

WESSEX WATER LIMITED

Annual Report and Financial Statements 30 June 2021

Registered in England & Wales No. 02366633

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STRATEGIC REPORT

Principal Activities

The principal activity of the Group is the supply of clean water and treatment and disposal of waste water.

The principal activity of the Company is that of a holding company.

The principal subsidiary of the Company is Wessex Water Services Ltd (WWSL), a regulated company licenced for the supply of clean water and treatment and disposal of waste water. WWSL operates in a region of 10,000 square kilometres in the south west of England. From 1 April 2017 there was a change in the regulated activity of WWSL with the retail element of non-household companies being open to competition. To enter into that competitive market WWL set up with Bristol Water Holdings Ltd a new company Water 2 Business Ltd.

WWL owns 100% of the share capital of Wessex Water Enterprises Ltd, which undertakes unregulated water and waste water activities in the WWSL region.

WWL also owns SC Technology GmbH, another 100% subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands.

WWL has three further subsidiaries, Albion Water Ltd, Turnbull Infrastructure & Utilities Ltd and Flipper Ltd, see sections D, E and F of Strategic Report.

All subsidiary companies are listed in note 14.

Financial performance

Profit after tax decreased by £88.9m from £64.8m to a loss of £24.1m, due to the factors shown below.

Turnover increased by £23.8m or 3.6% to £682.0m. This mainly resulted from growth in unregulated turnover of WWL in the form of the operation and maintenance contract at the Hinkley Point C construction site.

Total operating costs increased by £63.5m from £455.6m to £519.1m. In WWSL the increases in repair costs, site operations and pension costs exceeded cost savings made, and there were additional costs associated with the WWL Hinkley contract. Depreciation and amortisation charges have increased by £13.9m from £121.7m to £135.6m.

Interest charges, including other finance charges, reduced by £5.9m from £89.7m to £83.8m. There was an increase in the level of debt and the cost of debt reduced to 3.7%.

There was a £61.1m increase in taxation from a charge last year of £51.7m to a charge of £112.8m this year. The main item explaining this difference relates to deferred tax where the UK Governments decision to increase the corporation tax rate from 19% to 25% from April 2023 resulted in a £95.8m deferred tax charge, as described in note 9.

Net Debt increased from £2,309.4m to £2,411.8m, an increase of £102.4m and comprised:

- cash flow from operating activities of £296.4m
- less tax paid of £7.1m
- less interest payments of £66.1m
- less net investing activities of £147.9m
- less dividend payments of £70.1m and a working capital outflow of £107.6m.

Dividends declared in the year amounted to £70.1m compared to £87.0m last year.

STRATEGIC REPORT (continued)

Under IAS 19 the pension scheme deficit of £164.1m at the start of the year has reduced to £75.2m at 30 June 2021, the reduction in liabilities of £19.4m being in addition to the £69.5m increase in asset values.

The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW.

Group operating profit as a percentage of turnover was 25.2% (2020 – 31.3%), the fall was due to the profit reduction in WWSL, resulting from increasing cost pressures and the regulatory price cap. Interest cover (before exceptional items) increased to 2.0 times (2020 – 2.3 times) as net interest cost reductions outstripped operating cost increases.

A. WESSEX WATER SERVICES LTD

Introduction

The whole Wessex Water family was devastated by the tragic event at Avonmouth on 3 December 2020. The Company is committed to understanding why the incident happened and sharing any lessons with the wider industry.

At Wessex Water, we are proud of our record in delivering essential water and environmental services. The Board always takes decisions for the long term, and our objective is always to uphold the highest standards of conduct. Further, we understand that our business will only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our regulator, suppliers and our shareholder.

We retain a strong sense of public service across our organisation, which is run by local employees who are customers themselves and members of the communities we serve.

We are pleased, therefore, that we have performed well against many of our targets, although we are conscious of the impact Covid-19 has had on our ability to meet a number of our regulatory performance commitments and are discussing the impact of those with Ofwat. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously. A smaller number of targets were also missed as a result of extreme weather. We recognise that these extremes are becoming more common and so are adapting our plans to deal with more volatility in the future.

Setting the company's aspirations and performance for those it serves

Setting our aspirations

The Board plans on the basis of stewardship in perpetuity and promotes investment at a water catchment level to improve services to local communities in ways which are affordable and add public value.

The Board also recognises that the Company has a critical role to play that goes far beyond the responsibility of providing an essential public service. We have an opportunity to help tackle the climate emergency, to support the communities we serve, to deliver wider environmental benefit and to contribute to the growth of the UK economy. These opportunities form the core of our strategic direction statement and our business plan (which are available on our website), reflecting our long-term commitment to build a sustainable future with the support of our customers, communities, employees, and stakeholders.

The Board considers that the Company's success in delivering long-term benefit to its members is best achieved by aspiring to:

- deliver the excellent and resilient services for customers and the environment that our stakeholders require
- at a price that is affordable to all our customers, and
- by contributing more widely to the communities we serve.

STRATEGIC REPORT (continued)

Therefore, throughout the development of the current business plan, the Company engaged with more than 140,000 customers to understand the things that matter most to them. We also spoke to all our major stakeholders representing areas including customers in vulnerable circumstances, local rivers, and wildlife.

On an ongoing basis the Company engages regularly with stakeholders including through the Customer Challenge Group, the People's Council, the online customer panel, the Young People's Panel, and frequent customer surveys and consultations.

The Board translates its aspirations into a set of stretching targets for the company's performance having regard to:

- The commitments made to customers and the environment in the published business plan
- Insight from ongoing stakeholder engagement
- The levels of performance for customers and the environment achieved in previous years
- Relevant regulatory determinations
- The best performance levels achieved by other water and sewerage companies
- The interests of employees
- Wider societal and economic trends and challenges
- The requirements of investors

For 2020-2021, customer and environmental targets were set to:

- regain the company's overall leading position amongst water and sewerage companies on key regulatory measures (Ofwat, Environment Agency, Drinking Water Inspectorate and Consumer Council for Water)
- achieve the key commitments we make in our 2020-2025 business plan
- ensure there is no reduction in standards against our average performance over the last three years on key measures of performance

Employee targets for the year were set to ensure continued high levels of employee safety and satisfaction and to promote continued progress in wellbeing, diversity, and inclusion. Financial targets were set to promote continued long-term financial resilience and, in line with the company's aims, to give investors fair returns. Company targets are agreed by the Board in advance of the reporting year and are used for the remuneration of senior executives and managers in the business as set out in the Remuneration Committee report.

The Board reviews progress against these targets at each Board meeting and challenges company management on delivery.

The Board also monitors long-term trends in performance against a number of sustainability metrics and uses these to assess whether the company's progress overall is in line with its vision and its social and public purpose.

Our performance in 2020-21

The Company has performed well against most of its performance targets and continues to be the overall leading water and sewerage service: first for customer service, first for environmental performance, first for efficiency and first or second for drinking water compliance. However, the year has been overshadowed by the tragic incident at Avonmouth.

We expect to be:

- one of the top water and sewerage companies for customer service in Ofwat's customer measure of experience,
- assessed as leading by the Environment Agency
- one of the leading water and sewerage companies for the DWI's key quality measure (CRI)

STRATEGIC REPORT (continued)

During the year we were also shown to be the water and sewerage company with the lowest number of complaints according to CCW.

Whilst we have 46 performance commitments, the Board considers the 20 highest profile targets on a more regular basis. The table below shows how the company performed against the board's key performance targets in 2020-21.

Performance against target	Customer	Environment	Employee	Financial
Better	2	1	2	3
Same	3	2	1	2
Worse	2	1	1	0
Same or Better	5/7	3/4	3/4	5/5

In the financial year under review, 16 of the 20 Company targets were achieved or bettered. The four measures where performance was below target were Compliance Risk Index (CRI), Customer property internal sewer flooding incidents, Wastewater pollution incidents (cat 1-3), and Health & Safety plan and accident statistics progress.

In 2020 we accepted a regulatory price determination from Ofwat (PR19) which included a number of performance commitments for 2020-21 as part of the regulator's incentive package. Our acceptance of a price determination is always in the round and recognises that there are trade-offs in the regulator's incentive framework.

We have met or exceeded 26 of our 46 PR19 regulatory targets for the year. Five are not measured this year or we await regulators' scoring. We failed to meet 15 targets, seven of which were directly as a result of Covid-19. We exceeded our target against those which are of most importance to stakeholders, such as minimising internal sewer flooding, leakage and water supply interruptions, for which we have achieved provisional incentive payments.

Where we have not met a regulatory performance commitment, we have provided stakeholders with an explanation of the reasons and the actions we are taking to improve performance in future years as part of our annual review summary.

Our current performance is available on our website, and it is there we talk in detail about our future performance.

Financial Performance – Regulatory Year

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited.

Neither of these entities provide any intragroup funding to the company with virtually all the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 70%. On a pensions-adjusted basis, this figure rises to 73%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2019, showing a deficit of £157.0m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 24.6% and special contributions to reduce the deficit. The company paid a special contribution of £13.0m on 31 July 2020 and is committed to the schedule of future contributions through to 1 April 2026.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. In January 2021 the company issued a new £300m corporate bond at 1.25%.

STRATEGIC REPORT (continued)

Highlights include:

- operating profit decreased by £45.2m from £212.5m to £167.3m
- turnover reduced by £37.6m or 6.8% while underlying operating costs increased by £7.6m or 2.2%
- the cost of debt fell from 4.2% to 3.8%. We maintained a balanced mix of financial instruments
- capital expenditure on tangible and intangible assets (including infrastructure maintenance expensed through the income statement) delivered in the first year of AMP7 was £274.6m, an increase of £2.9m over £271.7m last year but in line with expectations
- profit before tax fell by £37.9m from £121.2m last year to £83.3m. This was primarily due to the reduction in revenues resulting from the PR19 price settlement
- gearing, as measured by net debt to regulatory capital value, has risen from 66.2% last year end to 69.9% this year end.

Tax Strategy

Our attitude towards UK tax planning

Our approach to tax is fully aligned with our overall objectives. We seek to comply with the spirit and letter of UK tax legislation and claim all tax reliefs and allowances to which we are entitled. We will consider reasonable tax planning opportunities which are in line with our risk appetite. But as a rule, we do not enter into complicated structures nor engage in any aggressive or artificial tax planning, as we do not believe it is the correct thing to do. Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise so, consistent with other business areas, we will seek external advice when required.

Approach to risk management and governance arrangements in relation to UK tax

The finance director is ultimately responsible for our tax strategy and engages with relevant individuals within the company to ensure the strategy is implemented and monitored. Board oversight over our tax policy is exercised by the Audit Committee. As a UK regulated business with a significant capital programme, we believe obtaining tax relief on capital expenditure is a key factor affecting our tax liability. Other factors, such as changes in tax legislation or changes in interpretations, may also affect the amount of tax due, compared with what has been allowed as part of the regulatory final determination.

The level of risk in relation to UK tax the company is prepared to accept

As documented in our finance policy, we adopt a risk-averse and cautious approach to tax. In addition, tax is included as part of our risk assessment framework. We monitor the overall risk framework and provide regular updates to the board.

The company approach towards dealings with HMRC

We have an open, regular and professional dialogue with HMRC and, as part of its business risk reviews, HMRC have always regarded our company as low risk. We are committed to maintaining this low risk status in the long term and believe that our approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating. We will also engage with HMRC on industry-wide matters through our membership of Water UK.

STRATEGIC REPORT (continued)

Risk Management

The effective management of risk is central to how we can deliver effective and efficient services to our customers and minimise the impact we have on the environment. It is critical that we have a robust risk management framework in which material risks to the business are proactively identified, evaluated, communicated and the appropriate response defined and implemented. The Company's processes are flexible to respond to changes in risk and ensure that the necessary controls and mitigation measures are put in place. Risks are defined as any event that can impede our ability to achieve our objectives. The most significant risks facing us are referred to as 'principal risks'.

Risk management process

Our policy on risk assessment and management is subject to regular review by the Board. Identification and management of risk is delivered through a hierarchy of risk management reviews from operational colleagues, senior management and Executive Directors. The Board reviews and is ultimately responsible for risk. To assist it in discharging its responsibilities, the Audit and Risk Committee reviews the company's internal control systems and process for managing risk.

Operational staff and senior management review, assess and record asset and operational risk monthly. Risks are scored in line with our process of assessing probability and impact on a 'five-by-five' scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

Operational risks act as a foundation for separate tactical risk registers which feed into the corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging and strategic risks.

The Risk Management Group comprises senior managers from across the whole business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. We assess risks based on a range of criteria including their financial, social, and environmental impacts. Risks above our tolerance levels will have additional measures to manage and mitigate the risk exposure.

Every six months the Risk Management Group submits the corporate risk register and summary report to the Executive Leadership Team (ELT), comprising the Executive Directors.

The ELT scrutinises and challenges the risks included within the register, ensures that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the ELT and the Board as they arise.

The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified as well as any proposed changes to risk appetite and tolerance for discussion at the Board.

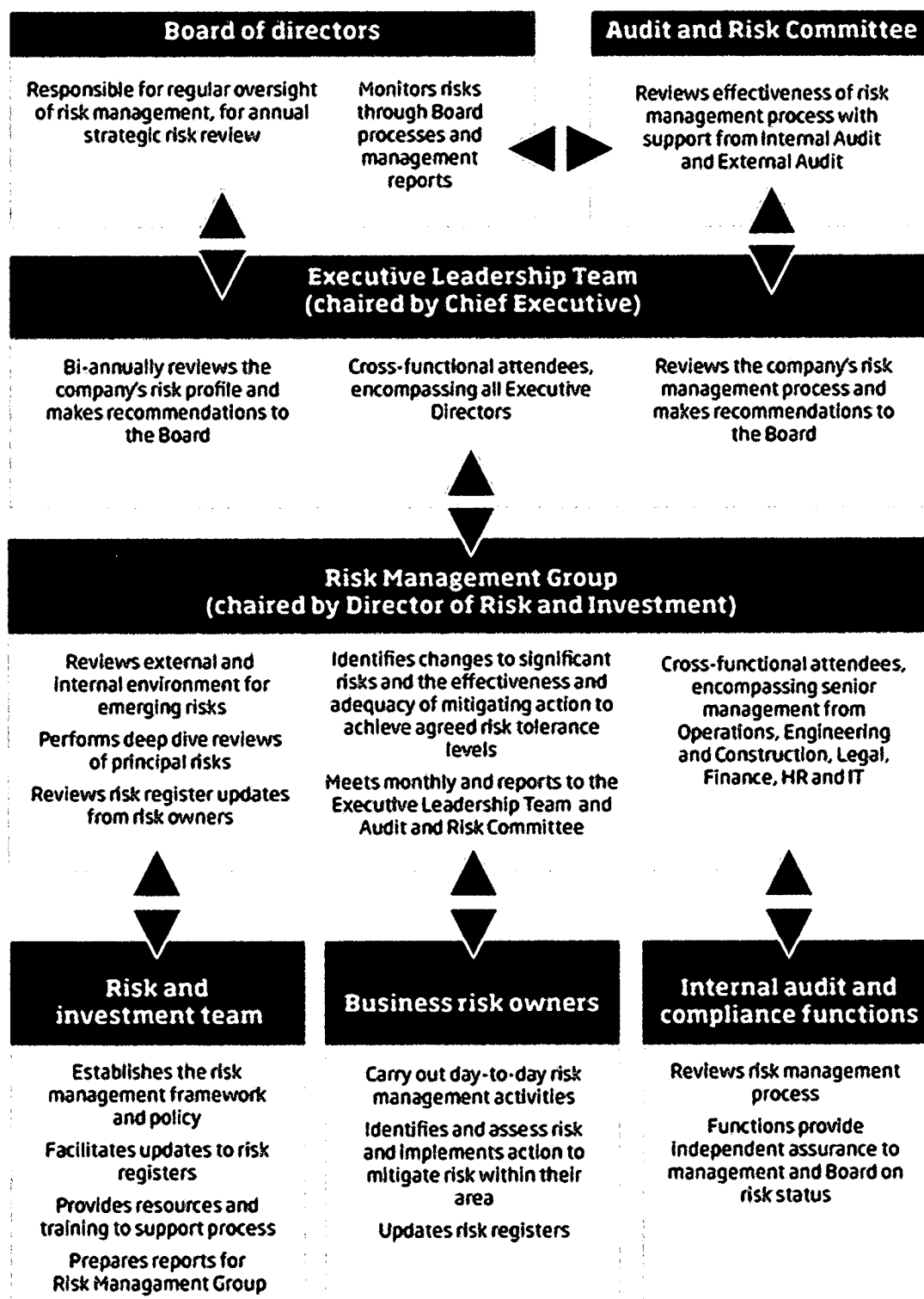
The Board reviews the Company's risk identification and management policy annually and reviews the principal risks bi-annually. It delegates its authority to the Audit and Risk Committee for the review and oversight of the effectiveness of the risk management process. To aid it in doing this, the Audit and Risk Committee includes audits that review the status and mitigations of the principal risks when agreeing the annual Internal Audit programme.

Risks have been identified evaluated and managed in line with our processes throughout the year and up to the approval of the Annual Report and Accounts.

STRATEGIC REPORT (continued)

Risk management governance

The diagram below explains the governance structure for risk management across the business.



STRATEGIC REPORT (continued)

We continuously review and improve the risk management framework. Since the last annual review, the following changes have been made:

- following the procurement of a governance, risk and compliance tool, the internal audit module has gone live and the operational and enterprise risk modules will go live over the coming months
- the Board have reviewed the risk appetite framework and agreed appetite and tolerance positions. The process was agreed at the Audit and Risk committee
- updated the definitions of our risk scores to reflect the priorities of the Board following the review of the risk appetite framework.

Further improvements are planned as part of the implementation of our risk and investment framework over 2021-2022.

Principal risks

While the corporate risk register holds 40-50 risks at any time, the principal risks are those that the Board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the Board considers that the Company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

Since 2019-2020, there has been one new principal risk, supply chain failure, particularly related to chemicals. Several events in the chemical supply chain have highlighted the fragility of some of the industry's suppliers. The government has also identified that the most significant single risk to public water supplies is a failure in the chemical supply chain. This is a market issue where we only have limited means of proactively mitigating any supply chain loss, although we are relatively well placed due to our procurement and contingency arrangements.

We have summarised our principal risks below. Further information is then provided on each principal risk including a statement on the context, strategic objectives affected and the mitigation in place to address each risk.

STRATEGIC REPORT (continued)

Principal risk	Description	Risk trend
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	Stable¹
Political / regulatory action	Actions taken by government or regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	Stable
Anti-competitive behaviour	Ineffective internal controls resulting in anti-competitive behaviour	Stable²
Digital resilience	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	Stable
Supply of unfit water	External factors (eg, contamination of supply or customer pipes) or internal factors (eg, asset failure or poor operating performance) that results in the supply of unfit water affecting public health	Stable
Major pollution incident	External factors (eg, sewer misuse or asset failure caused by a third party) or internal eg, asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	Decreasing
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	Decreasing
Resources and skills	Failure to have the right resources with the right skills in the right place will have an impact on our ability to operate effectively and on our strategic objectives	Stable
Failure to meet performance commitments	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	Increasing³
Pandemic infection	Loss of resources (goods/services/people) and/or revenue inhibit our ability to operate	Stable
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	Stable
Supply chain failure	The supply chain for chemicals in particular has become increasingly more fragile.	New

1. The board is committed to understanding why the tragic incident at Avonmouth happened and sharing any lessons with the wider industry.

2. Internal controls remain robust; however, we believe the regulator has signalled it is more likely to use its enforcement powers because it wants to do more to promote competitive markets

3. It is expected that it will be more challenging to achieve consistently high performance against the stretching new AMP7 performance commitments.

STRATEGIC REPORT (continued)

B. WESSEX WATER ENTERPRISES LTD

The company generated turnover of £37.1m (2020 - £36.9m) from a number of unregulated activities in the Wessex Water Services Ltd region. The principal subsidiary is GENeco Ltd and the unregulated activities were the treatment of organic waste, power generation, food waste treatment, solicitors' searches and sale of industrial cooling water.

In 2017 the company commissioned a gas to grid plant at Avonmouth, Bristol sewage treatment works, allowing gas generated on site to be sent direct to the grid, a more efficient process than using the gas to generate electricity and then sending the electricity to the grid.

The company also has food waste contracts that are operated by 100% subsidiary GENeco (South West) Ltd and an industrial laundry business in our 100% subsidiary Enterprise Laundry Services Ltd that provides laundry services in the Bath area.

On 1 August 2021 the activities of Enterprise Laundry Services Ltd were transferred to Thermae Development Company Ltd, another company within the wider YTL group.

C. SC TECHNOLOGY GMBH

Trading under the name Swiss Combi the turnover of the company for the year was £7.4m (2020 - £6.9m). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

D. ALBION WATER LTD

In 2016, WWL acquired 51% of Albion Water Ltd from Albion Water Group. The principal activity of Albion Water Ltd is to win water and sewerage inset appointments in the competitive market in England and Wales. Turnover for the period to 30 June 2021 was £1.2m (2020 - £1.0m).

On 8 April 2021 WWL acquired the remaining 49% of Albion Water Ltd from the existing shareholder.

E. TURNBULL INFRASTRUCTURE & UTILITIES LTD

Incorporated in October 1998, Wessex Engineering & Construction Services Ltd has since undertaken small engineering projects for third parties that are not part of the regulated capital programme.

On 28 April 2021 the company formally changed its name to Turnbull Infrastructure & Utilities Ltd with the intention of bidding for larger scale projects within the utilities and infrastructure industries.

F. FLIPPER LTD

In 2017, WWL set up two new subsidiary companies, Wessex Concierge Ltd and its 100% subsidiary Wessex Concierge Services Ltd. The subsidiary company has acquired 100% of the activities of Flipper Ltd, whose principal activity is energy switching for domestic customers in United Kingdom. Turnover for the period to 30 June 2021 was £0.4m (2020 - £0.4m).

STRATEGIC REPORT (continued)

Acting to promote the success of the company (s.172 (1) statement)

Section 172 of the Companies Act 2006 requires a director of a company to act in good faith, as he or she considers will most likely promote the long-term success of the company for the benefit of all stakeholders as a whole.

This section sets out how the Board has had regard to the matters set out in s.172(1) (a) to (f) in particular:

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

In discharging our section 172 duty, our directors, individually and collectively as the Board, act as they consider will best promote the success of the Group, for the benefit of all our stakeholders. As part of this duty, our directors have regard for likely long-term consequences of decisions and the reputation of the business demonstrated through high standards of business conduct.

Our s172 duties have regard to our employees and to all our external stakeholders.

- **Employees** – The Board regards the group employees as critical to deliver the vision, values and outcomes needed to meet our wider stakeholder expectations. It has established a number of channels to allow employees to be heard whether to raise concerns, make improvement suggestions or simply to appreciate how we work with them. The People's Council is a forum attended by representatives across the whole business and allows any employee to raise agenda items for discussion through their representative. The Council is attended by Board Executive Directors and meets twice a year. In addition, the Group undertakes an annual anonymous employee survey, the actions and progress towards meeting them debated within the Board. The Group also has Employee roadshows, lunch and learn sessions and an 'Ask the CEO' on a regular basis to improve learning, appreciation of other departments and to share the messages from the Board. The Board specifically decided to not use the furlough scheme during the Covid-19 pandemic (see below).
- **External Stakeholders** – Our directors also have regard for our business relationships with our wider stakeholders; our social purpose, the impact of our operations on the environment and the communities we serve; as well as the need to act fairly to balance all stakeholder needs. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

STRATEGIC REPORT (continued)

Our key stakeholders and how we engage with them are set out in the table below;

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
Customers Our aim is to be a world-leading water and sewerage company and we can only do this through providing customers with excellent service and value for money.	Our customers want an excellent service from us delivered efficiently at excellent value. They want bills to be affordable, and have the peace of mind that they are supported in times of need. They want excellent drinking water quality and waste removed without pollution. They want us to provide our services into the long-term, ensuring we have resilience through sustainable and responsible investment.	Residential Non-residential Those more vulnerable or facing difficult circumstances Minority/Under-represented groups Developers Retailers and bulk supply customers Future customers and generations, including children and students	Customer Challenge Group Customer feedback surveys Customer contacts Market research Feedback routes through customer magazine Website, including livechat Developer consultations Young People's Panel Working with schools and students Money Matters Projects NHS Key Worker Subsidy	Every Customer Matters Strategy Performance metrics Operational Resilience Young People's Panel Catchment Panel Environment and Public Value Committee and our Social Purpose Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.
Customer representatives We value the opinions of all our customers and their representatives.	Our customer representatives want to ensure that we value all customers and engage fully with them to understand their requirements, needs and concerns. Our customer representatives want to provide unrestricted challenge to us for the betterment of all customers.	Organisations representing customers in general such as Citizens Advice, Consumer Council for Water (CCW) or particular representatives such as Bristol Age UK.	Customer Challenge Group Tailored Assistance Programme Online partner hub and roadshows CCW public meetings	Customer Challenge Group CCW public meetings Feedback from our customers and their representatives informs our strategy, values, priorities including (but not limited to) our business planning priorities, charges, and pricing strategy.
Our people Our people are the embodiment of our culture and allow us to provide excellent service to our customers. Our people are also our customers.	Our people strive for excellence in their work and want to be developed to their full potential, working in a fully inclusive workplace, be given opportunities to shine and be rewarded fairly for the work they do. They want to be valued and their health and wellbeing kept safe from harm.	Current employees and their families Retired employees and their families, Pension scheme members and trustee board Future employees Unions	People's council Employee survey 'Ask the CEO' Employee roadshows Lunch and Learn talks Apprenticeship Provision	People's council Ask the 'CEO' Pension Trustee Board Employee committee Health, safety and welfare committee We listen and act on our employees' opinions to provide our people with satisfying careers.
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities.	Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of economic hardship, so that they can support us in delivering critical services to our customers.	External suppliers Other group companies	Wessex Water marketplace Membership of British Water Pipeline Industries Guild CBI	Wessex Water marketplace Extension of liquidity to suppliers during Covid-19 Our suppliers have provided us with innovative and new ways of working to deliver more services for less. We listen and nurture our supply base ensuring that they have been supported during Covid-19.
Our investors Our investors provide the financial support to enable us to deliver our strategy and live our values.	Our investors want to support a company that provides reputational and financial benefits to them. They want long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.	Banks and financial institutions Bond holders Shareholder	Ratings agencies Annual Report	Ratings agencies Annual Report Dividends Our investors provide our financial resilience

STRATEGIC REPORT (continued)

Stakeholder group	What matters to our stakeholders?	Who?	Company engagement	Board level engagement and Impact
Government and Regulators Our Regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards and our economic infrastructure.	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy and transparent in all our activities.	Government departments MPs Local councillors Ofwat Environment Agency Natural England DWI Health & Safety Executive Pensions regulator Market Operator Services Ltd (MOSL)	Performance and risk reporting Strategic Policy Statement Price review methodology Charging Annual Review, Annual Performance Report and interim accounts Health liaison panel	Board meetings and Committees Pre-appointment interviews Business planning and target setting Health and Safety strategy Environment and Public Value Committee Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.
Environmental NGOs We take our role as a custodian of our local environment seriously and with that the opinions of our environmental colleagues.	Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute to wider environmental improvement.	Wildlife interests Bathing water and river amenity interests Catchment and Land Management Waste minimisation	Catchment Panel Wessex Water Foundation Liaison groups	Environment and Public Value Committee We embed the opinions of our environmental colleagues into our aspirational direction and priorities.

The following case studies for WWSL provide some examples of how stakeholder interests have been taken into account in Board discussions and principal decisions taken during the reporting year. Principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. In any decision we consider the needs and requirements of all of our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities.

Principal decision 1 – Avonmouth Sub-committee

The company was devastated to have experienced the tragic loss of colleagues during the year. The Board is committed to understanding why the incident happened and sharing any lessons with the wider industry.

The Board decided to create a dedicated committee, led by the Senior Independent Non-Executive Director, Jim McKenna, to oversee the investigations into the incident and keep the Board apprised of progress.

Principal decision 2 – Fully moving to Wates' governance principles

During 2019-2020 the company applied the spirit and principles of Ofwat's Better Leadership, Transparency and Governance (BLTG) principles supplemented with the FRC's UK Corporate Governance Code. This was done in due regard to the Wates Corporate Governance Principles, applying elements of both the FRC's Code and Wates as was most appropriate. During the year the Board undertook detailed discussions on the suitability, value and impact of both governance frameworks on the company. Particular consideration was given to the impact on our regulators, our customers, our employees, and those interest groups who read our annual report. The Board assessed the impact of both governance frameworks on our ongoing adherence to Ofwat's Better Leadership, Transparency and Governance (BLTG) framework (that all water and sewerage companies must adhere to) and the detail of our annual governance reporting. The Board's assessment was that our corporate governance would be best met by applying the Wates' principles alongside our principle framework of BLTG. The Board assessed that its commitment to first-class governance and in particular social purpose was better met by Wates principles and that this did not detract from any other aspect of the company's governance.

STRATEGIC REPORT (continued)

Principal decision 3 – The Environment and Public Value Committee

The Board created a new sub-committee (Environment and Public Value) to provide advice to the Board on its wider societal and environmental purpose. Aligning this to the company culture in such a way that our environment and social purpose meets the needs of the communities we serve as well as providing a focus on emergent business issues and opportunities. The company has always had a strong focus on corporate social responsibility but the new committee provided a refresh towards a wider social purpose and horizon scanning.

The Board took this direction after listening to all of our stakeholders, but in particular those of our community groups, special interest groups, environmental groups, and to address wider societal demands. The new committee will allow the Board to focus on emergent issues and improve its resilience and flexibility in meeting its commitments to our nature and water environments.

Principal decision 4 – Covid-19 furlough arrangements and supplier credit extension

The Board, with support from the shareholder, chose to ensure the financial security of all its employees and its suppliers during the Covid 19 pandemic.

The company chose to uphold its values by ensuring that it supported its employees fully, with some employees diverted into other roles. The Board saw this as providing essential economic support to the wider community by maintaining employment without subsidy, and thereby supporting the UK economy by ensuring furlough funds were directed to those companies with greater need. This approach supported the critical infrastructure status afforded to water and sewerage companies by the UK government.

The Board also decided that its supply base should be supported against financial uncertainty in the support it provided to our company, from the work it carried out with us. We worked with our suppliers to identify any that needed additional financial support with payment terms, and the company chose to maintain or shorten payment terms during the pandemic rather than lengthen.

This decision was known to have had a financial effect on the company, with a potential impact on our customer and our shareholder. However, the customer impact was deemed low as this allowed us to maintain customer service levels during this period, as demonstrated by our excellent C-Mex scores, and as a critical industry we would need to continue to provide the infrastructure and services. The financial impact on our shareholder was assessed as higher but our shareholder's values and ethical principles allowed the company to provide this additional support.

The strategic report was approved by the Board of Directors on 8 September 2021 and signed on its behalf by:



Colin Skellett
Director

DIRECTORS' REPORT

The Directors present their Directors' Report and the financial statements for the year to 30 June 2021.

DIRECTORS

The Directors of the Company during the year and subsequently were:

Colin Skellett
Mark Watts
David Barclay
Francis Sock Ping Yeoh *
Seok Kah Dato Yeoh *
Seok Hong Yeoh *
Seok Kian Yeoh *

*Share interests of these Directors are disclosed in the accounts of YTL Power International Berhad and YTL Corporation Berhad.

Directors' Interests

During the year no Director was materially interested in any contract with the Company or with any of its subsidiaries.

Directors' Emoluments

	Salary £000	Bonus* £000	Loss of office £000	LTIP £000	Benefits £000	Total 2020-21 £000	Total 2019-20 £000
Colin Skellett	276	224	-	-	20	520	296
Mark Watts	110	324	-	-	17	451	173
David Elliott	-	-	-	-	-	-	648
David Barclay	105	-	-	-	-	105	110
Total	491	548	-	-	37	1,076	1,227

*2020/21 bonus payments represent deferred bonus awards for 2019/20 which were paid in October 2020. Bonus awards for 2020-2021 were voluntarily forfeit.

In addition, Colin Skellett and Mark Watts received emoluments of £517,100 and £1,091,800 respectively for their services to the other group companies. No emoluments were paid to the other Directors.

Directors' Share Interests

Share options

The following Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (see note 21), under the 2011 UK Plan. The share price as at 30 June 2021 was RM0.70 or £0.12.

	At 30 June 2020	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2021
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	-
Colin Skellett	1,913,000	1.38	01/06/2012	01/06/2015	31/03/2021	-
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	-
Mark Watts	913,000	1.38	01/06/2012	01/06/2015	31/03/2021	-

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held in 2014, and to RM1.38 following the distribution to all shareholders of one share for every 50 ordinary shares held in 2017.

No share options were accrued during the year (2020 – none) and no gains were made (2020 – none).

DIRECTORS' REPORT (continued)

Shares held

The ordinary shares of YTL Power International Berhad of RM0.50 held were:

	At 30 June 2020	Movements	At 30 June 2021
Mark Watts	395,790	-	395,790

There were no other interests in shares of group companies that are disclosable in these accounts.

Share warrants

YTL Power International Berhad issued share warrants at a price of RM0.10 that entitled the owner of the warrant to convert the warrant into ordinary shares of YTL Power International Berhad over a period of 10 years. No warrants were held by directors during the period.

Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Board of WWSL ensures that its gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets. The dividend is shown in note 10.

Going concern

The Directors have considered the financial position of the Group and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short-term financing requirements of the Group for the 12 month period from the date of the approval of these accounts. The Directors have noted the debt falling due within the next year, in particular a £300m bond due on 24th September 2021. In order to facilitate the repayment of this the Group issued a new £300m fixed rate bond in January 2021 which saw an oversubscription and resulted in an ultra low coupon of 1.25%. The Group also has access to £225m of undrawn bank facilities if required.

For the main subsidiary of the Group, Wessex Water Services Limited, a long-term viability statement has been prepared which extends to March 2030 and against which 36 scenarios of varying severity have been modelled, all of which included the impact of Covid-19. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the company during the going concern period to the end of September 2022. The remaining companies within the group do not have sufficient capacity to materially impact the conclusion for the Group as a whole.

Therefore, the Directors have prepared the accounts on a going concern basis.

Streamlined Energy and Carbon Reporting

The Group carbon reporting is disclosed in Wessex Water Services Limited financial statements as this is the only company captured by the requirements. These accounts can be viewed at:

<https://www.wessexwater.co.uk/corporate/strategy-and-reports/performance/annual-results-2020#financial>

Sustainability

The Group has a sustainability vision that guides its progress towards being a sustainable water group. The sustainability vision is reviewed bi-annually.

Ethical policy

We are determined to maintain our reputation as a Company that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics. We aim to be the best and value everyone's contribution in our pursuit of excellence.

We are honest in the way we conduct our business. We treat one another, our customers and the environment with respect.

DIRECTORS' REPORT *(continued)*

Our People

It takes great people and great teamwork to provide our services. That's why we encourage and reward our employees for their contribution to achieving our aims. We seek their ideas and put them into practice, celebrate success and encourage them to go the extra mile. This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

Our apprenticeship strategy is proving successful for both the Company and the local community, offering secure employment opportunities across our region.

Employment

The Group is an equal opportunities employer. No person or group of persons applying for a job with the group is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability. Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities. These procedures are monitored and regularly reviewed. Where necessary, the Group provides staff with special training facilities to enable them to compete or qualify for positions, or to progress, within the Group.

Modern Slavery Act

The Group is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. In accordance with the requirements of the Act we have published on our website a Slavery and human trafficking statement 2018.

Environment Policy

The Group protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The environment policy is reviewed annually.

Research and Development

The Group carried out research and development in support of existing activities to improve the reliability and effectiveness of water and waste water services.

Market Value of Land and Buildings

In the opinion of the Directors, the market value of land and buildings of the Group exceeds the book value of these assets at 30 June 2021.

Charitable and political donations

During the year £737,739 was donated to UK charities (2020 – £752,347). There were no political donations in either year.

Supplier Payment Policy

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2021 trade creditors represented approximately 24 days trade purchases (2020 – 20 days). The Group does not follow any specific external code or standard on payment policy.

DIRECTORS' REPORT *(continued)*

Corporate Governance

Wessex Water Services Limited is required, under Condition i17/i24 of its Instrument of Appointment as a water and sewerage undertaker, to take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority. Details of compliance are shown in the Regulatory Accounts and Annual Report and accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 2 to 15. Information on the use of financial instruments by the Company are shown in note 26 to the financial statements.

Re-appointment of Auditor

Following a resolution of the Board Ernst & Young LLP were re-appointed as the auditor of the Company for the current financial year.

By order of the Board,



Colin Skellett
Director
8 September 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance;
- in respect of the group financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether international accounting standards in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company and/ or the group will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the company and the group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Directors' responsibility statement

The directors confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LIMITED

Opinion

We have audited the financial statements of Wessex Water Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 30 June 2021 which comprise Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Balance Sheets, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 June 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other 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.

Conclusions relating to going concern

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. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We gained an understanding of the process undertaken by management to perform the going concern assessment, including their assessment of risks and evaluation of the ongoing impact of COVID-19 on the parent Company, including discussion with management to ensure all key factors were taken into account.
- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 September 2022 and we agreed these to the Board and regulatory approved budgets and forecasts.
- We tested the mathematical accuracy of the cash flows, as well as the calculation of the forecast covenants.
- We considered the parent company's access to available sources of liquidity and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We performed the covenant testing and considered any indicator of breach.
- We challenged management by reperforming and building our own point of estimate, in respect of the assumptions used in the going concern assessment and reverse stress test reflecting their principal risks and uncertainties, including the risk of a further lockdown later in FY21 and the impact this would have on liquidity and on compliance with financial covenants.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LIMITED *(continued)*

- We understood and challenged the Board's controllable mitigation plans and the forecast impact on the ability of the business to operate within its financial covenants. We obtained supporting documentation to evaluate the plausibility and achievability of management's mitigation plans considering actions delivered to date.
- We compared forecast future cashflows to historical data, ensuring variations are in line with our expectations, such as historical performance, and understanding of the business and considered the reliability of past forecasts.
- We considered the results of other audit procedures and other knowledge obtained in the audit and whether it was consistent with or contradicted management's assumptions.
- We performed our own sensitivity analysis on management's forecast cashflows and considered the reverse stress test management model to understand how severe conditions would have to be to breach liquidity and/or covenant headroom, and whether the scenario has no more than a remote possibility of occurring.
- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern
- We assessed the appropriateness of disclosures within the Annual Report and Accounts.

Our key observations

- We have observed that the group is experiencing a minimal level of disruption from the impact of the pandemic from both a revenue and profitability perspective.
- In January 2021, the group received £300 million from the bonds issued by the group's subsidiary, amounting to circa £310 million. The bond issuance provides the group with sufficient funds to repay the subsidiary's bond, guaranteed by the group which is due on September 2021 of circa £300 million.
- The group has £225 million of revolving bank facility available throughout the going concern period, and under management's base case scenario, there is significant liquidity headroom greater than £100 million throughout the period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LIMITED *(continued)*

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are
 - International financial reporting standards (IFRSs) as adopted by European Union
 - Tax legislation (Governed by HM Revenue and Customs)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER LIMITED *(continued)*

- General Data Protection Regulation
- The UK Bribery Act
- Anti-Money Laundering Legislation
- Health & Safety Legislation
- Wates Principles
- Ofwat regulations
- The Water Act 2003
- Environment Act 1995

We understood how Wessex Water is complying with those frameworks by making enquiries of management to understand how the group maintains and communicates its policies and procedures in these areas. We evaluated the entity level control environment through discussions with management and group in-house legal counsel, inspections and observations in the control environment to understand procedures implemented by management to reduce the opportunities for fraudulent transactions. We performed procedures, including reading minutes of the board meetings and making enquiries with the management for any correspondence of non-compliance with the tax authorities, and noted no significant issues. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year and to ensure that the management is in compliance with the applicable framework.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by inquiring with management and those charged with governance and performing a walkthrough of the financial statement closing process. We understood the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. We determined revenue recognition to be a fraud risk due to management override of controls, therefore we tested manual journal entries posted to revenue, focusing on journals around the year end, and also performed year end cut off procedures. Further, we performed overall analytical procedures to assess the fairness of the overall financial performance and the position as at and for the year ended. In relation to management override we used data analytics to sample from the entire population of journals, identifying specific transactions which did not meet our expectations based on specific criteria, to investigate to gain an understanding and agree to source documentation.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
8 September 2021

Consolidated Statement of Profit or Loss
For the year ended 30 June 2021

	<i>Note</i>	2021 £m	2020 £m
Revenue	3,4	682.0	658.2
Charge for bad and doubtful debts	5	(15.8)	(21.5)
Other operating costs	5	(503.3)	(434.1)
Total operating costs	5	(519.1)	(455.6)
Other income		9.3	3.6
Net valuation gains and losses		0.3	-
Operating profit	3	172.5	206.2
Financial income	8	1.4	2.0
Financial expenses	8	(85.2)	(91.7)
Net financing expense		(83.8)	(89.7)
Profit before tax		88.7	116.5
Taxation	9	(112.8)	(51.7)
(Loss)/profit for the year		(24.1)	64.8
Attributable to:			
Equity holders of the parent		(24.3)	62.7
Non-controlling interest		0.2	2.1
(Loss)/profit for the year		(24.1)	64.8

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

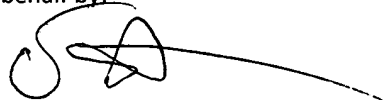
	Note	2021 £m	2020 £m
(Loss)/profit for the year		(24.1)	64.8
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	21	80.5	(43.3)
Income tax on items that will not be reclassified to profit or loss		(54.0)	(4.2)
		26.5	(47.5)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences – foreign operations		0.3	0.1
		0.3	0.1
Other comprehensive income/(loss) for the year, net of income tax		26.8	(47.4)
Total comprehensive income for the year		2.7	17.4
(Loss)/profit attributable to:			
Equity holders of the parent		(24.3)	62.7
Non-controlling interest		0.2	2.1
(Loss)/profit for the year		(24.1)	64.8
Total comprehensive income attributable to:			
Equity holders of the parent		2.5	15.3
Non-controlling interest		0.2	2.1
Total comprehensive income for the year		2.7	17.4

Statements of Financial Position
At 30 June 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Non-current assets					
Property, plant and equipment	12	3,968.6	3,827.8	-	-
Intangible assets	13	59.3	65.5	0.7	0.7
Investments in subsidiaries	14	-	-	82.7	82.7
Non-current financial assets	15	0.5	-	-	-
		<u>4,028.4</u>	<u>3,893.3</u>	<u>83.4</u>	<u>83.4</u>
Current assets					
Inventories	16	5.2	5.8	-	-
Trade and other receivables	17	324.3	308.5	171.4	174.1
Corporation tax receivable	17	7.1	3.2	-	-
Other financial assets	18	-	98.0	-	-
Cash and short-term deposits	18	333.3	36.4	-	-
		<u>669.9</u>	<u>451.9</u>	<u>171.4</u>	<u>174.1</u>
Total assets		<u>4,698.3</u>	<u>4,345.2</u>	<u>254.8</u>	<u>257.5</u>
Current liabilities					
Bank overdraft	18	(4.3)	(8.6)	(3.8)	(4.0)
Other interest-bearing loans and borrowings	19	(404.8)	(11.8)	(25.7)	(3.3)
Corporation tax payable	20	(1.3)	-	(0.9)	-
Trade and other payables	20	(218.4)	(183.2)	(42.1)	(42.2)
Provisions	23	(0.2)	(0.3)	-	-
		<u>(629.0)</u>	<u>(203.9)</u>	<u>(72.5)</u>	<u>(49.5)</u>
Non-current liabilities					
Other interest-bearing loans and borrowings	19	(2,336.0)	(2,423.4)	(27.7)	(46.4)
Contract liabilities	20	(5.6)	(2.8)	-	-
Employee benefits	21	(76.1)	(165.1)	-	-
Deferred grants & contributions	22	(313.6)	(305.0)	-	-
Deferred tax liabilities	24	(567.0)	(405.6)	-	-
		<u>(3,298.3)</u>	<u>(3,301.9)</u>	<u>(27.7)</u>	<u>(46.4)</u>
Total liabilities		<u>(3,927.3)</u>	<u>(3,505.8)</u>	<u>(100.2)</u>	<u>(95.9)</u>
Net assets	3	<u>771.0</u>	<u>839.4</u>	<u>154.6</u>	<u>161.6</u>
Equity					
Share capital	25	131.8	131.8	131.8	131.8
Retained earnings		636.6	704.2	22.8	29.8
Non-controlling interest	25	2.6	3.4	-	-
Total equity		<u>771.0</u>	<u>839.4</u>	<u>154.6</u>	<u>161.6</u>

During the year Wessex Water Ltd (the Company) made a profit after tax of £63.1m (2020 - £88.6m).

These financial statements were approved by the Board of Directors on 8 September 2021 and were signed on its behalf by:



Colin Skellett, Director

Statement of Changes in Equity
For the year ended 30 June 2021

Group

	<i>Note</i>	Share capital £m	Retained earnings £m	Non- controll- ing interests £m	Total equity £m
Balance at 1 July 2019		131.8	775.9	1.3	909.0
Total comprehensive income for the year					
Profit for the year		-	62.7	2.1	64.8
Other comprehensive loss		-	(47.4)	-	(47.4)
Total comprehensive income for the year		-	15.3	2.1	17.4
Transactions with owners, recorded directly in equity					
Dividends	10	-	(87.0)	-	(87.0)
Share premium decrease		-	-	-	-
Total contributions by and distributions to owners		-	(87.0)	-	(87.0)
Balance at 30 June 2020		131.8	704.2	3.4	839.4
Balance at 1 July 2020		131.8	704.2	3.4	839.4
Total comprehensive income for the year					
(Loss) for the year		-	(24.3)	0.2	(24.1)
Other comprehensive income		-	26.8	-	26.8
Total comprehensive income for the year		-	2.5	0.2	2.7
Acquisition of subsidiaries					
Further investment in existing subsidiaries		-	-	(1.0)	(1.0)
Transactions with owners, recorded directly in equity					
Dividends	10	-	(70.1)	-	(70.1)
Total contributions by and distributions to owners		-	(70.1)	-	(70.1)
Balance at 30 June 2021		131.8	636.6	2.6	771.0

Statement of Changes in Equity
For the year ended 30 June 2021
Company

	<i>Note</i>	Share capital £m	Retained earnings £m	Non- controll- ing interests £m	Total equity £m
Balance at 1 July 2019		131.8	28.2	-	160.0
Total comprehensive income for the year					
Profit for the year		-	88.6	-	88.6
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	88.6	-	88.6
Transactions with owners, recorded directly in equity					
Dividends	10	-	(87.0)	-	(87.0)
Total contributions by and distributions to owners		-	(87.0)	-	(87.0)
Balance at 30 June 2020		131.8	29.8	-	161.6
Balance at 1 July 2020		131.8	29.8	-	161.6
Total comprehensive income for the year					
Profit for the year		-	63.1	-	63.1
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	63.1	-	63.1
Transactions with owners, recorded directly in equity					
Dividends	10	-	(70.1)	-	(70.1)
Share premium decrease		-	-	-	-
Total contributions by and distributions to owners		-	(70.1)	-	(70.1)
Balance at 30 June 2021		131.8	22.8	-	154.6

Statements of Cash Flows
For year ended 30 June 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash flows from operating activities					
(Loss)/profit for the year		(24.1)	64.8	63.1	88.6
<i>Adjustments for:</i>					
Depreciation, amortisation and impairment		126.3	118.1	0.2	0.1
Financial income	8	(1.4)	(2.0)	(68.8)	(90.0)
Financial expense	8	85.2	91.7	0.5	1.0
Taxation	9	112.8	51.7	-	-
		298.8	324.3	(5.0)	(0.3)
(Increase)/decrease in trade and other receivables		(17.5)	4.1	2.7	(3.3)
Decrease/(increase) in inventories		0.6	(1.4)	-	-
Increase/(decrease) in trade and other payables		32.7	(16.1)	0.8	(5.4)
(Decrease) in provisions and employee benefits		(11.1)	(13.2)	-	-
		4.7	(26.6)	3.5	(8.7)
Tax paid		(7.1)	(26.1)	-	-
Net cash from operating activities		296.4	271.6	(1.5)	(9.0)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		10.2	2.2	-	-
Interest received		1.4	2.0	1.6	2.5
Dividends received		-	-	68.3	96.0
Acquisition of subsidiary, net of cash acquired		-	-	(1.0)	-
Acquisition of property, plant and equipment		(261.4)	(216.9)	-	-
Proceeds from infrastructure charges and capital contributions		9.1	6.7	-	-
Purchase of financial instruments	18	-	(98.0)	-	-
Proceeds from sale of financial instruments	18	98.0	-	-	-
Acquisition of other intangible assets		(5.2)	(29.3)	(0.2)	(0.4)
Net cash used in investing activities		(147.9)	(333.3)	68.7	98.1
Cash flows from financing activities					
Proceeds from borrowings		299.4	310.5	4.7	3.6
Interest paid		(66.1)	(65.0)	(0.6)	(1.0)
Repayment of borrowings		(9.6)	(60.0)	(1.0)	-
Payment of principal portion of lease liabilities		(0.9)	(0.9)	-	-
Dividends paid		(70.1)	(95.5)	(70.1)	(95.5)
Net cash from financing activities		152.7	89.1	(67.0)	(92.9)
Increase/(decrease) in cash and cash equivalents		301.2	27.4	0.2	(3.8)
Cash and cash equivalents at 1 July		27.8	0.4	(4.0)	(0.2)
Cash and cash equivalents at 30 June	18	329.0	27.8	(3.8)	(4.0)

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

Wessex Water Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 2366633 and the registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

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

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

1.2 Measurement convention

The consolidated financial statements have been prepared on a historical cost basis

1.3 Going concern

The Directors have considered the financial position of the Group and have concluded that they will be able to meet their liabilities as they fall due. For these purposes this is taken to mean a period of 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short-term financing requirements of the Group for the 12 month period from the date of the approval of these accounts. The Directors have noted the debt falling due within the next year, in particular a £300m bond due on 24th September 2021. In order to facilitate the repayment of this the Group issued a new £300m fixed rate bond in January 2021 which saw an oversubscription and resulted in an ultra low coupon of 1.25%. The Group also has access to £225m of undrawn bank facilities if required.

For the main subsidiary of the Group, Wessex Water Services Limited, a long-term viability statement has been prepared which extends to March 2030 and against which 36 scenarios of varying severity have been modelled, all of which included the impact of Covid-19. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the company during the going concern period to the end of September 2022. The remaining companies within the group do not have sufficient capacity to materially impact the conclusion for the Group as a whole.

Therefore, the Directors have prepared the accounts on a going concern basis.

1.4 Foreign currency

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.5 Financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes intercompany loans repayable in more than 12 months, and interest receivable.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.5 Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement - Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 19.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

1.6 Property, plant and equipment

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Under IFRS 15 sewers adopted at nil cost to the Group are included in fixed assets at a fair value, which is the estimated cost of construction and depreciated at the same rate as infrastructure assets.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|---------------------------------|-----------------|
| • Land and buildings | 15 to 80 years |
| • Infrastructure assets | 60 to 150 years |
| • Plant, equipment and vehicles | 3 to 30 years |
| • Office & IT equipment | 3 to 10 years |

Infrastructure assets comprise 8 components:

Impounding reservoirs 150 years, raw water mains 100 years, treated water mains 100 years, communication pipes 60 years, sewers 125 years, sewage pumping stations 60 years, combined sewer overflows 80 years and sea outfalls 60 years.

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

Notes to the financial statements (*continued*)

1. Accounting policies (*continued*)

1.7 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

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

- | | |
|--|----------|
| • External customer lists | 10 years |
| • Specialised computer software | 10 years |
| • In-house computer software development | 5 years |

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of those assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from those assets and apply a suitable discount rate in order to calculate the present value.

1.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

For trade receivables and contract assets that are expected to have a maturity of one year or less, the Group has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. customer type, payment method, rating and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., average earnings) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.9 Impairment excluding inventories and deferred tax assets (continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 17.

The Group considers a financial asset in default when contractual payments are 80 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1.10 Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans and other post-employment benefits are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets. The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The assets of the scheme are held separately from those of the Group. The Company recognizes a cost equal to its contribution payable for the period. The scheme has been closed to new members since 2009.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or loss in the periods during which services are rendered by employees.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.10 Employee benefits (continued)

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

YTL Power International Berhad operates an equity settled share-based payment scheme for the employees of the group. The fair value of the share-based payment awards is recognised as an expense over the period of the award. The amount recognised is adjusted to reflect the actual number of awards for which service and performance conditions are met at the vesting date. Where YTL Power International Berhad grants rights to its equity instruments to the Group's employees, they are accounted for as equity settled in the consolidated accounts. In the Groups accounts they are accounted for as a charge to the profit and loss account and an inter-company liability in each accounting period up to the vesting date.

1.11 Provisions

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

Notes to the financial statements (*continued*)

1. Accounting policies (*continued*)

1.12 Revenue

Supply of water and sewerage services

The nature of the water industry in the UK is such that revenue recognition is subject to a degree of estimation. The assessment of water sales to customers is based on internal data where final settlement data is not yet available. At the end of each period, amounts of water delivered to customers are estimated and the corresponding billed and unbilled revenue is assessed and recorded in Revenue. For the purpose of the judgement various factors are considered such as seasonality, historic billing profiles, leakage data and general economic conditions.

The company, under the license granted by the Government, has the right to supply water and sewerage services to customers, together with an obligation to maintain and develop the network and ensure its continued availability. Revenue from contracts with customers is recognised when control of these goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

For metered customers this amount is determined by the meter reading. For unmetered customers, the amount to which the Company has a right to receive is determined by the passage of time during which the customer occupies a property within the Company's licensed region. Revenue represents income receivable in the ordinary course of business, excluding VAT, for services provided. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company.

Variable Consideration

Unbilled receivables is considered to be a variable consideration which is not constrained as the Company considers it to be highly probable that a significant amount will not be reversed after year end. Unbilled receivables and the variable consideration is estimated using the most likely outcome approach.

Developer Services

These are services related to the obligation under statute to allow property developers to establish an authorised connection to the water and/or sewerage network. In obtaining the connection the developer may require the Company to undertake one or more of the of the following:

- (i) Connections and meter installation in exchange for payment;
- (ii) Requisitions of water mains in exchange for payment; and
- (iii) Adoptions of water and wastewater mains.

The developer is also required to pay infrastructure charges being a contribution to network reinforcement.

Period over which performance obligations are satisfied

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision. Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the need to replace the assets at the end of their useful life (typically in the range 60 to 125 years).

Financing Component

Under IFRS 15 the transaction price needs to be adjusted if the timing of payments provides the customer or supplier with a significant benefit of financing the transfer of goods or services. This is not the case for Developer Services as the timing difference does not arise as a result of the provision of finance, but rather comes as a consequence of the nature of the regulatory environment. In relation to this the Group has adopted the practical expedient available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.12 Revenue *(continued)*

Renewable Obligation Certificates (ROC) and Renewable Heat Incentives (RHI)

A subsidiary of the group generates green electricity and gas from combined heat and power plants along with the Biomethane plants which are accredited with government incentive schemes. The schemes run for twenty years from application and are based on fixed tariffs plus inflation each year. ROCs are issued monthly relating to the supply of green electricity to the grid with meter readings and submissions subsequently checked by OFGEM. Revenue is therefore recognised in the period to which it relates.

Liquid Waste Treatment

Customers waste is categorised as domestic or controlled. The agreements for treatment of controlled waste are short term and acceptance of all waste is determined by available treatment capacity at Wessex Water Services Ltd sewage treatment works.

Domestic waste has an annual fixed tariff which has three tiers for strength of waste based on suspended solids and chemical oxygen demand. Waste is either measured using sludge loggers or from samples taken from the tanker sent to Wessex Water laboratory for analysis. Controlled waste is organic waste coming from industrial processes such as food processing and landfill leachate. Each individual waste stream is sampled with the suspended solids and chemical oxygen demand determining a treatment charge which is agreed with the customer.

Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation.

Property Searches

The group trades under the brand 'Wessex Searches' delivering the CON29DW product, a drainage and water search. Solicitors, search agencies and individuals are supplied with mapping information of water supply and sewage pipes relating to an individual residential or commercial property. Associated products are also procured from third parties such as local councils, mining authority and environmental search providers and sold as a package within the COND29DW product.

The fee charged for these services covers a specific product supplied at a particular point with the revenue being recognised at this point.

Other Revenue

Other Revenue which includes income from related parties is recognised by reference to each distinct performance obligation promised in the contract with customer. Depending on the substances of the respective contract with the customer, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

1.13 Contract Balances

Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.14 Deferred Grants and Contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as contract liability and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Grants and contributions relating to infrastructure assets are amortised over an average of 108 years (see 1.6).

Under IFRS 15 sewers adopted at nil cost to the Group are shown in contract liability at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

1.15 Expenses

Operating lease payments

Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable lease payments that do not depend on an index or a rate are recognised as expenses. In addition, depreciation is charged on a straight-line basis on a right-of-use asset recognised at the inception of the lease (or the date of adoption of IFRS 16 if later).

Financing income and expenses

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

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

1.16 Taxation

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

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

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

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

1.17 Dividends

Dividends are proposed by the board and immediately afterwards are authorised by the shareholder and are therefore recognised as a liability in the accounts until paid.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.18 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated financial statements account for joint ventures using the equity method, initially recognising the investment at cost. Subsequently the carrying amount is adjusted to recognise changes in the Group's share of net assets, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

1.19 Fair value measurement

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either:

- In the principal market for the asset or;
- In the absence of a principal market, in the most advantageous market for the asset

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of investment properties takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.19 Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.20 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- | | |
|--------------------------------------|----------------|
| • Land and property | 15 to 80 years |
| • Plant and machinery | 3 to 30 years |
| • Motor vehicles and other equipment | 3 to 10 years |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (1.9) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 18).

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the financial statements (continued)

1. Accounting policies (continued)

1.20 Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where the lease terms require, we maintain adequate insurance to cover all risks retained by the Group as a lessor.

As a lessor, the Group does not have any items of property, plant or equipment that are subject to operating leases.

2. Changes in accounting policies and disclosures

There were no changes in accounting policies or disclosures during the year.

3. Segmental analysis

	2021 £m	2020 £m
<i>Revenue</i>		
Regulated	594.2	588.0
Unregulated	87.8	70.2
	<u>682.0</u>	<u>658.2</u>
<i>Operating profit</i>		
Regulated	161.1	197.5
Unregulated	11.4	8.7
	<u>172.5</u>	<u>206.2</u>
<i>Net assets</i>		
Regulated	615.7	683.0
Unregulated	155.3	156.4
	<u>771.0</u>	<u>839.4</u>

For management purposes, the group is organised into units based on the business environment it operates in and has two reportable segments, Regulated and Unregulated.

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of Turnover, Operating profit and Net Asset value and is measured consistently with the consolidated financial statements.

Notes to the financial statements (continued)

4. Revenue from contracts with customers

Current year	House- hold £m	Non- house- hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	47.7	30.4	78.1
Measured	78.4	58.4	136.8
	<u>126.1</u>	<u>88.8</u>	<u>214.9</u>
Wholesale revenue - Waste Water			
Unmeasured	96.2	15.0	111.2
Measured	152.8	59.2	212.0
	<u>249.0</u>	<u>74.2</u>	<u>323.2</u>
Retail revenue			
Unmeasured	10.1	2.2	12.3
Measured	25.9	2.0	27.9
	<u>36.0</u>	<u>4.2</u>	<u>40.2</u>
Other revenue			
Regulated			15.9
Unregulated			87.8
Total revenue			<u><u>682.0</u></u>
Prior year	House- hold £m	Non- house- hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	50.0	17.8	67.8
Measured	73.6	69.6	143.2
	<u>123.6</u>	<u>87.4</u>	<u>211.0</u>
Wholesale revenue - Waste Water			
Unmeasured	103.3	8.5	111.8
Measured	145.3	69.0	214.3
	<u>248.6</u>	<u>77.5</u>	<u>326.1</u>
Retail revenue			
Unmeasured	10.2	1.3	11.5
Measured	26.8	1.6	28.4
	<u>37.0</u>	<u>2.9</u>	<u>39.9</u>
Other revenue			
Regulated			11.0
Unregulated			70.2
Total revenue			<u><u>658.2</u></u>

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time. Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

Notes to the financial statements (continued)

4. Revenue from contracts with customers (continued)

Other revenues comprise a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Group's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

Contract balances

Contract cost assets of £4.1m (£4.7m in 2020) are included in the statement of financial position under trade and other receivables. At the year-end there were liabilities for receipts in advance relating to contracts of £59.7m (£61.3m in 2020).

5. Operating costs and auditor's remuneration

Included in profit/loss are the following:

	2021 £m	2020 £m
Employee costs (note 6)	141.6	133.8
Power	35.7	38.6
Raw Materials and consumables	18.1	20.1
Rates	24.6	25.2
Charge for bad and doubtful debts (note 26)	15.8	21.5
Service charges	6.6	5.9
Depreciation of property, plant and equipment (note 12)	123.6	111.4
Depreciation of right-of-use assets (note 11)	0.8	0.8
Amortisation of intangible assets (note 13)	11.2	9.8
Short term lease expense (note 11)	7.8	6.6
Hire of plant and machinery	0.3	0.3
Research and development expensed as incurred	-	1.7
Infrastructure maintenance expenditure	22.8	20.9
Ofwat licence fee	1.7	1.7
Cost of finished goods and work-in-progress	7.2	5.5
Other operating costs	204.3	152.5
	622.1	556.3
Own work capitalised	(103.0)	(100.7)
	519.1	455.6

	2021 £000	2020 £000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	75	159
Audit of the financial statements of subsidiaries	240	187
Other services pursuant to legislation	217	144
	532	490

Notes to the financial statements (*continued*)

6. Staff numbers and costs

The average number of employees (including Directors) during the year was as follows:

	Number of employees	
	2021	2020
Average number of employees	<u>3,105</u>	<u>3,042</u>

The aggregate payroll costs of these employees were:

	2021 £m	2020 £m
Wages and salaries	112.2	105.2
Social security costs	12.3	11.3
Pension costs - defined cost	6.4	6.0
Pension costs - defined benefit	<u>10.7</u>	<u>11.3</u>
	<u>141.6</u>	<u>133.8</u>

7. Directors' remuneration

	2021 £000	2020 £000
Total Directors' remuneration including benefits in kind	<u>1,076</u>	<u>1,228</u>
Remuneration of highest paid Director	<u>520</u>	<u>649</u>

Details of Directors' remuneration can be found in the Directors' Report.

Directors' remuneration is in respect of two Executive Directors and five YTL appointed Directors (2020 - three Executive Directors and five YTL appointed Directors).

8. Finance income and expense

Recognised in the statement of profit or loss:

	2021 £m	2020 £m
<i>Finance income</i>		
Interest receivable on short-term bank deposits	<u>1.4</u>	<u>2.0</u>
Total finance income	<u>1.4</u>	<u>2.0</u>
<i>Finance expense</i>		
Net interest on net defined benefit pension plan liability (note 21)	(2.5)	(3.0)
On bank loans and leases	<u>(82.7)</u>	<u>(88.7)</u>
Total finance expense	<u>(85.2)</u>	<u>(91.7)</u>
Net interest payable	<u>(83.8)</u>	<u>(89.7)</u>

In accordance with IAS 23 borrowing costs of £4.3m (2020 - £3.5m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 3.7% (2020 - 4.2%).

Notes to the financial statements (continued)

9. Taxation

Recognised in the statement of profit or loss

	2021 £m	2020 £m
<i>Current tax expense</i>		
Current year	10.9	14.1
Overseas taxation	-	-
Adjustments for prior years	(5.5)	(2.1)
Current tax expense	5.4	12.0
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	6.1	6.7
Change in tax rate	95.8	30.1
Adjustments for prior years	5.5	2.9
Deferred tax expense	107.4	39.7
Tax expense in income statement	112.8	51.7

Recognised in other comprehensive income

	2021 £m	2020 £m
Remeasurements of defined benefit liability	(20.1)	8.2
Change in tax rate	(33.9)	(12.4)
Tax debit / credit	(54.0)	(4.2)

Reconciliation of effective tax rate

	2021 £m	2020 £m
(Loss)/profit for the year	(24.1)	64.8
Total tax expense	112.8	51.7
Profit excluding taxation:	88.7	116.5
Tax using the UK corporation tax rate of 19% (2019 - 19%)	16.9	22.1
Impact of rate change	95.8	30.1
Rate difference on current year earnings	1.5	-
Non-deductible expenses	1.6	1.1
(Over) / under provided in prior years	-	0.8
Group relief for nil consideration	(2.0)	(2.4)
Capital transition	(1.0)	-
Total tax expense	112.8	51.7

The UK Budget announcements on 3 March 2021 included a proposed increase in the statutory rate of corporation tax from 19% to 25% effective from 1 April 2023. This measure was included as part of the 2021 Finance Bill which was substantively enacted before the balance sheet date. As a result, the closing deferred tax balances have been remeasured at the tax rate the temporary differences expect to reverse. This has resulted in a £95.8m charged to the statement of profit or loss and £33.9m charged in Other Comprehensive Income.

The June 2020 comparative figures reflect the increase in the statutory rate of corporation tax from 17% to 19% effective 1 April 2020. In that period, deferred tax balances were remeasured at 19% which resulted in a deferred tax charge of £29.5m in the statement of profit or loss and £12.5m charge in Other Comprehensive Income.

Notes to the financial statements (continued)

10. Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business.

	2021 £m	2020 £m
Dividends for the current year	53.6	70.5
Final dividend	<u>16.5</u>	<u>16.5</u>
	<u>70.1</u>	<u>87.0</u>

Dividend payments are reviewed and approved on a quarterly basis by the board after taking into account both current and projected business performance. In particular the board takes into account:

- the group's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the group is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the group's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the group has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
- the level of regulatory gearing and its comparison with Ofwat's expectations pertaining at the time
- sufficiency of distributable reserves

The company will maintain a solid investment grade credit rating at all times.

11. Leases

Group as a lessee

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings £m	Plant & machinery £m	Motor Vehicles £m	Total £m
At 1 July 2020	1.2	0.8	-	2.0
Additions	1.1	-	0.3	1.4
Depreciation expense	(0.2)	(0.6)	-	(0.8)
A 30 June 2021	<u>2.1</u>	<u>0.2</u>	<u>0.3</u>	<u>2.6</u>

Notes to the financial statements (continued)

11. Leases (continued)

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

	£m
As at 1 July 2020	2.0
Additions	1.4
Accretion of interest	-
Payments	(0.9)
As at 30 June 2021	<u>2.5</u>
Current	0.3
Non-current	2.2

The maturity analysis of lease liabilities is also disclosed in Note 19.

The following are the amounts recognised in profit or loss:

	2021	2020
	£m	£m
Depreciation expense of right-of use assets	0.8	0.8
Interest expense on lease liabilities	-	-
Expenses relating to short-term leases under IFRS 16	<u>7.8</u>	<u>6.6</u>
	<u>8.6</u>	<u>7.4</u>

The Group had total cash outflows for long-term leases of £0.9m in 2021. Cash outflows for short-term and low-value leases were £7.8m. The Group also had non-cash additions to right-of-use assets and lease liabilities of £1.4m in 2021.

Group as a lessor

The Group has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Group during the year is £0.8m (2020: £1.4m).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2021 are as follows:

	2021	2020
	£m	£m
Within one year	0.5	0.4
After one year but not more than five years	1.7	1.2
More than five years	<u>1.6</u>	<u>1.9</u>
	<u>3.8</u>	<u>3.5</u>

Notes to the financial statements (continued)

12. Property, plant and equipment – Group

	Land & buildings £m	Infra-structure assets £m	Plant & equipment £m	Motor vehicles £m	Office & IT equipment £m	Assets under construction £m	Group total £m
Cost							
Balance at 1 July 2019	887.8	2,227.0	1,997.3	-	40.1	-	5,152.2
Transfer to intangible assets	1.3	-	1.5	-	-	-	2.8
Transfer to inventories	-	-	(1.4)	-	-	-	(1.4)
Additions (as previously stated)	-	-	(46.1)	46.1	-	-	-
Additions restated as intangibles	64.7	83.9	69.8	2.9	11.1	-	232.4
Disposals	(1.7)	(0.1)	(28.5)	(4.6)	(5.1)	-	(40.0)
Balance at 30 June 2020	952.1	2,310.8	1,992.6	44.4	46.1	-	5,346.0
Balance at 1 July 2020	952.1	2,310.8	1,992.6	44.4	46.1	-	5,346.0
Cost of ROU assets	1.1	-	-	0.3	-	-	1.4
Transfer between categories ¹	2.3	(83.2)	(196.2)	-	(7.7)	284.8	-
Additions	-	-	-	-	-	268.3	268.3
Transfer on commissioning	57.0	110.7	141.9	7.8	3.2	(320.6)	-
ROU assets terminated	-	-	(1.1)	-	-	-	(1.1)
Disposals	(4.7)	(0.1)	(33.5)	(8.0)	-	-	(46.3)
Currency adjustments	(0.3)	-	(0.9)	-	-	-	(1.2)
Balance at 30 June 2021	1,007.5	2,338.2	1,902.8	44.5	41.6	232.5	5,567.1
Depreciation and impairment							
Balance at 1 July 2019	(312.7)	(106.3)	(1,001.4)	-	(24.0)	-	(1,444.4)
Depreciation on ROU assets	(0.1)	-	(0.7)	-	-	-	(0.8)
Transfer to intangible assets	-	-	0.3	-	-	-	0.3
Transfer between categories	-	-	25.5	(25.5)	-	-	-
Depreciation charge for the year	(14.6)	(20.4)	(68.2)	(4.6)	(3.6)	-	(111.4)
Disposals	0.9	-	28.1	4.0	5.1	-	38.1
Balance at 30 June 2020	(326.5)	(126.7)	(1,016.4)	(26.1)	(22.5)	-	(1,518.2)
Balance at 1 July 2020	(326.5)	(126.7)	(1,016.4)	(26.1)	(22.5)	-	(1,518.2)
Depreciation on ROU assets	(0.2)	-	(0.6)	-	-	-	(0.8)
Depreciation charge for the year	(15.7)	(21.5)	(76.3)	(5.4)	(4.7)	-	(123.6)
Depreciation on ROU assets terminated	-	-	1.1	-	-	-	1.1
Disposals	2.4	-	33.1	6.5	-	-	42.0
Currency adjustments	0.3	-	0.7	-	-	-	1.0
Balance at 30 June 2021	(339.7)	(148.2)	(1,058.4)	(25.0)	(27.2)	-	(1,598.5)
Net Book Value							
At 1 July 2019	575.1	2,120.7	995.9	-	16.1	-	3,707.8
At 30 June 2020	625.6	2,184.1	976.2	18.3	23.6	-	3,827.8
At 30 June 2021	667.8	2,190.0	844.4	19.5	14.4	232.5	3,968.6

Notes to the financial statements *(continued)*

12. Property, plant and equipment – Group *(continued)*

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

There are no impairment losses recognised in these financial statements.

Cumulative borrowing costs capitalised and included above were £18.5m (2020 - £14.2m).

Included in freehold land and buildings above is an amount of £15.6m (2020 - £15.1m) in respect of land which is not depreciated.

¹ In prior year expenditure on assets still under construction was included in the various reporting categories. In the current year management has decided to show assets under construction (AUC) as a separate category as it is believed this will aid users of the accounts.

Notes to the financial statements (continued)

13. Intangible assets - Group

	Goodwill	External customer lists	Contractual trading rights	Software development	Other intangible assets	Total intangible assets
	£m	£m	£m	£m	£m	£m
Cost						
Balance at 1 July 2019	0.4	2.1	4.4	51.8	1.5	60.2
Reclassified from tangible assets	-	-	-	-	-	-
Other acquisitions – externally purchased	-	-	-	30.1	0.6	30.7
Balance at 30 June 2020	0.4	2.1	4.4	81.9	2.1	90.9
Balance at 1 July 2020	0.4	2.1	4.4	81.9	2.1	90.9
Reclassified from tangible assets	-	-	-	-	-	-
Other acquisitions – externally purchased	-	-	-	5.1	0.1	5.2
Balance at 30 June 2021	0.4	2.1	4.4	87.0	2.2	96.1
Amortisation and impairment						
Balance at 1 July 2019	(0.2)	-	(1.5)	(13.5)	(0.4)	(15.6)
Reclassified from tangible assets (restated)	-	-	-	-	-	-
Amortisation for the year	-	(0.2)	(0.3)	(9.0)	(0.3)	(9.8)
Impairment charge	-	-	-	-	-	-
Balance at 30 June 2020	(0.2)	(0.2)	(1.8)	(22.5)	(0.7)	(25.4)
Balance at 1 July 2020	(0.2)	(0.2)	(1.8)	(22.5)	(0.7)	(25.4)
Reclassified from tangible assets	-	-	-	-	-	-
Amortisation for the year	-	(0.2)	(0.3)	(10.1)	(0.6)	(11.2)
Impairment charge	(0.2)	-	-	-	-	(0.2)
Balance at 30 June 2021	(0.4)	(0.4)	(2.1)	(32.6)	(1.3)	(36.8)
Net Book Value						
At 30 June 2019	0.2	2.1	2.9	38.3	1.1	44.6
At 30 June 2020	0.2	1.9	2.6	59.4	1.4	65.5
At 30 June 2021	-	1.7	2.3	54.4	0.9	59.3

Amortisation and impairment charge

The Group has considered the impact of the current open water market on the assumptions used and has conducted sensitivity analysis on the amortisation of the customer lists' carrying value. This has resulted in the adoption of an estimated useful life of 10 years for this type of asset.

Notes to the financial statements (continued)

14. Investments in subsidiaries and joint ventures

The Group and Company have the following investments in subsidiaries and joint ventures.

	Country	Number	Principal activity	Shares held	2020 %	2020 %
Company - subsidiary						
Albion Water Ltd ¹	United Kingdom	03102176	Water & Sewerage inset appointments	£1 ordinary	100	51
SC Technology GmbH	Switzerland	-	Waste treatment processes	CHF ordinary	100	100
Water 2 Business Ltd	United Kingdom	08518831	Billing services	£1 ordinary	70	70
Wessex Concierge Ltd	United Kingdom	10826537	Energy switching	£1 ordinary	100	100
Turnbull Infrastructure & Utilities Ltd ²	United Kingdom	03652435	Engineering services	£1 ordinary	100	100
Wessex Water Engineering Services Ltd	United Kingdom	02286860	Dormant	£1 ordinary	100	100
Wessex Water Enterprises Ltd	United Kingdom	02279151	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Pension Scheme Trustee Ltd	United Kingdom	03913589	Dormant	£1 ordinary	100	100
Wessex Water Services Ltd	United Kingdom	02366648	Water supply and waste water services	£1 ordinary	100	100
Wessex Water Trustee Company Ltd	United Kingdom	02278257	Dormant	£1 ordinary	100	100
YTL Engineering Ltd	United Kingdom	03696600	Dormant	£1 ordinary	100	100
YTL Services Ltd	United Kingdom	02277608	Dormant	£1 ordinary	100	100
Company – joint venture						
Bristol Wessex Billing Services Ltd	United Kingdom	04143955	Billing services	£1 A ordinary	50	50
Group - subsidiary						
Flipper Ltd	United Kingdom	10826922	Energy switching	£1 ordinary	65	65
Enterprise Laundry Services Ltd	United Kingdom	08488681	Laundry services	£1 ordinary	100	100
GENeco Ltd	United Kingdom	06842738	Waste water services	£1 ordinary	100	100
GENeco South West Ltd	United Kingdom	09326393	Waste water services	£1 ordinary	100	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	100	100
SC Technology Deutschland GmbH	Germany	-	Waste treatment	Euro ordinary	100	100
Wessex Utility Solutions Ltd	United Kingdom	06718997	Engineering services	£1 ordinary	100	100
Wessex Water Services Finance PLC	United Kingdom	03704265	Issue of bonds	£1 ordinary	100	100
Group – joint venture						
Searchlight Collections Ltd	United Kingdom	07940022	Billing services	£1 ordinary	50	50

¹ On 8 April 2021 WWL acquired the remaining 49% of Albion Water Ltd from the existing shareholder.

² On 28 April 2021 Wessex Engineering & Construction Services Ltd formally changed its name to Turnbull Infrastructure & Utilities Ltd.

The registered address of the UK subsidiary companies is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW apart from Water 2 Business Ltd which is 21e Somerset Square, Nailsea, Bristol BS48 1RQ.

Bristol Wessex Billing Services Ltd is considered a Joint Venture because Wessex Water Ltd and Bristol Water Holdings Ltd each hold 50% of the equity share capital and voting rights of the company and as a result, it has no single controlling party. The registered address is 1 Clevedon Walk, Nailsea, Bristol BS48 1WA.

Notes to the financial statements (*continued*)

14. Investments in subsidiaries and joint ventures (*continued*)

Searchlight Collections Ltd is considered a Joint Venture because it is a 100% owned subsidiary of Bristol Wessex Billing Services Ltd. The registered address is PO Box 930, Galmington Trading Estate, Cornishway West, Taunton, Somerset TA1 9LQ.

Summary aggregated financial information on joint venture

	2021 £m	2020 £m
<i>Bristol Wessex Billing Services Ltd</i>		
Assets	1.9	3.7
Liabilities	(1.9)	(3.7)
Profit/(loss)	-	-

Investment in Subsidiaries – Company

	2021 £m	2020 £m
Carrying value at 1 July	82.7	82.7
Additions	-	-
Written off in the year	-	-
Carrying value at 30 June	82.7	82.7

15. Financial Assets

Financial assets at fair value through profit or loss

	2021 £m	2020 £m
<i>Non-listed equity investments</i>		
Industrial Phycology Limited	0.3	-
Inheriting Earth Limited	0.2	-
	0.5	-

Financial assets at fair value through profit or loss include equity shares of non-listed companies. The Group holds non-controlling interests (between 4% and 8%) in these companies. The Group consider these investments to be strategic in nature.

Notes to the financial statements (continued)

16. Inventories

	Group 2021 £m	2020 £m
Raw materials and consumables	4.3	4.3
Work in progress	0.9	1.5
	<u>5.2</u>	<u>5.8</u>

Raw materials, consumables and work in progress recognised as cost of sales in the year amounted to £7.7m (2020 - £6.9m). There was no write-down of inventories to net realisable value in either year.

17. Trade and other receivables

	Group 2021 £m	2020 £m	Company 2021 £m	2020 £m
Amounts receivable from customers	187.7	176.0	4.8	2.7
Owed by immediate holding company (note 30)	97.5	99.4	98.2	99.4
Owed by subsidiary companies	-	-	16.4	17.1
Owed by other group companies (note 30)	4.7	4.0	3.5	3.0
Owed by associated company (note 30)	0.9	1.9	-	-
Corporation tax	7.1	3.2	-	-
Prepayments	15.6	11.1	-	-
VAT debtors	9.2	5.8	-	-
Intercompany loans (note 30)	-	-	48.5	51.2
Contract assets	4.1	4.7	-	-
Other debtors	4.6	5.6	-	0.7
	<u>331.4</u>	<u>311.7</u>	<u>171.4</u>	<u>174.1</u>

Amounts receivable from customers are expected to be recovered in no more than 12 months (see Note 26b).

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The Group has considered the present value of the contractual cash flows and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the Group has determined that no material expected credit loss provisions are required as at year-end for related party balances owed.

Contract cost assets - group

	2021 £m	2020 £m
Balance at 1 July	4.7	5.9
Incurred during the year	6.3	4.4
Recognised as costs during the year	(6.9)	(5.6)
Balance at 30 June	<u>4.1</u>	<u>4.7</u>

Notes to the financial statements (continued)

18. Cash and cash equivalents

	Group 2021 £m	2020 £m	Company 2021 £m	2020 £m
Current assets				
Short-term deposits	310.0	29.0	-	-
Cash at bank	23.3	7.4	-	-
	<u>333.3</u>	<u>36.4</u>	<u>-</u>	<u>-</u>
Current liabilities				
Bank overdraft	<u>(4.3)</u>	<u>(8.6)</u>	<u>(3.8)</u>	<u>(4.0)</u>

Other financial assets

	Group 2021 £m	2020 £m	Company 2021 £m	2020 £m
Current assets				
Term deposits	<u>-</u>	<u>98.0</u>	<u>-</u>	<u>-</u>

The Group and the Company seek to invest cash and cash equivalents safely and profitably with creditworthy local and offshore licensed banks. The local and offshore licensed banks have a credit rating of A1/P1 as rated by Moody's Investors Service, Inc., respectively. Term Deposits have an average maturity of 66 days.

19. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 26e.

	Group 2021 £m	2020 £m	Company 2021 £m	2020 £m
Non-current liabilities				
Bank loans	414.6	511.8	27.7	46.4
Other loans	9.9	10.5	-	-
Lease liabilities	2.2	1.4	-	-
Bonds	<u>1,909.3</u>	<u>1,899.7</u>	<u>-</u>	<u>-</u>
	<u>2,336.0</u>	<u>2,423.4</u>	<u>27.7</u>	<u>46.4</u>
Current liabilities				
Bank loans	101.1	7.9	22.4	-
Lease liabilities	0.3	0.6	-	-
Bonds	300.1	-	-	-
Loan from parent company	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>
	<u>404.8</u>	<u>11.8</u>	<u>25.7</u>	<u>3.3</u>

Notes to the financial statements (continued)

19. Other interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2021 £m	Carrying amount 2021 £m	Face value 2020 £m	Carrying amount 2020 £m
<i>Long-term borrowing</i>							
Bank loans - EIB	Sterling	0.94%-2.16%	2022-25	200.0	200.0	275.0	275.0
Bank loans - KFW	Sterling	1.82%	2026	176.0	174.7	192.0	190.4
Bank loans - Other	Sterling	1.62%-1.82%	2022-24	39.9	39.9	46.4	46.4
<i>Listed bonds</i>							
Bond	Sterling	5.38%	2028	200.0	199.0	200.0	198.8
Bond	Sterling	5.75%	2033	350.0	346.7	350.0	346.5
Bond	Sterling	1.50%	2029	250.0	247.7	250.0	247.7
Bond	Sterling	1.25%	2036	300.0	294.9	-	-
Index Linked Bond	Sterling	5.90%	2023	50.0	84.1	50.0	82.7
Index Linked Bond	Sterling	3.00%	2039	50.0	69.4	50.0	68.4
Index Linked Bond	Sterling	2.63%	2046	75.0	113.1	75.0	111.3
Index Linked Bond	Sterling	2.63%	2051	75.0	113.1	75.0	111.3
Index Linked Bond	Sterling	2.06%	2057	75.0	113.1	75.0	111.3
Index Linked Bond	Sterling	2.07%	2057	75.0	113.1	75.0	111.2
Index Linked Bond	Sterling	2.08%	2058	50.0	71.7	50.0	69.9
Index Linked Bond	Sterling	2.09%	2058	50.0	71.7	50.0	69.9
Index Linked Bond	Sterling	2.09%	2058	50.0	71.7	50.0	69.9
Other loans	Sterling	5.77%	2026	9.9	9.9	10.5	10.5
<i>Short-term borrowing</i>							
Bank loans - EIB	Sterling	0.94%-2.16%	2021	75.0	75.0	-	-
Bond	Sterling	4.00%	2021	200.0	199.9	200.0	199.7
Bond	Sterling	4.00%	2021	100.0	100.2	100.0	101.1
Bank loans	Sterling	1.62%-1.82%	2021-22	26.2	26.1	-	-
Loan from parent	Sterling	0.00%	2021	3.3	3.3	3.3	3.3
				2,480.3	2,738.3	2,177.2	2,425.3

The Index-linked Bonds accrue annually in line with the Retail Prices Index each year.

Notes to the financial statements (continued)

19. Other interest-bearing loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2021 £m	Interest 2021 £m	Principal 2021 £m	Minimum lease payments 2020 £m	Interest 2020 £m	Principal 2020 £m
Less than one year	0.4	(0.1)	0.3	0.6	-	0.6
Between 1 and 2 years	0.4	(0.1)	0.3	0.1	-	0.1
Between 2 and 5 years	0.8	(0.1)	0.7	0.3	-	0.3
More than 5 years	1.7	(0.5)	1.2	1.5	(0.5)	1.0
	3.3	(0.8)	2.5	2.5	(0.5)	2.0

Changes in liabilities arising from financing activities:

Group	1 July 2020 £m	Cash flows £m	New Leases £m	Other £m	30 June 2021 £m
Current interest-bearing loans and borrowings (excluding items listed below)	11.2	(9.6)	-	415.0	416.6
Current obligations under leases and hire purchase contracts	0.6	(0.9)	0.6	-	0.3
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,422.0	299.4	-	(399.7)	2,321.7
Non-current obligations under leases and hire purchase contracts	1.4	-	0.8	-	2.2
Total liabilities from financing activities	2,435.2	288.9	1.4	15.3	2,740.8

Group	1 July 2019 £m	Cash flows £m	New Leases £m	Other £m	30 June 2020 £m
Current interest-bearing loans and borrowings (excluding items listed below)	95.4	(60.0)	-	(24.2)	11.2
Current obligations under finance leases and hire purchase contracts	-	(0.9)	0.9	0.6	0.6
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,066.0	310.5	-	45.5	2,422.0
Non-current obligations under finance leases and hire purchase contracts	-	-	2.0	(0.6)	1.4
Total liabilities from financing activities	2,161.4	249.6	2.9	21.3	2,435.2

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under finance leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The group classifies interest paid as cash flows from financing activities.

Notes to the financial statements (continued)

20. Trade and other payables

	Group 2021 £m	2020 £m	Company 2021 £m	2020 £m
Current				
Owed to immediate holding company (note 30)	-	0.6	-	-
Owed to subsidiary companies (note 30)	-	-	17.5	22.9
Owed to associated company (note 30)	-	0.2	-	-
Trade payables	25.3	9.5	2.3	0.3
Dividend (note 30)	16.5	16.5	16.5	16.5
Other creditors	4.9	4.8	-	-
Corporation tax	1.3	-	0.9	-
Taxation and social security	3.5	3.8	0.5	-
Accrued expenses	114.1	89.3	5.3	2.5
Contract liabilities	54.1	58.5	-	-
	219.7	183.2	43.0	42.2
Non-current				
Contract liabilities	5.6	2.8	-	-
	225.3	186.0	43.0	42.2

Our standard payment terms for trade payables is end of month plus 30 days. Corporation tax is paid quarterly, other taxation is normally payable within one month.

Analysis of contract liabilities

	2021 £m	2020 £m
At 1 July	61.3	58.8
Deferred during the year	130.1	142.0
Recognised as revenue during the year	(131.7)	(139.5)
At 30 June	59.7	61.3

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15 year period.

Notes to the financial statements (continued)

21. Employee benefits

Pension Plans

Defined Benefit Plans

	2021 £m	2020 £m
Fair value of scheme assets	744.5	675.0
Present value of defined benefit obligations	(819.7)	(839.1)
Net (liability) for defined benefit obligations	(75.2)	(164.1)
Unfunded and compensatory added years pension	(0.9)	(1.0)
Total employee benefits	(76.1)	(165.1)

The Group sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate board of Trustees which is legally separate from the Group. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Group also operates a defined contribution section within the main pension scheme.

a. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 28% of the liabilities are attributable to current employees, 17% to former employees and 55% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 18 years reflecting the approximate split of the defined benefit obligation between current employees (duration of c24 years), deferred members (duration of c24 years) and current pensioners (duration of c13 years).

b. Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 September 2019 and showed a deficit of £157.0 million. The Group is paying deficit contributions of:

- £14.80m by 1 July 2021; £16.60m by 1 July 2022
- £18.40m by 1 July 2023; £20.20m by 1 July 2024; £22.00m by 1 July 2025
- £23.80m by 1 April 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 1 April 2026. The next funding valuation is due no later than 30 September 2022 at which progress towards full funding will be reviewed.

The Group also pays contributions of 24.6% of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.4% of pensionable salaries on average. A contribution of £14.8m is expected to be paid by the Group during the year ending on 30 June 2022.

Notes to the financial statements (continued)

21. Employee benefits (continued)

c. Risks associated with the Scheme

Asset volatility - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities including a diversified growth fund and a global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Changes in bond yields - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk - The majority of the Scheme's benefit 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 against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

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

The Trustees insure certain benefits payable on death before retirement.

d. Reporting at 30 June 2021

The results of the latest funding valuation at 30 September 2019 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.21	30.06.20
Rate of increase in salaries – year 1	1.9%	1.8%
Rate of increase in salaries – long term	1.9%	1.8%
Rate of increase in pensions		
- WWPS and 1/80ths members	2.9%	2.6%
- MIS members	2.5%	2.2%
- Reduced level members	2.1%	2.0%
- Post 88 GMP	2.1%	1.9%
Discount rate	1.9%	1.6%
Inflation assumption – RPI	3.0%	2.7%
Inflation assumption – CPI	2.5%	2.2%

Notes to the financial statements (*continued*)

21. Employee benefits (*continued*)

Mortality assumptions:

The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

	2021	2021	2020	2020
	Male	Female	Male	Female
	years	years	years	years
Life expectancy - current age 60	25.9	28.4	25.9	28.3
Life expectancy - current age 40	47.1	49.6	47.0	49.5

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2018 core projection, with a long-term improvement rate of 1.0% p.a. for all members.

Sensitivity analysis:

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions are used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions are set out below. For the purposes of these sensitivities it has been assumed that the change in the discount rate and inflation has no impact on the value of Scheme assets.

- A reduction in the discount rate of 0.1% would increase the scheme liabilities by £14.7m from £819.7m to £834.4m, increasing the scheme deficit to £89.9m.
- An increase in the inflation assumption of 0.1% would increase the scheme liabilities by £11.2m from £819.7m to £830.9m, increasing the scheme deficit to £86.4m.
- An increase in life expectancy of 1 year would increase the scheme liabilities by £34.2m from £819.7m to £853.9m, increasing the scheme deficit to £109.4m.

e. The value of the assets as follows:

	2021	2020
	£m	£m
Equities	311.1	216.9
Property	41.8	36.8
Government Bonds	107.2	225.7
Corporate Bonds	257.3	144.3
Other	27.1	51.3
	<u>744.5</u>	<u>675.0</u>

All assets are quoted in an active market except those classed as "Other".

Notes to the financial statements (continued)

21. Employee benefits (continued)

f. The amounts recognised in comprehensive income are set out below:

	2021 £m	2020 £m
Operating cost – service cost		
Current service cost	10.1	10.7
Administration expenses	0.6	0.7
Past service cost	0.1	-
Financing cost		
Interest on net benefit liability	2.5	3.0
Pension expense recognised in profit and loss	13.3	14.4
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	(62.7)	(17.7)
Actuarial (gains)/losses due to changes in financial assumptions	(6.9)	60.7
Actuarial (gains) due to changes in demographic assumptions	-	(13.9)
Actuarial (gains)/losses due to liability experience	(10.9)	14.2
(Gains)/losses recognised in OCI	(80.5)	43.3
(Gains)/losses recognised in profit and loss and OCI	(67.2)	57.7

g. Changes to the present value of the defined benefit obligations during the year:

	2021 £m	2020 £m
Opening defined benefit obligation	839.1	776.3
Current service cost	10.1	10.7
Interest expense on defined benefit obligation	13.6	18.0
Contributions by scheme participants	-	0.1
Actuarial (gains) due to changes in demographic assumptions	-	(13.9)
Actuarial losses due to changes in financial assumptions	(6.9)	60.7
Actuarial losses/(gains) losses due to liability experience	(10.9)	14.2
Net benefits paid out	(25.4)	(27.0)
Past service cost / (credit)	0.1	-
Closing defined benefit obligation	819.7	839.1

Notes to the financial statements (continued)

21. Employee benefits (continued)

h. Changes to the fair value of scheme assets during the year:

	2021 £m	2020 £m
Opening fair value of scheme assets	675.0	646.3
Interest income on scheme assets	11.1	15.0
Re-measurement gains on scheme assets	62.7	17.7
Contributions by employer	21.7	23.6
Contributions by scheme participants	-	0.1
Net benefits paid out	(25.4)	(27.0)
Administration costs incurred	(0.6)	(0.7)
Closing fair value of scheme assets	<u>744.5</u>	<u>675.0</u>

i. Additional analysis:

	2021 £m	2020 £m
Actual return on scheme assets		
Interest income on scheme assets	11.1	15.0
Re-measurement gains on scheme assets	62.7	17.7
Actual return on scheme assets	<u>73.8</u>	<u>32.7</u>
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement gains/(losses)	<u>80.5</u>	<u>(43.3)</u>
Total gain/(loss)	<u>80.5</u>	<u>(43.3)</u>

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total contribution relating to this plan in the current year was £6.2m (2020 - £6.0m).

Notes to the financial statements (continued)

21. Employee benefits (continued)

Share-based payments

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the Group. The current scheme the "YTL Power International Berhad Employees Share Option Scheme 2011" first issued share options to employees on 1 June 2012. The terms of the 2011 scheme are specified under the YTL Power International Berhad Employees Share Option Scheme 2011 (2011 UK part) known as the "2011 UK Plan".

The majority of options have been issued under terms approved by the Inland Revenue, the "Approved" scheme, but some have been issued to senior employees under an "Unapproved" scheme. The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

2011 UK Plan

The exercise price and fair value of the share options are as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight-line basis over the vesting period. There was no charge recognised in the profit and loss account for IFRS 2 as the share options have passed their vesting date. The key assumptions were as follows:

Scheme	Weighted avg. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1.63	21.2	3	3.14	5.6
01/06/2012 Approved	1.63	21.2	3	3.14	5.6

The following options were outstanding at 30 June 2020 and 30 June 2021:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2020	Forfeited	Lapsed	Outstanding at 30 June 2021
01/06/2012 Unapproved	5,979,000	(473,000)	(5,506,000)	-
01/06/2012 Approved	35,364,000	(227,000)	(35,137,000)	-
Total	41,343,000	(700,000)	(40,643,000)	-

The share price at 30 June 2021 was RM0.70 or £0.12

Notes to the financial statements (continued)

22. Deferred Grants and Contributions

	Requisitions £m	Other contributions £m	Sewer adoptions £m	Infra- structure charges £m	Total £m
Balance at 1 July 2019	30.5	30.7	94.7	128.4	284.3
Received during the year	2.9	1.4	17.3	2.4	24.0
Amortisation	(0.3)	(0.6)	(1.1)	(1.3)	(3.3)
Balance at 30 June 2020	33.1	31.5	110.9	129.5	305.0
Balance at 1 July 2020	33.1	31.5	110.9	129.5	305.0
Received during the year	2.3	4.3	2.9	2.5	12.0
Amortisation	(0.3)	(0.6)	(1.2)	(1.3)	(3.4)
Balance at 30 June 2021	35.1	35.2	112.6	130.7	313.6

23. Provisions

Group

	Restructuring £m
Balance at 1 July 2020	0.3
Provisions made during the year	0.3
Provisions used during the year	(0.4)
Balance at 30 June 2021	0.2
Current	0.2
Balance at 30 June 2021	0.2

The restructuring provision is in respect of a reorganisation announced before the prior year-end, delivering efficiencies in the AMP 6 price review period.

In the ordinary course of business, the Group is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Group being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

Notes to the financial statements (continued)

24. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Property, plant and equipment	627.1	468.2	(42.9)	(31.4)	584.2	436.8
Employee benefits	-	-	(17.2)	(31.2)	(17.2)	(31.2)
Provisions	-	-	-	-	-	-
Tax (assets) / liabilities	627.1	468.2	(60.1)	(62.6)	567.0	405.6
Net of tax liabilities/(assets)	(60.1)	(62.6)	60.1	62.6	-	-
Net tax (assets) / liabilities	567.0	405.6	-	-	567.0	405.6

Movement in deferred tax during the year

	1 July 2020 £m	Recognised in income £m	Recognised in equity £m	30 June 2021 £m
Property, plant and equipment	436.8	107.9	39.5	584.2
Employee benefits	(31.2)	(0.5)	14.5	(17.2)
Provisions	-	-	-	-
	405.6	107.4	54.0	567.0

Movement in deferred tax during the prior year

	1 July 2019 £m	Recognised in income £m	Recognised in equity £m	30 June 2020 £m
Property, plant and equipment	384.1	39.2	13.5	436.8
Employee benefits	(22.4)	0.5	(9.3)	(31.2)
Provisions	-	-	-	-
Other	-	-	-	-
	361.7	39.7	4.2	405.6

Notes to the financial statements (continued)

25. Capital and reserves

Share capital – Group and Company

Ordinary shares - Authorised

	2021 £m	2020 £m
346,666,670 ordinary shares at £0.60 each	208.0	208.0
	208.0	208.0

Allotted, called up and fully paid

219,585,986 ordinary shares of £0.60 each	131.8	131.8
Shares classified in shareholders' funds	131.8	131.8

Share premium – Group and Company

	2021 £m	2020 £m
Share premium	-	-
	-	-
	131.8	131.8

Total share capital and share premium

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

Non-controlling interests

The non-controlling interests in the equity of subsidiary companies are as follows:

Company	Share of gains or (losses)	
	2021 £m	2020 £m
Balance at 1 July	(3.4)	(1.3)
Water 2 Business Ltd	0.1	(1.1)
Albion Water Limited	1.6	(0.6)
Flipper Limited	(0.9)	(0.4)
Balance at 30 June	(2.6)	(3.4)

Notes to the financial statements (continued)

26. Financial instruments

(a) Fair values of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale. The fair value of short term and floating rate borrowings approximate to book value. The fair value of long-term fixed rate borrowings has been calculated using market values or discounted cash flow techniques.

The IFRS 13 fair value hierarchy is a categorisation relating to the extent that the fair value can be determined by reference to comparable market values. The hierarchy ranges from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to derive fair value do not have comparable market data.

The fair value of long-term bonds is classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £2,209.4m and a fair value of £2,651.4m. Bank loans are classified as level 2 and have a carrying value of £515.7m and fair value of £515.7m. Loans from the parent company are classified as level 2 and have a carrying and fair value for £3.3m. All other loans and leases are classified as level 2 and have a carrying and fair value of £9.9m.

It is the Group's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. No liabilities are classified as level 3.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount	Fair value	Level 1	Level 2	Carrying amount	Fair value	Level 1	Level 2
	2021	2021	2021	2021	2020	2020	2020	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Financial liabilities								
<i>Interest-bearing loans and borrowings:</i>								
Fixed rate borrowings	1,488.4	1,618.9	1,518.9	100.0	1,193.8	1,448.4	1,346.8	101.6
Floating rate borrowings	428.9	428.9	-	428.9	433.5	433.5	-	433.5
Indexed-linked borrowings	821.0	1,132.5	1,132.5	-	805.9	1,126.4	1,126.4	-
Total financial liabilities	2,738.3	3,180.3	2,651.4	528.9	2,433.2	3,008.3	2,473.2	535.1

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Notes to the financial statements (continued)

26. Financial instruments (continued)

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities.

Other financial assets are short term deposits with terms of more than three months. The counterparties have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

	2021 £m	2020 £m
Other financial assets	-	98.0
Cash and cash equivalents	333.3	36.4
	<u>333.3</u>	<u>134.4</u>

The concentration of credit risk for amounts receivable from customers (see Note 17) at the balance sheet date by geographic region was:

	2021 £m	2020 £m
South West England	187.2	175.3
South East England	0.2	0.2
Netherlands	0.3	0.5
	<u>187.7</u>	<u>176.0</u>

Notes to the financial statements (continued)

26. Financial instruments (continued)

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year-end.

Set out below is the information about the credit risk exposure on the Group's receivables from customers using a provision matrix:

Amounts receivable from customers

	2021 £m	2020 £m
Billed receivables	137.6	131.6
Unbilled receivables	94.8	93.7
Expected credit losses	(44.7)	(49.3)
	187.7	176.0

	Gross 2021 £m	ECL rate 2021 %	ECL 2021 £m
Less than 1 year	178.7	10.3%	(18.4)
1 to 2 years	19.6	31.1%	(6.1)
2 to 3 years	15.8	41.1%	(6.5)
3 to 4 years	11.4	59.6%	(6.8)
More than 4 years	6.9	100.0%	(6.9)
	232.4	19.2%	(44.7)

	Gross 2020 £m	ECL rate 2020 %	ECL 2020 £m
Less than 1 year	159.9	8.6%	(13.8)
1 to 2 years	20.8	29.8%	(6.2)
2 to 3 years	16.0	40.6%	(6.5)
3 to 4 years	14.0	58.6%	(8.2)
More than 4 years	14.6	100.0%	(14.6)
	225.3	21.9%	(49.3)

Payment Method	Measured Billing			Unmeasured Billing		
	Direct Debit %	Normal %	Other %	Direct Debit %	Normal %	Other %
Less than 1 year	5.1%	11.0%	17.9%	16.3%	15.5%	29.3%
1 to 2 years	7.7%	28.6%	26.6%	0.0%	26.8%	51.0%
2 to 3 years	6.6%	39.6%	37.9%	0.0%	38.2%	66.3%
3 to 4 years	7.7%	55.1%	53.8%	0.0%	49.5%	80.5%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes to the financial statements (continued)

26. Financial instruments (continued)

The movement in the provision for expected credit loss in respect of amounts receivable from customers during the year was as follows:

	2021 £m	2020 £m
Balance at 1 July	(49.3)	(42.6)
Written off	21.8	14.6
Non-payers subsequently becoming payers	(1.4)	0.2
Charge to profit and loss	(15.8)	(21.5)
Balance at 30 June	<u>(44.7)</u>	<u>(49.3)</u>

The expected credit loss policy is shown in the accounting policies (note 1).

(c) Cash flow hedges

The Company does not have any cash flow hedges (2020 – none).

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's principle subsidiary is a regulated utility with a five-year settlement with the industry regulator, which allows it to plan to a certain degree of accuracy the financial obligations in the medium term. The Company has also secured long-term funding through bonds issued by a subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	Carrying amount 2021 £m	Contractual cash flows 2021 £m	Year 1 2021 £m	Years 2 to 5 2021 £m	Over 5 years 2021 £m
Non-derivative financial instruments					
Bank overdraft	4.3	4.3	4.3	-	-
Lease liabilities	2.5	3.3	-	0.4	2.9
Secured bank loans	515.7	534.6	124.4	410.2	-
Other loans	9.9	10.1	10.1	-	-
Parent company loans	3.3	3.3	3.3	-	-
Bonds	2,209.4	3,412.2	365.3	292.1	2,754.8
Total financial instruments	<u>2,745.1</u>	<u>3,967.8</u>	<u>507.4</u>	<u>702.7</u>	<u>2,757.7</u>

Notes to the financial statements (continued)

26. Financial instruments (continued)

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2020 £m	2020 £m	2020 £m	2020 £m	2020 £m
Non-derivative financial instruments					
Bank overdraft	8.6	8.6	8.6	-	-
Lease liabilities	2.0	2.5	0.6	0.4	1.5
Secured bank loans	519.7	552.9	16.4	407.8	128.7
Other loans	10.5	11.1	0.3	10.8	-
Parent company loans	3.3	3.3	3.3	-	-
Bonds	1,899.7	3,855.5	61.6	598.2	3,195.7
Total financial instruments	<u>2,443.8</u>	<u>4,433.9</u>	<u>90.8</u>	<u>1,017.2</u>	<u>3,325.9</u>

(e) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

At the year end the interest rate profile of the Group's interest-bearing financial instruments was:

	2021 £m	2020 £m
Fixed rate instruments	1,490.9	1,193.8
Floating rate instruments	433.2	444.1
Index linked instruments	<u>821.0</u>	<u>805.9</u>
	<u>2,745.1</u>	<u>2,443.8</u>

The Group policy is to keep a significant proportion of total financial instruments in each of the three categories.

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £4.4m.

Inflation sensitivity

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £8.2m.

Notes to the financial statements (continued)

27. Capital Maintenance

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio for the principal subsidiary Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Capital Value (RCV). The Group's policy is to keep the gearing ratio of WWSL below 70%. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	2020 £m	2019 £m
	WWSL	WWSL
Cash at bank	(18.3)	(3.3)
Short term deposits	(310.0)	(127.0)
Bank Loans	465.6	473.4
Finance leases	2.1	1.5
Bonds	2,209.4	1,899.7
Total Net Debt	2,348.8	2,244.3
RCV at 30 June	3,355.2	3,344.0
Gearing	70%	67%

The RCV for each Regulated Water and Sewerage Company is published by Ofwat here:

<https://www.ofwat.gov.uk/publication/regulatory-capital-values-2020/>

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2021 and 2020.

Notes to the financial statements (*continued*)

28. Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2021 was £50.3m (2020 - £73.9m).

The Company has guaranteed Bonds of £2,209.4m (2020 - £1,899.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd provided performance guarantees on behalf of subsidiary companies of £1.1m (2020 - £1.1m).

Made by	Beneficiary	Amount (£m)	Expiry date
SCT Ned BV	Ministry of Housing	0.3	N/A
GENeco (SW) Ltd	Bristol City Council	0.5	N/A
Wessex Water Services Ltd	Somerset County Council	0.1	N/A
Wessex Water Services Ltd	Highways England	0.2	31/03/2025

29. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Company has been notified of a potential claim under the EIR relating to charges levied for drainage and water searches carried out since 2004, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however the company intends to defend all claims.

Innovation competition

As part of the regulatory settlement for 2020-2025 Ofwat established a £200 million Innovation competition to grow the water sector's capacity to innovate. The competition is to be funded from additional revenues collected from customer's bills.

Each year companies are invited to submit projects which if successful are awarded funding from the revenues already collected. If the company is unsuccessful the revenues are to be transferred to those companies that were successful. If at the end of the regulatory period the revenues have not been fully utilised the balance is returned to customers over the subsequent regulatory period.

Due to the uncertainty surrounding the nature, timing and value of any spend and the early stage of the competition, the Company does not believe a provision is appropriate.

Incident at Avonmouth Water Recycling Centre

On 3rd December 2020 there was an incident at Avonmouth WRC that resulted in the tragic loss of 4 lives. Investigations are still on going and the Company is fully co-operating with the investigating authorities. At this stage the potential value of any claims or fines remains unclear.

30. Significant transactions with related parties

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Directors' Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 30. All other transactions with related parties and balances at the year-end are summarised in the following table:

Notes to the financial statements (continued)

30. Significant transactions with related parties (continued)

	Group		Company	
	2021	2020	2021	2020
	£m	£m	£m	£m
Sales of goods and services:				
Immediate holding company	1.6	0.6	1.6	0.6
Subsidiaries	-	-	1.8	0.9
Fellow subsidiaries	-	-	-	-
Other group companies	0.4	0.8	0.1	-
Associate company	0.6	0.7	-	-
Dividend income:				
Subsidiaries	-	-	67.3	87.5
Interest income:				
Immediate holding company	0.9	1.5	0.9	1.5
Subsidiaries	-	-	0.7	1.0
Purchase of goods and services:				
Subsidiaries	-	-	3.7	5.3
Other group companies	2.9	2.2	-	-
Associate company	11.0	10.2	-	-
Year-end balances owing by:				
Immediate holding company	97.5	99.4	98.2	99.4
Subsidiaries	-	-	64.9	68.3
Fellow subsidiaries	-	-	-	-
Other group companies	4.7	4.0	3.5	3.0
Associated company	0.9	1.9	-	-
Year-end balances owing to:				
Immediate holding company	16.5	17.1	16.5	16.5
Subsidiaries	-	-	17.5	22.9
Associated company	-	0.2	-	-

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

Notes to the financial statements (*continued*)

31. Ultimate parent company and parent company of larger group

The company is 100% owned by YTL Utilities (UK) Limited, a company incorporated in the United Kingdom whose registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

The pre-penultimate, penultimate and ultimate holding companies are YTL Power International Berhad, YTL Corporation Berhad (both registered in Malaysia) and Yeoh Tiong Lay & Sons Holdings Sdn Bhd respectively, registered in Jersey.

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Menara YTL, 205 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

32. Subsequent events

The final dividend of £16.5m for the year was declared in June 2021 and paid in July 2021.

33. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Group is required to make reasonable estimates and judgements based on the available information, the most significant of which are;

Significant estimates

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 20 to the financial statements.

b) Expected credit loss provision

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. In particular for the year ended 30 June 2021 this has included additional considerations of the possible impact of the COVID-19 pandemic on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 26.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated based on previous customer volume usage adjusted for seasonality and regulatory price changes.

d) Asset lives

Assets recorded in the Group's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment.

Notes to the financial statements (continued)

33. Accounting estimates and judgements (continued)

Other estimates

e) Leases – Incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs (such as market interest rates) when available.

Significant judgements

f) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. These judgements are based on engineering experience of differentiating between treatment as a 'repair' or a 'replacement' of an infrastructure asset. The Group follows both accounting standards and guidelines issued by Ofwat in making these judgements.