

WESSEX WATER SERVICES LIMITED

Unaudited accounts for the six months to
30 September 2020

Registered in England No. 02366648



Statement of Directors' Responsibilities in Respect of the Interim Financial Statements

The Directors confirm that to the best of their knowledge the interim financial statements:

- have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;
- include a fair review of the information required by DTR 4.2.7R, being an indication of the important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year;
- include a fair review of the information required by DTR 4.2.8R, disclosure of related party transactions and changes therein.

By order of the board

A handwritten signature in black ink, appearing to read 'A. Pymmer', with a long horizontal flourish extending to the right.

Andrew Pymmer
Director

Income Statement

	Note	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Revenue	2,3	254.3	282.7	552.3
Other operating costs		(164.2)	(163.4)	(320.8)
Charge for bad and doubtful debts		(5.8)	(5.8)	(19.0)
Total expenses	4	(170.0)	(169.2)	(339.8)
Operating profit	2	84.3	113.5	212.5
Financial income		0.2	0.1	0.5
Financial expenses		(42.3)	(46.6)	(91.8)
Net financing expense		(42.1)	(46.5)	(91.3)
Profit before tax		42.2	67.0	121.2
Taxation	5	(9.2)	(12.1)	(54.6)
Profit for the period		33.0	54.9	66.6

Statement of Other Comprehensive Income

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Profit for the period	33.0	54.9	66.6
Other comprehensive income <i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	(72.7)	11.4	40.8
Income tax on items that will not be reclassified to profit or loss	14.4	(1.7)	(20.3)
Other comprehensive gain for the period, net of income tax	(58.3)	9.7	20.5
Total comprehensive income for the period	(25.3)	64.6	87.1

Statement of Financial Position

	Note	30.09.20 (unaudited) £m	30.09.19 (unaudited) £m	31.03.20 (audited) £m
Non-current assets				
Intangible assets	7	53.0	44.1	58.1
Tangible assets	8	3,831.5	3,699.4	3,768.8
Investment in subsidiaries		-	-	-
		<u>3,884.5</u>	<u>3,743.5</u>	<u>3,826.9</u>
Current assets				
Inventories		4.0	3.3	3.9
Trade and other receivables		143.3	165.1	182.7
Cash and cash equivalents	9	104.1	180.4	42.3
		<u>251.4</u>	<u>348.8</u>	<u>228.9</u>
Total assets		4,135.9	4,092.3	4,055.8
Current liabilities				
Bank overdraft	9	-	-	-
Other interest-bearing loans and borrowings	9	(16.1)	(70.7)	(5.8)
Trade and other payables		(121.2)	(149.7)	(168.7)
Provisions		(0.2)	-	(0.2)
		<u>(137.5)</u>	<u>(220.4)</u>	<u>(174.7)</u>
Non-current liabilities				
Other interest-bearing loans and borrowings	9	(2,363.1)	(2,250.8)	(2,255.8)
Contract liabilities		(6.2)	(6.3)	(6.3)
Employee benefits		(153.5)	(132.7)	(90.6)
Deferred grants and contributions		(297.6)	(275.0)	(289.1)
Provisions		-	(0.9)	-
Deferred tax liabilities		(404.4)	(360.8)	(415.4)
		<u>(3,224.8)</u>	<u>(3,026.5)</u>	<u>(3,057.2)</u>
Total liabilities		(3,362.3)	(3,246.9)	(3,231.9)
Net assets	2	<u>773.6</u>	<u>845.4</u>	<u>823.9</u>
Equity				
Share capital		-	-	-
Retained earnings		773.6	845.4	823.9
Total equity		<u>773.6</u>	<u>845.4</u>	<u>823.9</u>

The interim financial statements were approved by the board of directors on 30 November 2020 and signed on its behalf by



Andrew Pymer, Director

Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019		-	824.9	824.9
Effect of change in accounting policy		-	(0.1)	(0.1)
Balance at 1 April 2019 (restated)		-	824.8	824.8
Total comprehensive income for the period				
Profit for the period		-	54.9	54.9
Other comprehensive income		-	9.7	9.7
Total comprehensive income for the period		-	64.6	64.6
Transactions with owners, recorded directly in equity				
Dividends	6	-	(44.0)	(44.0)
Total contributions by and distributions to owners		-	(44.0)	(44.0)
Balance at 30 September 2019 (unaudited)		-	845.4	845.4
Balance at 1 April 2020		-	823.9	823.9
Total comprehensive income for the period				
Profit for the period		-	33.0	33.0
Other comprehensive income		-	(58.3)	(58.3)
Total comprehensive income		-	(25.3)	(25.3)
Transactions with owners, recorded directly in equity				
Dividends	6	-	(25.0)	(25.0)
Total contributions by and distributions to owners		-	(25.0)	(25.0)
Balance at 30 September 2020 (unaudited)		-	773.6	773.6

Statement of Cash Flows

	Note	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Cash flows from operating activities				
Profit for the period		33.0	54.9	66.6
<i>Adjustments for:</i>				
Depreciation and amortisation		61.7	55.5	113.5
Financial income		(0.2)	(0.1)	(0.5)
Financial expense		42.3	46.6	91.8
Taxation		9.2	12.1	54.6
		<u>146.0</u>	<u>169.0</u>	<u>326.0</u>
Decrease in trade and other receivables		39.4	18.7	1.2
(Increase)/decrease in inventories		(0.1)	1.7	1.1
(Decrease) in trade and other payables		(39.8)	(29.8)	(4.9)
(Decrease)/Increase in provisions and employee benefits		(10.9)	3.2	(13.7)
		<u>(11.4)</u>	<u>(6.2)</u>	<u>(16.3)</u>
Tax paid		<u>(8.9)</u>	<u>(13.5)</u>	<u>(25.8)</u>
Net cash from operating activities		125.7	149.3	283.9
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		0.7	1.2	2.2
Interest received		0.2	0.1	0.5
Acquisition of property, plant and equipment		(115.9)	(107.7)	(210.2)
Acquisition of intangible assets		-	(11.4)	(31.2)
Proceeds from infrastructure charges and capital contributions		1.7	2.9	6.6
Net cash from investing activities		(113.3)	(114.9)	(232.1)
Cash flows from financing activities				
Proceeds from new loans		108.6	248.3	198.3
Interest payments		(24.3)	(26.5)	(67.3)
Repayment of borrowings		-	(10.0)	(30.0)
Repayment of finance lease liabilities		(0.4)	(1.4)	(2.1)
Dividend payments		(34.5)	(44.0)	(88.0)
Net cash from financing activities		49.4	166.4	(10.9)
Increase in cash and cash equivalents		61.8	200.8	62.7
Opening cash and cash equivalents		42.3	(20.4)	(20.4)
Closing cash and cash equivalents	6	<u>104.1</u>	<u>180.4</u>	<u>42.3</u>

Notes to the Interim Results

1. Basis of preparation

Wessex Water Services Ltd (the Company) is a private company incorporated, domiciled and registered in England and the UK. The registered number is 02366648 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of 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 Company for the 12 month period from the date of the approval of these accounts. The Directors have noted there is a need for refinancing debt falling due in later years, in particular a £300m bond due on 24th September 2021. Based on market experience and a successful history of issuing bonds over the last 20 years, most recently £250m in September 2019, the Directors are satisfied this will be achievable. Further evidence that this is a reasonable assumption is the number of water utility companies that have been able to issue bonds totalling £1.9bn since Covid-19 first surfaced in the UK. The Company has begun to run a number of pre-market roadshows with investors from which positive feedback was received around the Company's consistently strong operating performance and the supportive and stable ownership. The Company also has access to £225m of undrawn bank facilities if required.

The interim report was approved by the Directors on 30 November 2020. It has been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 "Interim Financial Reporting" as adopted by the European Union. It should be read in conjunction with the 2020 Annual Review and Accounts, which are available on the Company website, and which contain the audited financial statements for the year ended 31 March 2020.

The information for the year ended 31 March 2020 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The auditor's report on those accounts was unqualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The accounting policies, presentation and methods of computation are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and are consistent with those applied in the audited financial statement of the Company for the year ended 31 March 2020. Any estimates and judgements used in preparing these accounts are consistent with those used in the preparation of the financial statements for 31 March 2020.

Notes to the Interim Results *(continued)*

2. Segmental analysis

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Turnover			
Regulated	246.9	274.7	541.3
Unregulated	7.4	8.0	11.0
	<u>254.3</u>	<u>282.7</u>	<u>552.3</u>
Operating profit			
Regulated	84.3	113.5	212.5
Unregulated	-	-	-
	<u>84.3</u>	<u>113.5</u>	<u>212.5</u>
Net assets			
Regulated	773.6	845.4	823.9
Unregulated	-	-	-
	<u>773.6</u>	<u>845.4</u>	<u>823.9</u>

3. Revenue analysis

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Water and sewerage services			
Household - measured	130.5	136.9	251.3
Household - unmeasured	77.1	84.8	167.2
Non-household - measured	34.8	47.0	109.7
Non-household - unmeasured	1.6	1.7	3.4
Total water and sewerage services	<u>244.0</u>	<u>270.4</u>	<u>531.6</u>
Other regulated services	2.9	4.7	9.7
Unregulated services	7.4	7.6	11.0
Total revenue	<u>254.3</u>	<u>282.7</u>	<u>552.3</u>

Notes to the Interim Results *(continued)*

4. Operating Costs

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Employee costs	65.4	61.8	122.0
Power	15.6	16.4	34.9
Raw Materials and consumables	9.0	7.3	16.2
Rates	12.3	13.0	25.5
Charge for bad and doubtful debts	5.8	5.8	19.0
Service charges	3.1	3.0	5.8
Depreciation of property, plant and equipment	58.2	54.9	108.5
Depreciation of right-of-use assets	0.4	0.3	0.5
Amortisation of intangible assets	4.7	2.0	7.8
Profit on disposal of property, plant and equipment	-	(0.1)	(0.2)
Operating lease rentals	2.2	2.2	4.3
Hire of plant and machinery	0.1	0.2	4.6
Research and development expensed as incurred	-	-	1.7
Infrastructure maintenance expenditure	9.0	12.5	21.1
Ofwat licence fee	0.9	1.0	1.7
Other operating costs	32.5	38.3	69.8
	219.2	218.6	443.2
Release from deferred credits	(1.6)	(1.5)	(3.1)
Own work capitalised	(47.6)	(47.9)	(100.3)
	170.0	169.2	339.8

5. Taxation

The taxation charge comprises both current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss in the period. Deferred tax is provided on temporary timing differences between the carrying value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Corporation tax			
Current period	5.7	9.5	17.3
Adjustment in respect of previous periods	-	-	(1.2)
Deferred tax			
Current period	3.5	2.6	6.7
Reduction in tax rate	-	-	29.5
Adjustment in respect of previous periods	-	-	2.3
Taxation charge	9.2	12.1	54.6

Notes to the Interim Results (continued)

6. Dividends

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

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 company'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 company 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 company's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the company has met any unexpected additional expenditure needs that may have arisen during the period 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.

	Half year to 30.09.20 (unaudited) £m	Half year to 30.09.19 (unaudited) £m	Year to 31.03.20 (audited) £m
Interim dividends for the current year	25.0	44.0	66.0
Final dividend for the current year	-	-	22.0
	25.0	44.0	88.0

Notes to the Interim Results *(continued)*

7. Intangible assets

	£m
Cost	
At 1 April 2020	77.9
Transfers in from tangible assets	0.3
Additions in the period	(0.5)
At 30 September 2020 (unaudited)	<u>77.7</u>
Accumulated depreciation	
At 1 April 2020	19.8
Transfers in from tangible assets	0.2
Charge for the period	4.7
At 30 September 2020 (unaudited)	<u>24.7</u>
Net book amount	
At 30 September 2020 (unaudited)	<u><u>53.0</u></u>

8. Tangible assets

	£m
Cost	
At 1 April 2020	5,229.0
Additions in the period	122.0
Transfers to intangible assets	(0.3)
Disposals	(5.8)
At 30 September 2020 (unaudited)	<u>5,344.9</u>
Accumulated depreciation	
At 1 April 2020	1,460.2
Charge for the period	58.6
Transfers to intangible assets	(0.2)
Disposals	(5.2)
At 30 September 2020 (unaudited)	<u>1,513.4</u>
Net book amount	
At 30 September 2020 (unaudited)	<u><u>3,831.5</u></u>

Notes to the Interim Results *(continued)*

9. Analysis of net debt

	30.09.20 (unaudited) £m	30.09.19 (unaudited) £m	31.03.20 (audited) £m
Cash at bank and in hand	104.1	180.4	42.3
Bank overdraft	-	-	-
Lease liabilities under 1 year	(0.4)	(0.7)	(0.2)
Lease liabilities over 1 year	(1.7)	(1.4)	(1.5)
Loans under 1 year	(15.9)	(70.0)	(5.6)
Loans over 1 year	(457.5)	(413.8)	(408.3)
Loans from subsidiary company over 1 year	(1,903.7)	(1,835.6)	(1,846.0)
	<u>(2,275.1)</u>	<u>(2,141.1)</u>	<u>(2,219.3)</u>

10. Principal risks

The business risks are under continual review as circumstances change in the environment in which we operate. It is considered that the principal risks remain as shown at the previous year-end and as published on page 63 of the 2020 Annual Report and Accounts. The ten principal risks are:

- Political/regulatory action
- Major pollution incident
- Digital resilience
- Health and safety
- Resources and skills
- Insider threat
- Anti-competitive behaviour
- Ability to raise finance
- Failure to meet performance commitments
- Widespread unfit water.

The mitigation of these risks is also shown in the 2020 Annual Report and Accounts on pages 64 to 74.

11. Related party transactions

There has been no material change during the six months ended 30 September 2020 in transactions with related parties from that disclosed in the Company's annual report and accounts for the year ended 31 March 2020.

12. Contingencies

The Company is currently defending three claims issued by groups of personal search companies. The claims are against all water and sewerage companies in England and Wales and allege that in breach of the Environmental Information Regulation obligations, the Company failed to provide environmental information free of charge. Consequently, the personal search companies were required to purchase CON29DW searches in order to access information. The CON29DW is the official standard form of drainage and water search and is normally purchased as part of the conveyancing process. The claimants are seeking refunds of sums paid. The water and sewerage companies are defending the claims. However, the claims are at too early a stage to provide details on the merits or any effect on the financial position of the Company.

Notes to the Interim Results *(continued)*

13. Post balance sheet events

There have been no events between the balance sheet date and the date on which the interim results were approved by the Board, which would require adjustment to the interim results or any additional disclosures.