has lease contracts for Company vehicles the balances of which are included under 'right-of-use assets' in note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

As at 31 March	**2024 £'000**	2023 £'000
Right-of-use assets		
Vehicles	**1,255**	816
Total	**1,255**	816
Lease liabilities		
Current	**437**	307
Non-current	**867**	530
Total	**1,304**	837

Additions to the right-of-use assets during the financial year were £830k (2023: £445k).

13 LEASE LIABILITIES CONTINUED

The profit and loss account shows the following amounts relating to leases:

Year-ended 31 March	2024 £'000	2023 £'000
Depreciation charge of right-of-use assets:		
Vehicles	**391**	252
Interest expense (included in finance cost):		
Vehicles	**44**	28
Total	**435**	280

OTHER LEASE INFORMATION

Year-ended 31 March	2024 £'000	2023 £'000
The principal repayment for leases	**407**	246

14 INVENTORIES

As at 31 March	2024 £'000	2023 £'000
Raw materials and consumables	**432**	377
Total	**432**	377

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

15 TRADE AND OTHER RECEIVABLES

As at 31 March	Note	2024 £'000	2023 £'000
Current:			
Gross trade receivables		**30,663**	31,400
Expected credit loss	16	**(7,512)**	(9,313)
Net trade receivables		**23,151**	22,087
Amounts due from Group undertakings		**3,130**	1,235
Other receivables		**1,774**	2,844
Group relief receivable		**157**	–
Prepayments		**1,566**	1,560
Other taxes and social security		**6**	32
		29,784	27,758

16 EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors' general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% (adjusted by a management judgment) against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2024 £'000	2023 £'000
At 1 April	**9,313**	7,855
Charge for bad and doubtful debts – charged against operating costs	**1,325**	1,458
Receivables written off during the year as uncollectible	**(3,126)**	–
At 31 March	**7,512**	9,313

Ageing debt profile and credit loss provisions:

31 March 2024	< 6 mos £'000	6 mos-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	**Total £'000**
Expected credit loss – Household Metered	16.4%	38.1%	59.4%	76.7%	100.0%	
Outstanding customer debt*	4,223	1,369	1,887	821	1,098	**9,398**
Provision at expected credit loss	(694)	(522)	(1,120)	(629)	(1,098)	**(4,063)**
Specific provisions against contract assets	(203)	–	–	–	–	**(203)**
Loss allowance	(897)	(522)	(1,120)	(629)	(1,098)	**(4,266)**
Net outstanding customer debt	3,326	847	767	192	–	**5,132**
Expected credit loss – Household Non-Metered	3.1%	3.1%	70.1%	80.6%	100.0%	
Outstanding customer debt*	720	1,644	1,371	872	1,305	**5,912**
Provision at expected credit loss	(22)	(50)	(960)	(703)	(1,305)	**(3,040)**
Specific provisions against contract assets	–	–	–	–	–	**-**
Loss allowance	(22)	(50)	(960)	(703)	(1,305)	**(3,040)**
Net outstanding customer debt	698	1,594	411	169	–	**2,872**
Expected credit loss – Other Receivables	1.5%	9.8%	42.2%	49.7%	100.0%	
Carrying amount of trade receivable*	1,250	69	6	17	168	**1,510**
Provision at expected credit loss	(18)	(7)	(3)	(10)	(168)	**(206)**
Loss allowance	(18)	(7)	(3)	(10)	(168)	**(206)**
Net outstanding customer debt	1,232	62	3	7	–	**1,304**
Total loss allowance	(937)	(579)	(2,083)	(1,342)	(2,571)	**(7,512)**
Net trade receivable	5,256	2,503	1,181	368	–	**9,308**

* Gross credits received on account recorded in contract liabilities.

The £30.7m trade receivable amount in Note 15 is different to the amounts total trade receivables in this note as the amount in Note 15 includes waste water customers who the Company bills on behalf of.

17 TRADE AND OTHER PAYABLES

As at 31 March	**2024 £'000**	2023 £'000
Trade payables	**3,213**	4,514
Amounts owed to Group undertakings	**-**	999
Other creditors	**25,915**	24,757
Deposits from developers	**341**	373
Accruals	**12,660**	11,641
Group relief payable	**-**	426
Total Current Liabilities	**42,129**	42,710

18 BORROWINGS

As at 31 March	2024 £'000	2023 £'000
Current:		
Short-term bank and other loans	**65,000**	22,000
Total Current borrowings	**65,000**	22,000
Non-Current:		
2.874% secured index-linked bond 2027	**-**	38,060
2.874% secured index-linked bond 2027-2028	**86,547**	–
2.874% secured index-linked bond 2028-2031	**-**	159,691
2.874% secured index-linked bond 2029-2031	**129,821**	–
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long term bank and other loans	**38,556**	75,000
Total Non-Current borrowings	**255,026**	272,853

Amounts falling due within 5 years	2024 £'000	2023 £'000
Bank loans and borrowings	**86,547**	38,060
Short-term bank and other loans £25m SONIA +0.95% due in March 2025 and £40m SONIA +0.95% + CAS 0.0252% due in July 2024	**65,000**	–
Short term overdraft and shareholder loan	**-**	22,000
Long-term bank and other loans	**38,556**	75,000
	190,103	135,060

Amounts falling due after more than 5 years	2024 £'000	2023 £'000
Bank loans and borrowings	**129,923**	159,793
	129,923	159,793

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

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. 20% and 80% of the bond will be matured in 2027 and 2028-2031, respectively.

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

The bond and debentures are at fixed rates of interest. Borrowings made under the RCFs and the short-term bank loan are at a variable rate with a margin above SONIA and the Bank of England base rate and the short-term bank loan was at a fixed rate above Bank of England base rate. The shareholder's loan was at a fixed rate of 6% per annum.

The £100m bond agreement specified that the issuer shall ensure that sufficient cash is available to meet the indexed RPI-linked increases in the bond. During the current year, the Company received £22m equity injection from the shareholder and raised a private placement debt of £10m and £30m with an institutional investor in November 2023 and March 2024. The Company then repaid the short-term bank loan of £15m from the National Westminster Bank in May 2023, shareholder's loan of £3m and £4m to its ultimate parent company, Sutton and East Surrey Group Holdings Limited (formerly known as Sumisho Osaka Gas Water UK Limited), in May 2023 and July 2023, and £10m RCF loan to the Royal Bank of Scotland in March 2024.

As at 31 March 2024, £40m and £25m were drawn down under the £50m and £25m RCFs (2023: the £50m and £25m RCFs, and the £15m short-term bank loan facility were fully drawn down) by the Company.

Both the £40m and £25m RCFs mature in July 2024 and March 2025 respectively. On 12 June 2024, the Company replaced its two existing RCF facilities with a new 18-month RCF facility of £65m with NatWest. The new facility is at 1.35% above SONIA rate per annum and will expire in December 2025.

The £40m private placement with Phoenix was executed on 28 November 2023, drawing down the first £10m in November 2023 and a final drawdown of £30.0m in March 2024 at 5.74% and 5.70% respectively.

18 BORROWINGS CONTINUED

On the calculation date of 31 March 2024 the covenants of the index linked bond – interest cover ratio (greater than 1.3x) and gearing (less than 80%) were both met. Net debt included cash in transit over the year end period for customers paying by direct debit.

LOAN COVENANTS

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

1. As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date of the 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an Interest Cover Ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement, the issuer shall submit a Business Plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulated Asset Ratio of less than or equal to 0.80.

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

FAIR VALUES

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

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

DETERMINING THE FAIR VALUE OF FINANCIAL LIABILITIES

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

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

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

	2024				2023			
	Carrying amount £'000	**Fair value £'000**	**Level 1 £'000**	**Level 3 £'000**	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 3 £'000
2.874% secured index-linked bond 2027-2031	**216,368**	**229,838**	**229,838**	**–**	197,751	227,661	227,661	–
Private placement debt of £10m	**9,639**	**10,273**	**–**	**10,273**	–	–	–	–
Private placement debt of £30m	**28,917**	**30,543**	**–**	**30,543**	–	–	–	–

CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

	3.25% Irre-deemable debentures £'000	5% Irre-deemable debentures £'000	2.874% secured index-linked bond £'000	Private placement loans £'000	Bank loans £'000	Share-holder's loan £'000	Short-term overdraft £'000	Total £'000	Cash/ Non-cash
Balance at 1 April 2023	50	52	197,751	–	75,000	7,000	15,000	294,853	
Changes from financing activities									
Indexation	–	–	18,179	–	–	–	–	18,179	Non-cash
Amortisation of bond cost	–	–	438	24	–	–	–	462	Non-cash
Drawdown of borrowings	–	–	–	40,000	–	–	–	40,000	Cash
Repayment of borrowings	–	–	–	–	(10,000)	(7,000)	(15,000)	(32,000)	Cash
Private placement cost	–	–	–	(1,468)	–	–	–	(1,468)	Non-cash
Balance at 31 March 2024	**50**	**52**	**216,368**	**38,556**	**65,000**	**–**	**–**	**320,026**	

19 DEFERRED TAX LIABILITIES

	2024 £'000	2023 £'000
At 1 April	**43,724**	54,543
Adjustment in respect of prior years	**(328)**	(210)
Deferred tax credit to profit and loss for the period	**(6,124)**	(6,297)
Pension asset related tax	**(2,145)**	–
Credit to the statement of other comprehensive income	**(301)**	(4,312)
At 31 March	**34,826**	43,724

DEFERRED TAX

As at 31 March	2024 £'000	2023 £'000
Non-current deferred tax assets	**-**	–
Non-current deferred tax liabilities	**34,826**	43,724
Carrying amount at year end	**34,826**	43,724
Total carrying amount at year end	**34,826**	43,724

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other/Tax losses £'000	**Total £'000**
At 1 April 2022	48,403	6,322	(182)	**54,543**
(Credited)/charged to the profit and loss	(3,115)	91	(3,483)	**(6,507)**
Credited directly to other comprehensive expense	–	(4,312)	–	**(4,312)**
At 31 March 2023	45,288	2,101	(3,665)	**43,724**
Credited to the profit and loss	(3,129)	11	(3,334)	**(6,452)**
Pension asset related tax	–	(2,145)	–	**(2,145)**
Credited directly to other comprehensive expense	–	(301)	–	**(301)**
At 31 March 2024	42,159	(334)	(6,999)	**34,826**

SES Water plc has an unrecognised deferred tax asset of £553k (2023: £553k) in respect of non trade deficit debits available for relief in later years.

During the year the Company changed disclosure of tax related to the defined benefit pension asset. This was done to align with the expected tax impact on the pension asset when the pension assets are realised. The change resulted in pension asset related tax moved from the deferred tax balance to presented as a reduction to the defined benefit pension asset.

20 POST-EMPLOYMENT BENEFITS

The Company participates in both a defined contribution scheme, 'Group Personal Pension Plan' (GPPP), which is available for all employees and a defined benefit scheme, 'the Water Companies Pension Scheme' (WCPS), for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 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.

20 POST-EMPLOYMENT BENEFITS 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)

We have continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

SECTION BUY-IN

With effect from 31 March 2023 the trustees of the scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities.

The impact of the transaction (a loss of £10m – the difference between the premium paid and the value of the corresponding liabilities under IAS19) has been recognised outside of profit and loss (in other comprehensive income) reflecting that the purchase of the buy-in policy was an investment decision, no liabilities have been settled and there is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term.

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

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

As at 31 March	**2024**	2023
Retail price inflation	**3.15%**	3.60%
Consumer price inflation	**2.55%**	3.10%
Discount rate	**4.80%**	2.70%
Life expectancy of male aged 60 in 2024/2023	**26.1**	26.4
Life expectancy of a male aged 60 in 2047	**28.0**	28.3
Weighted average duration	**11.0**	12.0

20 POST-EMPLOYMENT BENEFITS CONTINUED

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES:

	Assets £'000	Liabilities £'000	Carrying amount £'000
At 1 April 2023	78,461	(69,250)	9,211
Interest on benefit obligations	–	(3,195)	(3,195)
Actuarial gains/(losses) due to:			
• changes in financial assumptions	–	3,970	3,970
• changes in demographic assumptions	–	786	786
• experience adjustments on obligation	–	(390)	(390)
Benefits paid	(4,381)	4,381	–
Interest on Section assets	3,634	–	3,634
Actual return on scheme assets less interest	(4,990)	–	(4,990)
Expenses	(446)	–	(446)
Pension asset related tax	(2,145)	–	(2,145)
At 31 March 2024	70,133	(63,698)	6,435

The main reasons for the decrease in the balance sheet asset over the year were the expenses of running the Section and an increase in the assumed cost of GMP equalisation, although the worsening was partially offset by interest on the surplus over the period.

The balance sheet is expected to stay relatively stable going forward, due to the buy-in policy that was purchased with JUST to insure Section benefits in full on 31 March 2023.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

As at 31 March	**2024 £'000**	2023 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	**600**	700
Change in inflation rate (-0.1%)	**(600)**	(700)
Change in discount rate (-0.1%)	**(700)**	(800)
Change in discount rate (-0.1%)	**700**	800
Change in life expectancy (+1 year)	**2,500**	3,000
Change in life expectancy (-1 year)	**(2,500)**	(3,000)

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.

TOTAL (EXPENSE)/CREDIT RECOGNISED IN THE PROFIT AND LOSS

Year-ended 31 March	**2024 £'000 WCPS**	**2024 £'000 Unfunded**	**2024 £'000 Total**	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Employer's part of current service cost						
Section expenses	**(446)**	**–**	**(446)**	(365)	–	(365)
Past service cost	**–**	**–**	**–**	–	–	–
Net interest credit/(charge)	**439**	**(67)**	**372**	709	(26)	683
Net (expense)/credit recognised in profit and loss account for pensions schemes	**(7)**	**(67)**	**(74)**	344	(26)	318

20 POST-EMPLOYMENT BENEFITS CONTINUED

TOTAL (LOSS)/GAINS RECOGNISED IN THE OTHER COMPREHENSIVE EXPENSE

Year-ended 31 March	2024 £'000 WCPS	2024 £'000 Unfunded	2024 £'000 Total	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Net actuarial (losses)/gains in the year due to:						
Changes in financial assumptions	**3,970**	**51**	**4,021**	24,352	222	24,574
Changes in demographic assumptions	**786**	**18**	**804**	244	1	245
Experience adjustments on benefit obligations	**(390)**	**9**	**(381)**	(4,418)	(73)	(4,491)
Actual (loss)/gain on Section assets relative to interest on Section assets	**(4,990)**	**-**	**(4,990)**	(37,576)	–	(37,576)
Adjustments to the unfunded pension valuation	**-**	**(656)**	**(656)**			
(Loss)/gain to recognise outside profit and loss in other comprehensive expense	**(624)**	**(578)**	**(1,202)**	(17,398)	150	(17,248)

CHANGES IN NET ASSETS RECOGNISED IN THE BALANCE SHEET

	2024 £'000 WCPS	2024 £'000 Unfunded	2024 £'000 Total	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total
Balance sheet asset/(liability) as at beginning	**9,211**	**(802)**	**8,409**	26,265	(972)	25,293
(Charge)/credit recognised in profit and loss	**(7)**	**(67)**	**(74)**	344	(26)	318
(Loss)/gain recognised in other comprehensive income	**(624)**	**(578)**	**(1,202)**	(17,398)	150	(17,248)
Company contributions paid	**-**	**115**	**115**	–	46	46
Pension asset related tax	**(2,145)**	**-**	**(2,145)**	–	–	–
Balance sheet asset/(liability) as at ending	**6,435**	**(1,332)**	**5,103**	9,211	(802)	8,409

FAIR VALUE OF SCHEME ASSETS

As at 31 March	2024 £'000	2023 £'000
Liability-driven investments	**-**	–
Liquidity funds	**8,216**	8,538
Buy-in policy	**63,067**	68,674
BMO Global Absolute Return Bond Fund	**-**	–
Buy and maintain credit	**-**	–
Net current assets	**714**	597
Cash	**281**	652
Total	**72,278**	78,461

20.2 DEFINED CONTRIBUTION SCHEME

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Year-ended 31 March	2024 £'000	2023 £'000
Current year contributions*	**2,300**	2,006

* Charge in the profit and loss account per note 6 is £2,300k (2023: £2,006k).

21 CALLED UP SHARE CAPITAL

Ordinary shares of 10 pence each

ALLOTTED AND FULLY PAID

As at year-ended 31 March	2024 £'000	2023 £'000
734,894,370 (2023: 514,894,370) ordinary shares of £0.10 each	**73,489**	51,489

During the year, 220,000,000 ordinary shares of 10 pence each were issued fully paid for cash of £22m.

All shares rank pari passu in all respects.

22 DIVIDENDS

Dividends paid to immediate parent company

As at year-ended 31 March	2024 £'000	2023 £'000
Ordinary dividend paid in 1 April 2023 – Appointed	**-**	1,640
Ordinary dividend paid in Dec 22 – Appointed	**-**	1,460
Total dividends paid	**-**	3,100

Dividends can be classified as follows:

As at year ended 31 March	2024 £'000	2023 £'000
Final dividend for FY 22 – Appointed	**-**	1,640
Interim dividend for FY 23 – Appointed	**-**	1,460
Total dividends paid	**-**	3,100

23 COMMITMENTS

The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements:

As at year-ended 31 March	2024 £'000	2023 £'000
Contracted capital commitments	**2,900**	3,000

24 TRANSACTIONS WITH RELATED PARTIES

The Company had the following transactions with related parties:

As at year-ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2024 £'000	2023 £'000
Advanced Minerals Ltd	80% owned Group company	Income	Sale of water treatment by-products and management charges	**7**	15
Advanced Minerals Ltd	80% owned Group company	(Expenditure)	Costs incurred for disposal of certain by-products	**(41)**	(20)
Total				**(34)**	(5)

The Company had the following balances with related parties:

As at year-ended 31 March

Related party	Relationship	Asset/ (liability)	Description	2024 £'000	2023 £'000
Advanced Minerals Ltd	80% owned Group company	Asset	Receivables for sales and management recharges	**15**	4
Advanced Minerals Ltd	80% owned Group company	(Liability)	Purchase ledger position from trade	**-**	–
Total				**15**	4

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated.

Details of transactions with all Group companies can be found in the notes to the regulatory accounts in the Annual Performance Report.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at year end were £48.3m (2023: £39.0m). Within liquid resources there is £11.4m (2023: £8.7m) of restricted cash relating to the secured index-linked bond. During the year, a private placement debt of £40.0m (2023: £0.0m) was raised. In the prior year, £15.0m was drawn down on a short-term overdraft and £7.0m in the form of a shareholder loan to demonstrate suitable liquid assets at the calculation point of the adjusted interest cover ratios.

26 CONTROLLING PARTIES

The Company is a wholly owned subsidiary of SESW Holding Company Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent company and the largest group in which the results of the Company are consolidated is Pennon Group plc and the consolidated financial statements are available at Peninsula House, Rydon Lane, Exeter, Devon EX2 7HR. The intermediate parent company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited is available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

GLOSSARY

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

AMP cycle – the Asset Management Plan cycle, a five year cycle used by Ofwat to set price increases and assess performance.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

Purpose – the core reason for a company's existence beyond profit, guiding its values, mission, and long-term goals for positive societal impact.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

TCFD – Task Force on Climate Related Financial Disclosures

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.