The following regulatory accounts and notes form part of our Annual Report.

These accounts and notes thereto are published to comply with the requirements of Condition F of the Instrument of Appointment (the 'Licence') of Sutton and East Surrey Water plc, trading as SES Water.

The regulatory accounts separate the results of Sutton and East Surrey Water plc into appointed and non-appointed activities.

Appointed activities are defined in Condition A of the Licence to be the 'functions of' and the 'duties imposed on' a water undertaker by the Water Industry Act 1991. Appointed activities are consequently those activities that are necessary in order for the Company to fulfil its functions and duties as a water undertaker.

In general, non-appointed activities are activities for which either the water undertaker is not a monopoly supplier (for example, the provision of billing and collection services for another undertaker) or the activity involves the optional use of an asset owned by the appointed business (for example, the provision of vehicle maintenance services to the public).

These accounts have been prepared in accordance with Regulatory Accounting Guidelines issued by the Water Services Regulatory Authority, 'Ofwat'.

The accounting policies adopted for these regulatory accounts are the same as these set out in the financial statements except where a different treatment is required in order to comply with the Regulatory Accounting Guidelines. The differences between statutory and RAG definitions are explained after each relevant table.

The allocation of costs between operating costs, capital expenditure and capital maintenance is based on RAG 2, RAG 3, RAG 4, and normal accounting practice.

All costs are extracted directly from the Company's accounting systems, with appropriate activity codes already assigned. Allocations for indirect costs between wholesale and retail, within wholesale between the sub-service categories of water resources, raw water distribution, water treatment, and treated water distribution, and within retail between measured and unmeasured activities, are undertaken using appropriate activity drivers as required by Regulatory Accounting Guidelines and in accordance with the 'Accounting Separation Methodology Statement', as published on the Company's website.

The following regulatory accounts tables prepared in accordance with the Regulatory Accounting Guidelines are grouped into the following categories:

- Tables 1A to 1F – Regulatory financial reporting tables showing financial information aligned to the way in which price controls have been set.
- Tables 2A to 2K – Price control and additional segmental reporting tables which explain in more detail the revenue and costs to allow stakeholders to review performance against final determinations from Ofwat.
- Tables 3A to 3D – Performance summary tables providing information on the performance of the appointed business against the performance commitments and outcome delivery incentives.
- Tables 4A to 4H – Additional regulatory information showing financial and non-financial information.

Tables 4J, 4L, 4P, 4Q, 4V provide additional financial and non-financial information and are published alongside this Annual Report on our website.

Opinion

We have audited the sections of tables within Sutton and East Surrey Water plc's Regulatory Accounts for the year ended 31 March 2019 ("the Regulatory Accounts") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water, the operating cost analysis for retail (table 2C), the historical cost analysis of tangible fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by tariff type (table 2G not completed in line with RAG 4.08), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3S) and the additional regulatory information in tables 4A to 4W.

In our opinion, Sutton and East Surrey Water plc's Regulatory Accounts have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2), set out on page 100.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounts below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Regulatory Accounts are separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounts on pages 104 to 135 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Regulatory Accounts and the audit section below. As a result, the Regulatory Accounts may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

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

Reporting on other information

The other information comprises all of the information in the Regulatory Accounts other than the Regulatory Accounting Statements within the Regulatory Accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting 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 Regulatory Accounting Statements within the Regulatory Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 97, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Regulatory Accounts, 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.

Auditor's responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Regulatory Accounts 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 Regulatory Accounts.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the company's Regulatory Accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.

Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 1 and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 22 May 2019, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Luke
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
15 July 2019

1A – Income statement

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Revenue	**66,832**	(1,729)	(2,211)	**(3,940)**	**62,892**
Operating costs	**(48,362)**	33	559	**592**	**(47,770)**
Other operating income	**1,630**	–	–	**–**	**1,630**
Operating profit	**20,100**	**(1,696)**	**(1,652)**	**(3,348)**	**16,752**
Other income	**514**	1,696	–	**1,696**	**2,210**
Interest income	**145**	–	(39)	**(39)**	**106**
Interest expense	**(11,021)**	–	–	**–**	**(11,021)**
Other interest expense	**–**	–	–	**–**	**–**
Profit before tax and fair value movements	**9,738**	**–**	**(1,691)**	**(1,691)**	**8,047**
Fair value gains/(losses) on financial instruments	**–**	–	–	**–**	**–**
Profit before tax	**9,738**	**–**	**(1,691)**	**(1,691)**	**8,047**
UK corporation tax	**(1,360)**	–	321	**321**	**(1,039)**
Deferred tax	**(889)**	–	–	**–**	**(889)**
Profit for the year	**7,489**	**–**	**(1,370)**	**(1,370)**	**6,119**
Dividends	**(3,684)**	**–**	**600**	**600**	**(3,084)**

The differences between statutory and Regulatory Accounting Guidelines (RAGs) are provided in the notes on page 105.

Tax analysis

	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
Current year	**770**	–	(321)	**(321)**	**449**
Adjustments in respect of prior years	**590**	–	–	**–**	**590**
UK corporation tax	**1,360**	**–**	**(321)**	**(321)**	**1,039**

A reconciliation of actual tax payable to forecast tax in the PR14 Final Determination is provided in the notes on page 106.

Reconciliation of effective tax rate for appointed activities
The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 19%. The differences are explained below.

	2019 £000
Profit before tax	**8,047**
Tax using the UK corporation tax rate of 19%	**1,529**
Effects of:	
Non-deductable expenses	**57**
Profit on disposal of fixed assets	**(310)**
Preference dividends paid	**76**
Pension adjustment	**72**
Capital allowances for the year exceeding depreciation	**(811)**
Capitalised expenditure allowed on an accounts basis	**(204)**
Adjustments to tax charge in respect of previous years	**590**
Other	**40**
Total current tax	**1,039**

1 Accounting policies

The accounting policies adopted for these regulatory accounts are the same as those set out on pages 73 to 89 except where a different treatment is required in order to comply with Regulatory Accounting Guidelines (RAGs) published by the Water Services Regulation Authority.

Cost allocation to individual price controls

The allocation of costs between operating costs, capital expenditure and capital maintenance is based on RAG 2, RAG 3, RAG 4, and normal accounting practice. Items of a capital nature costing less than £250 are written-off to operating expenditure. This practice has not changed from previous years.

Leakage control costs, including those incurred through third parties and by the Company's own employees, are treated as operating expenditure.

All costs are extracted directly from the Company's accounting systems, with appropriate activity codes already assigned. Allocations for indirect costs between wholesale and retail, within wholesale between the sub-service categories of water resources, raw water distribution, water treatment, and treated water distribution, and within retail between household and non-household activities, are undertaken using appropriate activity drivers as required by Regulatory Accounting Guidelines and in accordance with the Company's 'Accounting Separation Methodology Statement', as published on the Company's website.

2 Explanation of differences between statutory and RAG definitions

Note	Capital Contributions (a)	STOR Revenue (b)	Meter reading income (c)	IFRS 15 derecognised revenue	**Total differences as per Table 1A**
Revenue	(1,696)	(68)	17	18	**(1,729)**
Operating costs	–	68	(17)	(18)	**33**
Other operating income	–	–	–	–	**–**
Operating profit	(1,696)	–	–	–	**(1,696)**
Other income	1,696	–	–	–	**1,696**
Profit before tax	–	–	–	–	**–**

a) Grants and contributions treated as revenue in the statutory accounts, but as other income in the regulatory accounts (Ofwat clarification).
b) Income from National Grid's Short Term Operating Regime (STOR) for use of the appointed business standby generators to assist with peak electricity demand – treated as revenue in the statutory accounts, but as negative operating expenditure in the regulatory accounts.
c) Income from reading meters on behalf of retailers is offset against operating costs in the statutory accounts, but as revenue in the regulatory accounts.
d) IFRS 15 de-recognised revenue: IFRS 15 requires the de-recognition from revenue of amounts billed that are deemed uncollectable at the point of billing. This adjustment reinstates the amount in order to present total amounts billed to customers in the regulatory accounts.

3 Reconciliation of actual tax payable to tax included in the PR14 Final Determination

The table below compares forecast taxable profit and each forecast adjustment to taxable profit that was included in the PR14 Final Determination financial model with actual taxable profit and actual adjustments that applied in 2017/18.

	PR14 FD tax reconciliation £000	Actual tax in 2018/19 £000	Difference £000
Taxable profit	10,358	8,047	(2,311)
Adjustments for:			
Depreciation	8,671	9,521	850
Other adjustments to taxable profit	(643)	365	1,008
Other adjustments	(7,454)	(1,630)	5,824
Preference share dividends	–	399	399
P&L expenditure not allowable as a deduction from taxable trading profits	10	300	290
Correction to interest on debt gearing adjustment & equity adjustment	4,612	–	(4,612)
Capital allowances	(13,982)	(13,790)	192
Adjustment for pension contributions	17	378	361
Grants and contributions taxable on receipts and amortisation of grants and contributions	452	(1,073)	(1,525)
Adjustment to tax charge in respect of previous year	–	2,950	2,950
Resulting in:			
Adjusted trading profit for tax	2,041	5,467	3,426
Tax based on UK corporation tax assumed in FD	408	1,094	685
Difference due to actual UK corporation tax	(20)	(55)	(34)
Tax based on UK corporation tax rate of 19%	388	1,039	651

Details of the tax strategy for SES Water is set out in the Corporate Governance Report (see page 47).

1B – Statement of comprehensive income

for the 12 months ended 31 March 2019

		Adjustments			
	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	**Total adjustments £000**	**Total appointed activities £000**
Profit for the year	**7,489**	–	(1,370)	**(1,370)**	**6,119**
Actuarial losses on post employment plans	**(3,960)**	–	–	**–**	**(3,960)**
Other comprehensive income	**975**	–	–	**–**	**975**
Total comprehensive income for the year	**4,504**	**–**	**(1,370)**	**(1,370)**	**3,134**

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Non-current assets					
Fixed assets	**312,330**	–	–	–	312,330
Intangible assets	**4,482**	–	–	–	4,482
Investments – loans to group companies	**–**	–	–	–	–
Investments – other	**–**	–	–	–	–
Financial instruments	**–**	–	–	–	–
Retirement benefit assets	**16,624**	–	–	–	16,624
Total non-current assets	**333,436**	**–**	**–**	–	333,436
Current assets					
Inventories	**417**	–	–	–	417
Trade & other receivables	**25,518**	–	(605)	(605)	24,913
Financial instruments	**–**	–	–	–	–
Cash & cash equivalents	**18,275**	–	(3,168)	(3,168)	15,107
Total current assets	**44,210**	**–**	**(3,773)**	(3,773)	40,437
Current liabilities					
Trade & other payables	**(31,075)**	–	489	489	(30,586)
Capex creditor	**–**	–	–	–	–
Borrowings	**–**	–	–	–	–
Financial instruments	**–**	–	–	–	–
Current tax liabilities	**(1,136)**	–	321	321	(815)
Provisions	**–**	–	–	–	–
Total current liabilities	**(32,211)**	**–**	**810**	810	(31,401)
Net current assets	**11,999**	**–**	**(2,963)**	(2,963)	9,036
Non-current liabilities					
Trade & other payables	**–**	–	–	–	–
Borrowings	**(173,532)**	–	–	–	(173,532)
Financial instruments	**–**	–	–	–	–
Retirement benefit obligations	**(1,095)**	–	–	–	(1,095)
Provisions	**–**	–	–	–	–
Deferred income – grants & contributions	**–**	–	–	–	–
Deferred income – adopted assets	**–**	–	–	–	–
Preference share capital	**–**	–	–	–	–
Deferred tax	**(35,578)**	–	–	–	(35,578)
Total non-current liabilities	**(210,205)**	**–**	**–**	–	(210,205)
Net assets	**135,230**	**–**	**(2,963)**	(2,963)	132,267
Equity					
Called up share capital	**51,489**	–	–	–	51,489
Retained earnings & other reserves	**83,741**	–	(2,963)	(2,963)	80,778
Total equity	**135,230**	**–**	**(2,963)**	(2,963)	132,267

Cash attributable to non-appointed activities at 31 March 2019 was £3.168 million. Cash held by the Company was £4.454 million. Appointed activities are, therefore, deemed to be £1.286 million.

1D – Statement of cash flows

for the 12 months ended 31 March 2019

	Statutory £000	Adjustments: Differences between statutory and RAG definitions £000	Adjustments: Non-appointed £000	Adjustments: Total adjustments £000	Total appointed activities £000
Operating profit	**20,100**	(1,696)	(1,652)	(3,348)	16,752
Other income	**–**	1,696	–	1,696	1,696
Depreciation	**9,161**	–	–	–	9,161
Amortisation – grants & contributions	**360**	–	–	–	360
Changes in working capital	**(3,326)**	–	(289)	(289)	(3,615)
Pension contributions	**1,126**	–	–	–	1,126
Movement in provisions	**–**	–	–	–	–
Profit on sale of fixed assets	**(380)**	–	–	–	(380)
Cash generated from operations	**27,041**	–	**(1,941)**	(1,941)	25,100
Net interest paid	**(5,219)**	–	(39)	(39)	(5,258)
Tax paid	**(588)**	–	253	253	(335)
Net cash generated from operating activities	**21,234**	–	**(1,727)**	(1,727)	19,507
Investing activities					
Capital expenditure	**(25,325)**	–	–	–	(25,325)
Grants & Contributions	**–**	–	–	–	–
Disposal of fixed assets	**408**	–	–	–	408
Other	**–**	–	–	–	–
Net cash used in investing activities	**(24,917)**	–	–	–	(24,917)
Net cash generated before financing activities	**(3,683)**	–	**(1,727)**	(1,727)	(5,410)
Cash flows from financing activities					
Equity dividends paid	**(3,684)**	–	600	600	(3,084)
Net loans repaid	**(27,000)**	–	–	–	(27,000)
Cash inflow from equity financing	**36,000**	–	–	–	36,000
Net cash generated from financing activities	**5,316**	–	**600**	600	5,916
Increase in net cash	**1,633**	–	**(1,127)**	(1,127)	506

1E – Net debt analysis at 31 March

for the 12 months ended 31 March 2019

	Interest rate risk profile			
	Fixed rate £000	Floating rate £000	Index linked £000	**Total £000**
Borrowings (excluding preference shares)	102	13,500	159,930	**173,532**
Preference share capital				**–**
Total borrowings				**173,532**
Cash				**(4,454)**
Short-term deposits				**(10,656)**
Net debt				**158,422**
Gearing				**60.91%**
Adjusted gearing				**66.15%**
Full year equivalent nominal interest cost	6	231	8,901	**9,138**
Full year equivalent cash interest payment	6	231	4,748	**4,985**
Indicative interest rates				
Indicative weighted average nominal interest rate	5.88%	1.71%	5.39%	**5.22%**
Indicative weighted average cash interest rate	5.88%	1.71%	2.87%	**2.87%**
Weighted average years to maturity	25.00	1.14	10.17	**9.48**

Adjusted gearing reflects the definitions of the financial covenants associated with the Company's index-linked bond and disregards preference shares, unamortised bond issuance costs and cash balances other than those held in ring-fenced accounts specified by the bond documentation.

We do not use derivative financial instruments to hedge exposure to credit and interest rate risks arising in the normal course of business and do not have any exposure to currency risk, since all activities are conducted in the UK and all borrowings are denominated in pound sterling. We have therefore not included Ofwat's Financial Derivatives table in this Annual Report.

1Fa – Financial flows

for the 12 months ended 31 March 2019

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
				12 Months ended 31 March 2019		
Return on regulatory equity	5.40	4.52	5.40	4,486	3,755	3,755
Actual performance adjustment 2010-15	1.64	1.37	1.64	1,362	1,140	1,140
Adjusted return on regulatory equity	7.04	5.89	7.04	5,849	4,895	4,895
Regulatory equity				83,077	83,077	69,532
Financing						
Gearing	–	0.78	0.93	–	648	648
Variance in corporation tax	–	(0.90)	(1.07)	–	(745)	(745)
Group relief	–	–	–	–	–	–
Cost of debt	–	0.10	0.12	–	85	(85)
Hedging instruments	–	–	–	–	–	–
Sub total	**7.04**	**5.88**	**7.02**	**5,849**	**4,883**	**4,883**
Operational performance						
Totex out/(under) performance	–	–	–	–	–	–
ODI out/(under) performance	–	(0.18)	(0.22)	–	(150)	(150)
Retail out/(under) performance	–	(2.49)	(2.97)	–	(2,066)	(2,066)
Other exceptional items	–	–	–	–	–	–
Operational performance total	**–**	**(2.67)**	**3.19**	**–**	**(2,216)**	**(2,216)**
Total earnings	**7.04**	**3.21**	**3.84**	**5,849**	**2,667**	**2,667**
RCV growth from RPI inflation	**3.06**	**3.06**	**3.06**	**2,542**	**2,542**	**2,128**
Total shareholder return	**10.10**	**6.27**	**6.90**	**8,391**	**5,209**	**4,795**
Net dividend	**4.00**	**3.21**	**3.83**	**3,323**	**2,664**	**2,664**
Retained value	**6.10**	**3.06**	**3.06**	**5,068**	**2,545**	**2,131**
Dividends reconciliation						
Gross dividend	4.00	3.21	3.83	3,323	2,664	2,664
Interest receivable on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**3.21**	**3.83**	**3,323**	**2,664**	**2,664**

This information has been produced in accordance with guidance provided by Ofwat.

The analysis for 2018-19 indicates that:

- Actual total shareholder returns were less than Ofwat assumed in setting price limits under both the Company's actual capital structure and Ofwat's notional capital structure
- This was primarily due to the Company investing more on Retail functions and incurring a higher corporation tax bill than was allowed in price limits.

The analysis needs to be interpreted with care for a number of reasons, including:

- All financial figures are presented at 2012/13 prices (as required by Ofwat) and are not therefore directly comparable to numbers reported elsewhere in the Annual Report
- The ODI performance penalty of 0.22% does not take into account an expected penalty for performance against the Service Incentive Mechanism, because the magnitude is not capable of estimation without full visibility of other companies' performance and Ofwat's methodology for determining the magnitude
- The return shown differs from that shown for Return of Regulatory Equity (RoRE) in Table 4H on page 132, not least because the figure in Table 4H is presented on a cumulative basis for the last three years combined.

1Fb – Financial flows

for the 12 months ended 31 March 2019

				Average for four years ended 31 March 2019		
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Return on regulatory equity	5.65	3.74	5.65	4,529	2,996	2,996
Actual performance adjustment 2010-15	1.70	1.12	1.70	1,363	901	901
Adjusted return on regulatory equity	7.35	4.86	7.35	5,891	3,898	3,898
Regulatory equity				80,154	80,154	53,029
Financing						
Gearing	–	1.69	2.55	–	1,353	1,353
Variance in corporation tax	–	(1.11)	(1.67)	–	(886)	(886)
Group relief	–	–	–	–	–	–
Cost of debt	–	(0.35)	(0.61)	–	(281)	(322)
Hedging instruments	–	–	–	–	–	–
Sub total	**7.35**	**5.09**	**7.62**	**5,891**	**4,084**	**4,043**
Operational performance						
Totex out/(under) performance	–	–	–	–	–	–
ODI out/(under) performance	–	0.17	0.26	–	136	136
Retail out/(under) performance	–	(1.35)	(2.04)	–	(1,082)	(1,082)
Other exceptional items	–	0.56	0.84	–	445	445
Operational performance total	**–**	**(0.63)**	**(0.94)**	**–**	**(501)**	**(501)**
Total earnings	**7.35**	**4.47**	**6.68**	**5,891**	**3,583**	**3,542**
RCV growth from RPI inflation	**2.50**	**2.50**	**2.50**	**2,004**	**2,004**	**1,326**
Total shareholder return	**9.85**	**6.97**	**9.18**	**7,895**	**5,586**	**4,867**
Net dividend	**4.00**	**3.35**	**5.07**	**3,206**	**2,687**	**2,687**
Retained value	**5.85**	**3.62**	**4.11**	**4,689**	**2,889**	**2,180**
Dividends reconciliation						
Gross dividend	4.00	3.35	5.07	3,206	2,687	2,687
Interest receivable on intercompany loans	–	–	–	–	–	–
Net dividend	**4.00**	**3.35**	**5.07**	**3,206**	**2,687**	**2,687**

2A – Segmental income statement

for the 12 months ended 31 March 2019

	Wholesale			Retail	
	Water resources £000	Water network+ £000	**Wholesale total £000**	Household £000	**Total £000**
Revenue – price control	–	56,305	**56,305**	5,661	**61,966**
Revenue – non price control	–	918	**918**	8	**926**
Operating expenditure	(4,045)	(26,338)	**(30,383)**	(7,866)	**(38,249)**
Depreciation – tangible fixed assets	(746)	(8,369)	**(9,115)**	(46)	**(9,161)**
Amortisation – intangible fixed assets	–	(198)	**(198)**	(162)	**(360)**
Other operating income	31	1,599	**1,630**	–	**1,630**
Operating profit before recharges			**19,157**	(2,405)	**16,752**
Recharges from other segments	–	–	**–**	(269)	**(269)**
Recharges to other segments	21	248	**269**	–	**269**
Operating profit			**19,426**	(2,674)	**16,752**

The basis of cost allocations used in this segmental income statement is described in Note 1A on page 105. 'Water network+' activities include raw water transport and storage, water treatment and treated water distribution in accordance with definitions in the Regulatory Accounting Guidelines (RAGs).

(Operating profit for wholesale activities was £1.010 million higher than was assumed in the PR14 Final Determination primarily due to lower operating costs. Operating costs were £2.375 million lower than the PR14 Final Determination principally due to all infrastructure renewals activity being treated as capital expenditure and depreciated over an estimated useful economic life of 100 years. Lower inflation than was assumed in the PR14 Final Determination also reduced both revenue and operating expenditure.)

Household retail activities made an operating loss of £2,674 million due to higher costs, as noted on page 115.

2B – Wholesale totex analysis

for the 12 months ended 31 March 2019

	Water resources £000	Water network+ £000	**Total £000**
Operating expenditure			
Power	1,581	4,036	**5,617**
Income treated as negative expenditure	–	(68)	**(68)**
Abstraction charges	861	–	**861**
Bulk supply	–	–	**–**
Other operating expenditure – renewals expensed in year (infrastructure)	–	–	**–**
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–	**–**
Other operating expenditure – excluding renewals	1,382	18,469	**19,851**
Local authority and cumulo rates	221	2,984	**3,205**
Total operating expenditure excluding third party services	4,045	25,421	**29,466**
Third party services	–	917	**917**
Total operating expenditure	4,045	26,338	**30,383**
Capital expenditure			
Maintaining the long-term capability of the assets – infrastructure	–	5,795	**5,795**
Maintaining the long-term capability of the assets – non-infrastructure	180	6,890	**7,070**
Other capital expenditure – infrastructure	–	6,930	**6,930**
Other capital expenditure – non-infrastructure	(3)	2,417	**2,414**
Infrastructure network reinforcement	–	2,683	**2,683**
Total gross capital expenditure excluding third party services	177	24,715	**24,892**
Third party services	–	–	**–**
Total gross capital expenditure	177	24,715	**24,892**
Grants and contributions	–	1,696	**1,696**
Totex	4,222	49,357	**53,579**
Cash expenditure			
Pension deficit recovery payments	–	–	**–**
Other cash items	–	–	**–**
Totex including cash items	4,222	49,357	**53,579**

2C – Operating cost analysis: retail

for the 12 months ended 31 March 2019

	Total £000
Operating expenditure	
Customer services	3,033
Debt management	874
Doubtful debts	529
Meter reading	285
Services to developers	–
Other operating expenditure	3,145
Total operating expenditure excluding third party services	7,866
Third party services operating expenditure	–
Total operating expenditure	7,866
Depreciation – tangible fixed assets	46
Amortisation – intangible fixed assets	162
Total operating costs	8,074
Debt written-off	282

Operating costs for household retail activities were £2.474 million higher than the PR14 Final Determination due to the absence of an inflation allowance in the retail costs allowed in the PR14 Final Determination and higher resourcing deployed to address disappointing performance against the Service Incentive Mechanism.

On 1 April 2017 SES Water exited the non-household retail market. We no longer incur costs related to non-household retail and we have therefore excluded it from the table above.

2D – Historic cost analysis of tangible fixed assets: wholesale and retail

for the 12 months ended 31 March 2019

	Wholesale		Retail	
	Water resources £000	Water network+ £000	Household £000	**Total £000**
Cost				
At 1 April 2018	26,312	464,807	189	**491,308**
Disposals	(14)	(138)	–	**(152)**
Additions	177	24,651	43	**24,871**
Adjustments	–	–	–	**–**
Assets adopted at nil cost	–	–	–	**–**
At 31 March 2019	26,475	489,320	232	**516,027**
Depreciation				
At 1 April 2018	(8,021)	(186,443)	(153)	**(194,617)**
Disposals	13	111	–	**124**
Adjustments	–	–	–	**–**
Charge for the year	(746)	(8,369)	(46)	**(9,161)**
At 31 March 2019	(8,754)	(194,701)	(199)	**(203,654)**
Net book amount at 31 March 2019	17,721	294,619	33	**312,373**
Net book amount at 1 April 2018	18,291	278,364	36	**296,691**
Depreciation charge for the year				
Principal services	(746)	(8,369)	(46)	**(9,161)**
Third party services	–	–	–	**–**
Total	**(746)**	**(8,369)**	**(46)**	**(9,161)**

2E – Analysis of grants and contributions and land sales: wholesale

for the 12 months ended 31 March 2019

	Fully recognised in income statement £000	Capitalised and amortised against depreciation £000	Fully netted off capex £000	**Total £000**
Grants and contributions				
Connection charges	912	–	–	**912**
Infrastructure charge receipts	545	–	–	**545**
Requisitioned mains	239	–	–	**239**
Other contributions (price control)	–	–	–	**–**
Diversions	–	–	–	**–**
Other contributions (non-price control)	–	–	–	**–**
Total	1,696	–	–	**1,696**
Value of adopted assets	–	186	–	**186**
Movements in capitalised grants and contributions				
Brought forward	–	–	–	**–**
Capitalised in year	–	–	–	**–**
Amortisation (in income statement)	–	–	–	**–**
Carried forward	–	–	–	**–**
Land sales				
Proceeds from disposals of protected land	357	–	–	**357**

2F – Household: revenues by customer type

for the 12 months ended 31 March 2019

	Wholesale charges revenue £000	Retail revenue £000	**Total revenue £000**	Number of customers 000s	**Average household retail revenue per customer £**
Unmeasured water	23,249	1,778	**25,027**	117,109	**15**
Measured water	23,374	3,883	**27,257**	151,341	**26**
Total	46,623	5,661	**52,284**	268,450	**21**

The household retail revenue allowance for 12 months ended 31 March 2019 was £6.091 million. This is £0.059 million less than the PR14 Final Determination allowed revenue due to our assumed number of customers being 2,200 fewer than our Business Plan.

We recovered £5.661 million and therefore under recovered our allowed revenue by £0.430 million (7.1%). This was due to a greater number of customers receiving the social tariff discount than budgeted for in our Business Plan. The household retail price control makes provision for a reconciliation to be undertaken at the end of the five-year period, which will take the aggregate over-/under-recovery over the whole period and adjust allowed revenue for the next price control period beginning 1 April 2020.

2G – Non-household: revenues by tariff type

for the 12 months ended 31 March 2019

On 1 April 2017 SES Water exited the non-household retail market. Non-households can now choose their retailer in the competitive market. Retailers charge non-household customers and pay us wholesale charges. For the 12 months ended 31 March 2019 wholesale revenue from non-household customers totalled £9.682 million primarily with SES Business Water.

2I – Revenue analysis

for the 12 months ended 31 March 2019

	Household £000	Non-household £000	Total £000
Wholesale charge			
Unmeasured	23,249	228	**23,477**
Measured	23,374	9,454	**32,828**
Third party revenue	–	–	**–**
Total	46,623	9,682	**56,305**
Retail revenue			
Unmeasured	1,778	–	**1,778**
Measured	3,883	–	**3,883**
Third party revenue	–	–	**–**
Total	5,661	–	**5,661**
Third party revenue – non-price control			
Bulk supplies			**36**
Other third party revenue			**211**
Principal services – non-price control			
Other appointed revenue			**679**
Total appointed revenue			**62,892**

	Total £000
Wholesale revenue governed by price control	**56,305**
Grants & contributions	**1,696**
Total revenue governed by wholesale price control	**58,001**
Amount assumed in wholesale determination	**58,629**
Adjustment for WRFIM	**(132)**
Total assumed revenue	**58,497**
Difference between actual revenue and assumed	**(496)**

There is no adjustment to wholesale revenue for in-period outcome delivery incentives as none apply to the Company.

Wholesale revenue for the year was £0.496 million (0.8%) lower than the control set under the PR14 Final Determination of the wholesale price control. (The number of measured customers was lower than forecast when the PR14 Final Determination was set. The reduction in revenue expected from measured customers was offset by higher than forecast revenue from developers paying grants and contributions. The remaining difference between total revenue governed by the wholesale price control and the amount assumed in the wholesale determination is due to actual consumption and customer numbers varying from the forecasts used when charges for the year were set.)

Ofwat's wholesale revenue forecasting incentive mechanism (WRFIM) requires that any over-/under-recovery of revenue in one year results in a reduction/increase in charges in a subsequent year. The small under-recovery in 2018/19 will, all else held equal, lead to a small increase in charges from April 2020.

2J – Infrastructure network reinforcement costs

for the 12 months ended 31 March 2019

	Network reinforcement capex £000	On site/ site specific capex £000
Distribution and trunk mains	2,683	–
Pumping and storage facilities	–	–
Other	–	–
Total	**2,683**	**–**

Contributions from developers for these reinforcement costs arise as requisitions (£0.239 million in the year) or as infrastructure charges (£0.545 million in the year).

Network reinforcement costs are recognised as incurred. Infrastructure charges are recognised as properties are connected therefore costs may have been incurred in years prior to the income from charges being recognised.

2K – Infrastructure charges reconciliation

	£000
Infrastructure charges	545
Discounts applied to infrastructure charges	–
Gross infrastructure charges	**545**
Comparison of revenue and costs	
Variance brought forward	–
Revenue	545
Costs	(2,683)
Variance carried forward	**(2,138)**

for the 12 months ended 31 March 2019

Information on our performance is included in our Performance Report (pages 22 to 23) and in the operating and financial review (pages 24 to 27). We have met our target level of performance for the year on 14 out of 20 commitments. One of the remaining six targets was within the agreed 'deadband' for natural variation beyond management control. (One other related to two minor pollution incidents as reported by the Environmental Agency.) The remaining two shortfalls were for the Service Incentive Mechanism and the number of complaints, for which remedial actions are in place. We remain committed to at least meet or exceed our commitments by the end of the five year period. Performance on some commitments is linked to a financial outperformance payment or penalty which will be reflected in prices from 2020. The financial impact shown in this table has been calculated based on the incentive rates agreed with Ofwat in the Business Planning process. Our performance on the Service Incentive Mechanism is also linked to a financial reward or penalty but the magnitude is unknown because it will be based on our performance relative to other companies in the sector.

Performance commitment	Units	2017-18 performance level – actual
A1: Security of supply index (SoSI) dry year average	score	100
A2: Security of supply index (SoSI) critical period	score	100
A3: Supply interruptions >3 hours	hours/property/year	0.05
A4: Condition and reliability of the mains network – number of burst pipes a year	nr	214
A5: Drinking Water Inspectorate's (DWI) index of water quality	%	99.98
A6: Taste, odour and discolouration (number of contacts received)	nr	365
A7: Water softening programme	text	Delivered
B1: Number of customers that are in water poverty and receiving assistance	nr	8,150
B2: Effectiveness of bad debt recovery (bad debt expressed as a percentage of turnover)	%	0.64
B3: Customer perception of value for money	%	9
C1: The number of times on average the Company has to impose restrictions on the use of water	nr	0
C2: Percentage of properties that are connected to more than one treatment works (resilience measure)	%	36
D1: Customer satisfaction (level of satisfaction in response to the tracker survey (overall quality score))	%	92
D2: Service Incentive Mechanism (SIM)	score	78.7
D3: Total number of complaints per 1,000 properties	nr	9.8
E1: Level of leakage measured in megalitres per day (including customer supply pipe leakage)	nr	24.2
E2: Per capita consumption (PCC), measured in litres per head per day (l/h/d)	nr	158.8
E3: The number of children and adults engaged in environmental education activities	nr	9,551
E4: Greenhouse gas emissions per million litres of water supplied	nr	376
E5: Number of pollution incidents per 100 kilometres (category 3 or worse, as reported by the Environment Agency)	nr	0.6

Definitions

'Earned' means a financial reward or penalty arising from performance during the year which will only crystallise post-2020. It is not reflected in reported financial performance for the year.

'NA' means no financial reward or penalty is due or, in the case of SIM, is not capable of being estimated at this stage.

2018-19 performance level – actual	2018-19 target met?	Performance payment or penalty payable at the end of AMP6	Performance payment or penalty payable at the end of AMP6 £m absolute value	Total AMP6 payment or penalty 31 March 2020 forecast	Total AMP6 payment or penalty 31 March 2020 forecast £m absolute value
100	Yes	Target met		Target met	0
100	Yes	NA	NA	NA	NA
0.27	No	Underperformance penalty	(0.137)	Outperformance payment	0.306
255	Yes	Target met		Target met	0
99.97	No	Within penalty deadband		Within penalty deadband	0
388	No	Underperformance penalty	(0.013)	Within penalty deadband	0
Delivered	Yes	Target met		Target met	0
10,401	Yes	NA	NA	NA	NA
1.01	No	NA	NA	NA	NA
8	Yes	NA	NA	NA	NA
0	Yes	NA	NA	NA	NA
56	Yes	Target met		Target met	0
91.5	Yes	NA	NA	NA	NA
80.5	No	NA	NA	NA	NA
8.0	No	NA	NA	NA	NA
24.1	Yes	Target met		Target met	0
162.6	Yes	Target met		Target met	0
11,798	Yes	NA	NA	NA	NA
91	Yes	NA	NA	NA	NA
0.0	Yes	NA	NA	NA	NA

3C – Abstraction Incentive Mechanism

The Abstraction Incentive Mechanism (AIM) was established and is monitored by Ofwat. The objective of the AIM is to provide an incentive to reduce abstraction from sources that are proven, or there is some evidence that they are having, an impact on the environment at certain times.

We are required to report to Ofwat on the sites and conditions when we have applied the AIM. We do not think any of our sites are currently suitable for the AIM because:

- There is limited ability to choose between sources in our area, either due to limited connectivity, or in areas where there is connectivity, the sites have similar impacts on the environment
- Where choice is available the additional cost of using alternative sources makes it economically unviable based on our Business Plan.

We have three main areas where water is sourced:

- Unconfined chalk which impacts the chalk streams in the north of our area
- Leatherhead groundwater sources with connectivity to the River Mole
- Bough Beech reservoir which takes water from the River Eden.

There is connectivity between the unconfined chalk sources in the north of our supply area, but there is limited difference in the environmental impact of choosing one source over another as they all impact the chalk streams in the area, primarily the River Wandle. Leatherhead and Bough Beech can be used to supply water to the northern area but due to the cost of doing so this is used only in times of emergency or where groundwater in the chalk is stressed.

3D – Service Incentive Mechanism (SIM)

	Score
Qualitative performance	
1st survey score	4.16
2nd survey score	4.07
3rd survey score	4.30
4th survey score	4.25
Qualitative SIM score (out of 75)	59.91
Quantitative performance	
Total contact score	88.12
Quantitative SIM score (out of 25)	20.59
Total annual SIM score (out of 100)	**80.50**

The total SIM score is made up of two components. The results of independent quarterly surveys of customers' views when they have been in contact with the Company are converted into a score out of 75 for the year. The number of unwanted contacts is converted into a score out of 25 for the year. The total annual SIM score is the sum of the two components.

4A – Non-financial information

for the 12 months ended 31 March 2019

	Current year		
	Unmeasured	Measured	All
Number of void households	3,538	5,629	9,167
Per capita consumption (excluding supply pipe leakage) (l/h/d)	188.48	139.53	162.62
Wholesale volume (Ml/d)			
Bulk supply export			0.100
Bulk supply import			–
Distribution input			167.990

4B – Wholesale totex analysis: Comparison to allowed totex

for the 12 months ended 31 March 2019

	Current year £000	Cumulative 2015-19 £000
Actual totex	53,579	195,866
Items excluded from the menu		
Third party costs	917	4,909
Pension deficit recovery payments	–	1,141
Other ‘Rule book’ adjustments	–	–
Total items excluded from the menu	917	6,050
Adjusted actual totex		
Adjusted actual totex	52,662	189,816
Adjusted actual totex base year prices	45,481	171,281
Allowed totex		
Allowed totex based on final menu choice base year prices	44,029	178,163

Actual totex (at 2012/13 prices, base year prices) was £1.452 million (3.3%) higher than the PR14 Final Determination allowed totex for the year and £6.882 million (3.9%) lower than the PR14 Final Determination allowed totex for the first four years of the current regulatory period. This was primarily attributable to the continuing impact of re-phasing of capital investment to later in the five year period to enable projects to be scoped and designed using the latest available information to achieve the performance commitments made to customers.

4C – Impact of AMP performance to date on RCV

for the 12 months ended 31 March 2019

	£000
Cumulative totex over/(underspend) so far in the price control period	(6,882)
Customer share of cumulative totex over/(underspend)	(842)
RCV element of cumulative totex over/(underspend)	(3,100)
Adjustment for ODI payments or penalties	–
RCV determined at FD for 31 March 2019	260,090
Projected 'shadow' RCV	**256,990**

The 'shadow' RCV is calculated as the RCV determined by Ofwat in the PR14 Final Determination less an adjustment for the current cumulative underspend of totex.

The 'shadow' RCV above has been calculated in accordance with Ofwat guidance and assumes the lower level of wholesale totex compared to the PR14 Final Determination persists to 2020. A re-phrasing of capital investment is expected to offset this reduction to maintain the RCV at the end of the price control in 2020.

for the 12 months ended 31 March 2019

	Water resources	
	Abstraction licences £000	Raw water abstraction £000
Operating expenditure		
Power	–	1,581
Income treated as negative expenditure	–	–
Abstraction charges	861	–
Bulk supply	–	–
Other operating expenditure – renewals expensed in year (infrastructure)	–	–
Other operating expenditure – renewals expensed in year (non-infrastructure)	–	–
Other operating expenditure – excluding renewals	–	1,382
Local authority and cumulo rates	–	221
Total operating expenditure excluding third party services	861	3,184
Third party services	–	–
Total operating expenditure	861	3,184
Capital expenditure		
Maintaining the long-term capability of the assets – infrastructure	–	–
Maintaining the long-term capability of the assets – non-infrastructure	–	180
Other capital expenditure – infrastructure	–	–
Other capital expenditure – non-infrastructure	–	(3)
Infrastructure network reinforcement	–	–
Total gross capital expenditure excluding third party services	–	177
Third party services	–	–
Total gross capital expenditure	–	177
Grants and contributions	–	–
Totex	861	3,361
Cash expenditure		
Pension deficit recovery payments	–	–
Other cash items	–	–
Totex including cash items	861	3,361
Unit cost information – operating expenditure (Ml)		
Licensed volume available	105,539	65,607
Volume abstracted		
Volume transported		
Average volume stored		
Distribution input from water treatment		
Distribution input treated water		
Unit cost (£/Ml)	8.16	48.53
Population (000s)		
Unit cost (£/pop)	1.21	4.47

	Raw water distribution				
	Raw water transport £000	Raw water storage £000	Water treatment £000	Treated water distribution £000	**Total £000**
	385	–	1,274	2,377	**5,617**
	–	–	(68)	–	**(68)**
	–	–	–	–	**861**
	–	–	–	–	**–**
	–	–	–	–	**–**
	–	–	–	–	**–**
	232	–	7,954	10,283	**19,851**
	5	–	963	2,016	**3,205**
	622	–	10,123	14,676	**29,466**
	–	–	–	917	**917**
	622	–	10,123	15,593	**30,383**
	13	–	–	5,782	**5,795**
	–	–	6,292	598	**7,070**
	–	–	–	6,930	**6,930**
	–	–	–	2,417	**2,414**
	–	–	–	2,683	**2,683**
	13	–	6,292	18,410	**24,892**
	–	–	–	–	**–**
	13	–	6,292	18,410	**24,892**
	–	–	–	1,696	**1,696**
	635	–	16,415	32,307	**53,579**
	–	–	–	–	**–**
	–	–	–	–	**–**
	635	–	16,415	32,307	**53,579**
	62,005				
		–			
			61,316		
				61,316	
	10.03	–	165.10	254.31	
	–	–	–	–	**712,031**
	0.87	–	14.22	21.90	

4F – Cost analysis: household retail

for the 12 months ended 31 March 2019

	Household unmeasured £000	Household measured £000	**Total £000**
Operating expenditure			
Customer services	1,028	2,005	**3,033**
Debt management	381	493	**874**
Doubtful debts	361	168	**529**
Meter reading	–	285	**285**
Other operating expenditure	1,372	1,773	**3,145**
Total operating expenditure excluding third party services	3,142	4,724	**7,866**
Third party services operating expenditure	–	–	**–**
Total operating expenditure	3,142	4,724	**7,866**
Depreciation – tangible fixed assets (on assets existing at 31 March 2015)	6	7	**13**
Depreciation – tangible fixed assets (on assets acquired since 1 April 2015)	14	19	**33**
Amortisation – intangible fixed assets (on assets existing at 31 March 2015)	13	17	**30**
Amortisation – intangible fixed assets (on assets acquired since 1 April 2015)	58	74	**132**
Total operating costs	3,233	4,841	**8,074**
Capital expenditure	189	244	**433**
Other operating expenditure – breakdown			
Demand-side water efficiency – gross expenditure			**120**
Expenditure funded by wholesale			**–**
Demand-side water efficiency – net retail expenditure			**120**
Customer-side leak repairs – gross expenditure			**91**
Expenditure funded by wholesale			**–**
Customer-side leak repairs – net retail expenditure			**91**

4G –Wholesale current cost financial performance

for the 12 months ended 31 March 2019

	£000
Revenue	57,223
Operating expenditure	(30,383)
Capital maintenance charges	(18,029)
Other operating income	1,630
Current cost operating profit	**10,441**
Other income	2,210
Interest income	106
Interest expense	(11,021)
Other interest expense	–
Current cost profit before tax and fair value movements	**1,736**
Fair value gains/(losses) on financial instruments	–
Current cost profit before tax	**1,736**

Current cost operating profit and profit before tax have both been calculated in accordance with Ofwat guidelines based on historic costs (as reflected in the Company's statutory and regulatory accounts) with the sole exception of capital maintenance charges.

Capital maintenance charges have been based on:

- Current cost depreciation on above ground assets under the former UKGAAP (as reflected in prior years' regulatory accounts), rolled forward for additions, disposals and inflation during the year. The underlying asset values used to generate this current cost depreciation charge are those from the Modern Equivalent Asset Valuation exercise undertaken for the 2009 Price Review (PR09)
- The infrastructure renewals charge for 2014/15 inflated to 2017/18 prices, as a proxy for depreciation of underground assets.

This basis of calculation differs fundamentally from that used to generate the depreciation charge for all assets under FRS 101, as reflected in the Company's statutory and regulatory accounts.

There are no working capital adjustments, which have featured in previous Current Cost Accounting (CCA) Regulatory Accounts, included in this Wholesale Current Cost Financial Performance table.

4H – Financial metrics

for the 12 months ended 31 March 2019

	Units	Current year	AMP to date
Net debt	£m	158.422	
Regulatory equity	£m	101.668	
Regulatory gearing	%	60.91	
Post tax return on regulatory equity	%	8.82	
RoRE (return on regulatory equity)	%	3.44	5.21
Dividend yield	%	3.03	
Retail profit margin – Household	%	(4.62)	
Credit rating	n/a	BBB+	
Return on RCV	%	6.99	
Dividend cover	times	1.98	
Funds from operations (FFO)	£m	23.122	
Interest cover (cash)	times	4.95	
Adjusted interest cover (cash)	times	2.19	
FFO/Debt	dec	0.15	
Effective tax rate	%	12.91	
Free cash flow (RCF)	£m	20.038	
RCF/capex	dec	0.79	
Revenue (actual)	£m	61.966	
EBITDA (actual)	£m	23.717	
Movements in RORE			
Base return	%	5.80	5.80
Totex out/(under) performance	%	0.00	0.00
Retail cost out/(under) performance	%	(1.19)	(0.97)
ODI out/(under) performance	%	(0.15)	0.26
Financing out/(under) performance	%	(0.60)	(0.58)
Other factors	%	(0.42)	0.70
Return on regulatory equity	%	**3.44**	**5.21**
Proportion of borrowings which are fixed rate	%		0.06
Proportion of borrowings which are floating rate	%		7.78
Proportion of borrowings which are index linked	%		92.16
Proportion of borrowings due within 1 year or less	%		0.00
Proportion of borrowings due in more than 1 year but no more than 2 years	%		7.78
Proportion of borrowings due in more than 2 years but no more than 5 years	%		0.00
Proportion of borrowings due in more than 5 years but no more than 20 years	%		92.16
Proportion of borrowings due in more than 20 years	%		0.06

As noted in the commentary accompanying the revenue tables (see pages 118 and 119), actual revenue in 2018/19 was:

- £0.496 million (0.8%) lower than the amount assumed in the wholesale price control; and
- £0.430 million (7.1%) lower than the allowed revenue in the household retail price control.

In relation to wholesale revenue recovery there was higher than anticipated income received from new connection related services and lower than anticipated income from water charges.

As noted in the commentary accompanying the wholesale totex analysis on page 126, actual totex for the year was £1.452 million higher (at 2012/13 prices) than allowed in the wholesale price control, principally due to re-phasing of capital expenditure into later years of the five year period. As noted in the commentary accompanying the operating cost analysis for retail activities on page 115, retail operating costs for the year were £2.474 million higher than assumed in the retail price controls. Overall expenditure was therefore £3.926 million higher than assumed in the PR14 Final Determination.

This estimated actual return on regulated equity needs to be interpreted with care for a number of reasons, including:

- The net ODI reward for the year takes no account of the impact of performance against the Service Incentive Mechanism (SIM), because the magnitude is not capable of estimation without full visibility of other companies' performance (which will determine the impact for the Company)
- The difference on interest costs is based entirely on a notional capital structure and bears little relationship to the Company's actual capital structure
- It excludes the impact of other factors affecting actual returns, including one-off items (such as a significant land sale in 2015/16 and the sale of the non-household customer list) and enduring items, such as the accounting treatment of capital maintenance charges for the Company's underground pipe network.

The overall impact of no allowances for inflation on retail cost allowances and under-funding of debt costs at the last Price Review is, however, clear.

Post tax returns on regulatory equity have, in contrast to the RoRE estimate, been affected by both accounting policies and the impact of low inflation (on the indexation of the Company's principal long-term debt instrument). The accounting treatment of infrastructure renewals expenditure under FRS 101 continues to have a substantial effect upon accounting based measures. All planned infrastructure asset renewal expenditure has been capitalised (in accordance with FRS 101) and depreciated over an estimated useful economic life of 100 years. Any residual book value of pipes being replaced has been written-off on commissioning of new assets.

Dividend payments have been kept broadly in line with the estimated return on regulatory equity reflected in the PR14 Final Determination and incorporated into the Company's updated dividend policy statement (which can be found on page 35).

1 Transactions with associated companies

	Description	Value £000	Terms of Supply	Annual turnover of associated company £000
Allmat (East Surrey) Ltd	Administration	2	Other market testing	3,384
Advanced Minerals Ltd	Disposal of waste	15	Other market testing	3,274
Sutton and East Surrey Water Services Ltd	Leak repair	188	Competitive tendering	45,449
Sutton and East Surrey Water Services Ltd	Wholesale water charges	8,409	Market code	45,449

In the above table the annual turnover for Sutton and East Surrey Water Services Limited is the latest draft management values awaiting final audit.

In addition to the above, the Company charged Allmat (East Surrey) Ltd £46,500 (2018: £46,500) for the rental premises and Sutton and East Surrey Water Services Limited £207,608 for administration and late payment fees.

In addition the Company has made payments for a membership subscription of £48,514 to Water UK and pension management fees of £20,000 to The Water Companies (Pension Fund) trustee.

A dividend of £3,684,000 (2018: £5,600,000) was paid through SESW Holding Company Ltd to East Surrey Holdings Ltd.

A preference dividend of £398,540 (2018: £965,998) was paid through SESW Holding Company Ltd to East Surrey Holdings Ltd.

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in accordance with Condition F of the Company's Instrument of Appointment and Regulatory Accounting Guidelines 5.07.