Interim Financial Information and Report

for the six months to 30 September 2022

Wessex Water
YTL GROUP

Business Review

Chief Executive's Overview

The first six months of this financial year were dominated by the weather and media/public concerns about the water sector. Climate change is driving real changes in weather patterns with shorter, more intense rainfall and longer dry periods. The former increases the frequency of storm overflow operation and the latter adds to concerns about long term resilience of water resources and supply.

Storm overflows have always been part of the UK sewerage system which was largely constructed on a combined basis, with pipes taking both foul sewage and surface water. Overflows were built into the system to protect property and associated areas from flooding during periods of high rainfall. The operation of the overflows is automatic and licenced by the EA.

We support the ambition to eliminate overflows, but this is not a simple task. Within the Wessex Water network, there are 1,300 overflows and elimination of these through conventional storage techniques would have an enormous carbon footprint, cause great disruption and cost in excess of £10 billion so, where possible, we are using nature based solutions and trialling techniques to separate storm water at an individual property level.

We have already improved 600 overflows and are currently spending £3 million per month to make further improvements as part of our published plan for tackling these. We are on track to hit all the Government's key targets for 2035 and beyond, and have an overall target for complete elimination of untreated storm overflows by 2050. We are prioritising storm overflows that discharge most frequently and into the most sensitive areas. By 2030 we will have eliminated harm from all our storm overflows assessed by the Environment Agency as the reason for rivers not achieving good status.

This year has been exceptionally dry, with drought being declared across large areas of the country, including Wessex Water. We have followed our well-rehearsed drought plan to ensure we have adequate resources if this dry year is followed by a dry winter and a continuing drought into next year. We are fortunate to have resilient groundwater resources and our investment of around £250 million over several years in a water grid, enables us to move water around our region. The 20% reduction we have made in leakage and our work to encourage customers to use water wisely has meant that we have not had to impose a temporary use ban – the last restriction on water use within Wessex Water was 46 years ago.

Providing winter rainfall is at least 80% of average, we do not expect any restrictions next year, but our proactive programme of influencing customer behaviours will continue throughout the winter – particularly the ability to save money on water and energy by simple changes in the actions we take at home.

We currently spend £26 million per year detecting and fixing leaks, which is equal to over 50% of our total annual water treatment expenditure. Wessex Water has never missed a leakage target and over the past three years, leakage has reduced by 14%. We currently detect and fix around 1,200 leaks every month, with most leaks fixed on the same day they are reported. We now put less water into supply than we did 20 years ago, despite a 12% increase in population and this has enabled us to reduce abstraction and protect sensitive river catchments.

We have continued to deliver high performance across all parts of the business, but we are very disappointed to have had three serious pollutions in the first half of the year. Our target is zero and we examine every pollution, serious or minor, to learn lessons and make improvements. We are part way through a major programme of investment to monitor all parts of our sewerage network so that we can predict changes that may lead to pollution incidents. We fully support calls for government to ban wetwipes, which cause the majority of blockages that result in pollutions.

Business Review *(continued)*

We are acutely aware of the cost of living crisis and that an increasing number of our customers are struggling to pay their bills. Wessex Water pioneered the use of social tariffs with a range of schemes to help customers. We already have 54,000 customers on special payment arrangements and in response to growing demand, we have made it easier for customers to obtain help. We are also working with the Department of Work and Pensions so that we can automatically apply a discount to the bills of a further 55,000 of our low income pensioners. We have a fundamental belief that our essential services should be affordable by all customers.

One of our highest priorities is ensuring the health, safety and wellbeing of all our colleagues. This requires constant vigilance and continuous improvement. Investigations continue after the tragic incident at Avonmouth in December 2020. We are co-operating with the investigating authorities and remain committed to understanding why the incident happened. The Board focuses its health and safety activity through a dedicated sub-committee, supported by an advisory board of leading health and safety and process safety specialists.

During this half year we have reorganised the Wessex Water business, bringing together our operations and delivery of new capital schemes into a single directorate and creating a new post of Chief Compliance Officer, to independently drive compliance with regulatory and other standards across the whole of our business. The changes were also aimed at giving greater power and accountability to frontline staff and so driving improvements in efficiency.

Wessex Water is seen by the independent regulators as a leader in the water industry, but we know we have to work even harder if we are to maintain our reputation for excellence in customer service, protection of the environment and innovation.

Performance for customers and the environment

In the first six months of the year, we continue to work hard to meet the great majority of our 2022-23 regulatory targets and performance indicators, against what has been an exceptionally prolonged hot and dry period of weather. The table shows our key measures for customers and the environment and whether performance to date is consistent with meeting the full year target.

Outcome	Key measures	Performance commitment target	Status in current reporting year	Trend versus last year
Providing excellent service to customers	Customer satisfaction score (C-MeX)	Upper quartile	Ahead of target	Stable
	Developer satisfaction score (D-MeX)	Upper quartile	Ahead of target	Stable
	Customers rating good value for money	81%	Pending annual survey	-
Providing excellent drinking water	Compliance with drinking water standards (CRI)	0	Behind target - see below [1]	Stable
Using water efficiently	Volume of water leaked	<68.3 Ml/day	Ahead of target	Stable
	Volume of water used per person (litres per day)	<137.4	Behind target - see below 2	Improving

Business Review *(continued)*

Outcome	Key measures	Performance commitment target	Status in current reporting year	Trend versus last year
Minimising sewer flooding	Internal sewer flooding incidents (nr/per 10,000 properties)	<1.58	Ahead of target	Stable
	Customer property sewer flooding (external) (nr/10000 sewer connections)	<16.38	On target	Improving
Resilient services	Restrictions on water use (e.g. hosepipe bans)	None	On target	Stable
	Water supply interruptions >3 hours (minutes per property)	<5 min 45s	Ahead of target	Stable
Protecting and enhancing the environment	EA Environmental performance assessment	Leading	Behind target - see below [3]	Stable
	Treatment works compliance	100%	Behind target - see below [4]	Stable
	Satisfactory sludge disposal	100%	On target	Stable
	Greenhouse gas emissions (tCO_2)	<107,000	Ahead of target	Stable

[1] Our drinking water compliance is measured against an index called the Compliance Risk Index (CRI), with zero being perfect. While we always target 0 against CRI, results of up to 2 are considered acceptable and do not incur any penalty. We are currently expecting to stay below 2 at the end of the year.

[2] Water consumption is measured as the volume of water used per person in the home. Household consumption in 2022-23 has been influenced by the dry summer and heatwave events. In addition, people continue to work at home more than when the targets were set. Our water efficiency activity has ramped up partly from the planned re-launch of our Home Check service to retrofit devices and provide behavioural advice in customer homes, and from increased customer engagement in response to the drought. We are on track to deliver c.6000 Home Check visits in 2022-23 and distribute >25,000 free water saving device packs. Our current customer communications will continue through the winter focussing on the cost savings that can be made on water and energy bills by adopting water saving behaviours. Overall, it should be noted that PCC year to date is very similar to that in 21/22 with our continued water efficiency messaging maintaining consumption levels despite the prolonged dry weather and high temperatures observed over this summer.

[3] Our Environmental performance assessment comprises seven metrics from delivery of schemes to improve the environment, to abstraction compliance and pollution incidents. We are particularly disappointed to have had three serious pollution incidents so far this year. We are committed to maintaining our strong performance record and with our Pollution Incident Reduction Plan look to improve on this position.

[4] Treatment works compliance is measured as the number of failing sites as a percentage of the total number of sites with discharge permits, with 100% compliance ideal. While we always target 100% compliance, results of 99% or greater are considered acceptable and do not incur any penalty. We are currently expecting to stay above 99% at the end of the year.

Business Review *(continued)*

Financial Performance

Key financial performance indicators

	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Increase/ (decrease) %
Income Statement			
Operating costs[1]	**189.6**	168.9	12.3%
Profit after corporation tax	**5.9**	38.2	(84.6%)
Dividends declared	**41.1**	35.5	15.8%
Statement of financial position			
Regulatory gearing[2]	**66.8%**	69.9%	(4.4%)
Regulatory capital value	**3,778.2**	3,412.0	10.7%
Statement of cashflows			
Net capital investment	**100.7**	124.1	(18.9%)
Cash inflow/(outflow) before dividends	**17.0**	(23.7)	171.8%

[1] excluding infrastructure maintenance expenditure
[2] as defined in Ofwat RAG4.09 as net debt divided by Regulatory Capital Value.

Financial statements review

Results for the half year show operating profit decreased by £12.4m from £79.6m to £67.2m, while profit after taxation improved from a loss of £67.8m in 2021 to a profit after taxation of £3.8m.

Total turnover increased by £6.9m from £259.9m to £266.8m. Regulated tariff turnover increased by £7.9m, mainly due to price rises allowed by Ofwat combined with the impact of the dry summer on water demand. Operational costs (excluding depreciation and amortisation) increased by £18.4m from £114.3m to £132.7m. There were significant upward pressures on costs due to energy market prices, the dry summer, high inflation within the economy and new obligations, partially offset by on-going efficiency programmes. Depreciation and amortisation increased by £0.9m from £66.0m to £66.9m as a result of assets being depreciated for the first time.

Net interest payable increased by £20.5m from £40.8m to £61.3m. Interest payable increased by £20.7m as a result of high inflation impacting on our index linked bond portfolio. There was a £0.3m reduction in the interest costs relating to IAS 19 pension accounting whilst interest receivable was £0.1m less than last year.

Total taxation, including deferred tax, reduced substantially from £106.6m last year to £2.1m this year. This mainly reflects last year's £96.9m charge following the UK Budget announcement increasing the statutory rate of corporation tax from 19% to 25% effective from 1 April 2023. There was no tax paid compared to last year's £2.8m due to the availability of the super deduction for capital expenditure.

Dividends declared for the six months to 30 September 2022 were £41.1m, an increase from £35.5m for the same period last year. The increase in dividend reflecting the significant improvement in the regulatory capital value of the business.

Gross capital investment for the six months was £103.4m, a reduction on £126.0m last year but remains consistent with the timing of the construction programme for the current regulatory period.

Cash and cash equivalents moved to an overdraft position of £19.2m, reducing by £23.3m from an opening cash reserve of £4.1m. The net cash inflow from operating activities was £81.1m less cash outflows from investment activities of £99.9m less net cash outflows from financing of £4.5m.

Business Review *(continued)*

Risk Management

The Board considers risks both in terms of timeframe, magnitude and ability to influence.

Principal risks are those risks that can have a material impact on the delivery of our current business plan in the short to medium term and as such the Board sets the risk appetite and tolerance levels it expects the business to operate within while balancing the pressure of performance, cost and risk.

The risks are categorised as:

Risk type	Definition
Strategic risk	Risk at the corporate level which affects the development and implementation of an organisation's strategy.
Operational risk	Operational risk is the possibility of business operations failing due to inefficiencies or breakdown in internal processes, people and systems. Human error and external events (such as regulatory changes) are a few of the common sources of such risk.
Compliance risk	Compliance risks arise from laws and regulations that rely on penalties or sanctions to regulate the operations of a business. This risk type includes the effect of a change in laws and regulations that could potentially cause losses to a business, sector or market, and the potential of the business to violate a law or regulation.
Financial risk	Financial risk refers to the business's ability to manage its debt and fulfil its financial obligations. This type of risk typically arises due to instabilities, losses in the financial market or movements in stock prices, currencies, interest rates, etc.

The Company regularly scans for emerging risks and opportunities of relevance to the business and incorporates any changes into the corporate risk register together with the plans for mitigating these risks.

The last few months have seen significant strategic uncertainty, in world markets, conflict, supply chain and resource restrictions, and national economic conditions. These are looking to continue for some time.

The business continues to review its resilience and adjust its plans as the wider world becomes increasingly less dependable. Operationally, our business continuity arrangements have been able to manage out the impact of many logistical issues that we have experienced. However, the chemical supply chain has been increasingly fragile despite the company and sector stepping up its emergency arrangements. There has a been a reduction in the number of suppliers of certain products in the UK and Europe, and reduction of capacity/storage in the UK. To sustainably improve the resilience of this supply chain will require national/government focus.

On a wider basis, restricted raw materials and the Ukraine conflict are having an impact resulting in price increases and shortages or substantially longer lead times.

Customers, society and regulators continue to expect step changes in performance while extremes of climate volatility have been experienced through this summer's drought conditions.

The increasingly uncertain future requirements are being modelled and resilience plans are being incorporated into our next business plan to ensure we are able to continue to deliver services and improve the environment we operate in.

The current trends of principal risks are shown below:

Risk area	Risk type	Description	Risk trend
Environment and public value	Strategic	The expectation on the business to create value beyond a focus on short term performance	Increasing
Reputation and position	Strategic	National or regional issues arising that impact the perception of the business	Increasing

Risk area	Risk type	Description	Risk trend
Political action	Strategic	Actions taken by the government that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	Increasing
Regulatory action	Strategic	Actions taken by regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	Increasing
Climate volatility	Strategic	Extreme and unpredictable weather events causing services failures, reputational damage and/or requiring investment beyond regulatory allowances	Increasing
Health & safety	Operational, Compliance	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	Stable
Supply of unfit or insufficient water	Operational Compliance	Inability to provide a reliable source of water to customers when they need it in line with standards	Stable
Environmental harm	Operational, Compliance	Acute (e.g. major pollutions) or chronic harm to the natural environment as a result of activities conducted by or on behalf of the company	Increasing
Technology resilience (including cyber attack)	Strategic, Compliance	Technology fails to be available, secure (e.g. to cyber attack), reliable or perform as expected resulting in the corruption or loss of data, reputational impact and/or inefficient operations	Stable
Uninformed action	Operational, Compliance	Inadequate information (e.g. poor asset data) resulting in sub-optimal decision-making, unsatisfactory day to day business operation/ performance and/or an increase in cost and risk	Stable
Resourcing & skills	Operational, Compliance	Failure to have the right resources with the right skills in the right place with an impact on our ability to operate effectively and deliver our strategic objectives	Increasing
Supply chain resilience (including loss of power)	Operational, Compliance	Resource scarcity or disruptions to supply chains which prevent the procurement of products or services at the expected cost, availability or quality	Increasing
Governance & ethics	Compliance	Non-compliance with our own values, behaviours and standards, or with statutory and regulatory obligations, either unintentionally, intentionally or maliciously (e.g. insider threat)	Stable
Financial viability	Financial	Inability to raise finance at appropriate levels and/or manage cash/gearing to maintain financial viability and provide a sufficient return on investment	Stable

Statement of Directors' Responsibilities

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

- have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the UK;
- give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- include a fair review of the information required by DTR 4.2.7R, being an indication of the important events during the period and descriptions of the principal risks and uncertainties for the remaining 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.

The Directors of Wessex Water Services Ltd are listed on pages 3 to 7 of the Company's 2022 Annual Report.

Since the publication of the Annual Report, the following changes to the composition of the Board have occurred: Mohammed Saddiq stepped down from the board on 16 September 2022 and Ruth Jefferson was appointed to the board as an executive director on 26 September 2022.

By order of the board

Andrew Pymer
Director

Condensed Income Statement

	Note	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Revenue	*2,3*	**266.8**	**259.9**	515.6
Other operating costs		**(194.1)**	**(174.9)**	(349.6)
Charge for bad and doubtful debts		**(5.5)**	**(5.4)**	(15.4)
Total operating costs	*4*	**(199.6)**	**(180.3)**	(365.0)
Operating profit	*2*	**67.2**	**79.6**	150.6
Financial income		**0.0**	**0.1**	0.2
Financial expenses		**(61.3)**	**(40.9)**	(82.3)
Net financing expense	*5*	**(61.3)**	**(40.8)**	(82.1)
Profit before tax		**5.9**	**38.8**	68.5
Taxation	*6*	**(2.1)**	**(106.6)**	(112.9)
Profit/(loss) for the period		**3.8**	**(67.8)**	(44.4)

Condensed Statement of Other Comprehensive Income

	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Profit/(loss) for the period	**3.8**	(67.8)	(44.4)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	**70.1**	19.7	46.0
Income tax on items that will not be reclassified to profit or loss	**(16.0)**	(41.8)	(49.9)
Other comprehensive income/(loss) for the period, net of income tax	**54.1**	(22.1)	(3.9)
Total comprehensive income/(loss) for the period	**57.9**	(89.9)	(48.3)

Condensed Statement of Financial Position

	Note	**30.09.22 (unaudited)**	30.09.21 (unaudited)	31.03.22 (audited)
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*9*	**4,065.8**	3,952.4	4,018.2
Intangible assets	*8*	**50.6**	53.0	49.2
Investment in subsidiaries		**-**	-	-
Retirement benefit surplus		**49.5**	-	-
		4,165.9	4,005.4	4,067.4
Current assets				
Inventories		**5.3**	4.3	4.8
Trade and other receivables		**157.9**	152.0	174.9
Corporation tax receivable		**10.8**	6.0	10.8
Cash and cash equivalents	*10*	**-**	11.2	4.1
		174.0	173.5	194.6
Total assets		**4,339.9**	4,178.9	4,262.0
Current liabilities				
Bank Overdraft		**(19.2)**	-	-
Other interest-bearing loans and borrowings	*10*	**(16.1)**	(16.0)	(16.1)
Trade and other payables		**(151.9)**	(135.2)	(183.6)
Provisions		**(1.2)**	(0.1)	(1.2)
		(188.4)	(151.3)	(200.9)
Non-current liabilities				
Other interest-bearing loans and borrowings	*10*	**(2,490.0)**	(2,381.5)	(2,407.0)
Contract liabilities		**(5.4)**	(5.5)	(5.5)
Employee benefits		**(0.8)**	(62.0)	(33.4)
Deferred grants and contributions		**(312.6)**	(300.7)	(307.3)
Deferred tax liabilities		**(607.3)**	(570.2)	(589.3)
		(3,416.1)	(3,319.9)	(3,342.5)
Total liabilities		**(3,604.5)**	(3,471.2)	(3,543.4)
Net assets	*2*	**735.4**	707.7	718.6
Equity				
Share capital		**-**	-	-
Retained earnings		**735.4**	707.7	718.6
Total equity		**735.4**	707.7	718.6

The interim financial statements were approved by the board of directors on 28 November 2022 and signed on its behalf by

Andrew Pymer, Director

Condensed Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2021		-	833.1	833.1
Total comprehensive income for the period				
(Loss) for the period		-	(67.8)	(67.8)
Other comprehensive (loss)		-	(22.1)	(22.1)
Total comprehensive (loss) for the period		-	(89.9)	(89.9)
Transactions with owners, recorded directly in equity				
Dividends	*7*	-	(35.5)	(35.5)
Total contributions by and distributions to owners		-	(35.5)	(35.5)
Balance at 30 September 2021 (unaudited)		-	707.7	707.7
Balance at 1 April 2022		-	**718.6**	**718.6**
Total comprehensive income for the period				
Profit for the period		-	**3.8**	**3.8**
Other comprehensive income		-	**54.1**	**54.1**
Total comprehensive income for the period		-	**57.9**	**57.9**
Transactions with owners, recorded directly in equity				
Dividends	*7*	-	**(41.1)**	**(41.1)**
Total contributions by and distributions to owners		-	**(41.1)**	**(41.1)**
Balance at 30 September 2022 (unaudited)		**-**	**735.4**	**735.4**

Condensed Statement of Cash Flows

	Note	**Half year to 30.09.22 (unaudited) £m**	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Cash flows from operating activities				
Profit/(loss) for the period		**3.8**	(67.8)	(44.4)
Adjustments for:				
Depreciation and amortisation		**66.9**	65.5	129.4
Financial income		**-**	(0.1)	(0.2)
Financial expense		**61.3**	40.9	82.3
Taxation		**2.1**	106.6	112.9
		134.0	145.1	280.0
Decrease in trade and other receivables		**17.0**	27.5	7.5
(Increase)/decrease in inventories		**(0.5)**	0.1	(0.4)
(Decrease)/increase in trade and other payables		**(56.2)**	(32.2)	5.3
(Decrease) in provisions and employee benefits		**(13.2)**	(11.6)	(14.1)
		(52.9)	(16.2)	(1.7)
Tax paid		**-**	(2.8)	(2.6)
Net cash from operating activities		**81.1**	126.1	275.7
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**0.8**	2.1	4.7
Interest received		**-**	0.3	0.4
Acquisition of property, plant and equipment		**(97.0)**	(115.8)	(226.4)
Acquisition of intangible assets		**(6.4)**	(10.2)	(16.2)
Sale of financial instruments		**-**	290.0	290.0
Proceeds from infrastructure charges and capital contributions		**2.7**	1.9	7.3
Net cash from investing activities		**(99.9)**	168.3	59.8
Cash flows from financing activities				
Proceeds from new loans		**80.0**	100.0	120.0
Interest payments		**(16.1)**	(35.0)	(67.0)
Repayment of borrowings		**(28.0)**	(383.0)	(391.0)
Repayment of lease liabilities		**(0.1)**	(0.1)	(0.3)
Dividend payments		**(40.3)**	(34.0)	(62.0)
Net cash from financing activities		**(4.5)**	(352.1)	(400.3)
(Decrease) in cash and cash equivalents		**(23.3)**	(57.7)	(64.8)
Opening cash and cash equivalents		**4.1**	68.9	68.9
Closing cash and cash equivalents	*10*	**(19.2)**	11.2	4.1

Notes to the Interim Financial Information

1. Basis of preparation and accounting policies

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 interim report was approved by the Directors on 28 November 2022. 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 UK. It should be read in conjunction with the 2022 Annual Review and Accounts, which are available on the Company website, and which contain the audited financial statements for the year ended 31 March 2022.

The information for the year ended 31 March 2022 does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The latest statutory financial statements have been reported on by the Company's auditor for the year ended 30 June 2022 and have been delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The accounting policies, presentation and methods of computation are prepared in accordance with UK adopted international accounting standards and are consistent with those applied in the audited financial statement of the Company for the year ended 31 March 2022. Any estimates and judgements used in preparing these accounts are consistent with those used in the preparation of the financial statements for 31 March 2022.

Going Concern

The directors believe, after due and careful enquiry, that the company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the interim financial statements to 30 September 2022. In forming this assessment the directors have considered the following information:

• The company's business activities, together with the factors likely to affect its future development, performance and position.

• The ongoing economic uncertainty and cost of living crisis and its impact on the company's operations and financial performance.

• The financial position of the company, its forecast monthly cash flows for the period to March 2024, liquidity position, covenants and borrowing facilities including reasonable downside sensitivities to the cash flows to check the company can operate within its current facilities and covenants.

• The positive financial headroom across key debt covenant ratios.

• The company has available a combination of cash and undrawn bank facilities totalling £250.8 million at 30 September 2022 (2021 - £136.2 million).

• The company's requirement to repay scheduled loan maturities and to finance the capital investment programme. The next scheduled requirement is to repay a loan of £50 million by 30 July 2023.

• The company operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim financial statements.

Seasonality of operations

Whilst demand for water is usually higher during the drier spring and summer months, fluctuations in seasonal weather patterns can impact both revenue and costs.

Notes to the Interim Financial Information *(continued)*

2. Segmental analysis

	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Revenue			
Regulated	**262.4**	254.5	506.5
Unregulated	**4.4**	5.4	9.1
Total revenue	**266.8**	259.9	515.6
Operating profit			
Regulated	**67.2**	79.6	150.6
Unregulated	**-**	-	-
Total operating profit	**67.2**	79.6	150.6
Net assets			
Regulated	**735.4**	707.7	718.6
Unregulated	**-**	-	-
Total net assets	**735.4**	707.7	718.6

3. Revenue analysis

	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Water and sewerage services			
Household - measured	**147.5**	139.9	252.5
Household - unmeasured	**74.6**	74.4	147.4
Non-household - measured	**34.6**	34.1	92.1
Non-household - unmeasured	**1.6**	1.7	3.6
Total water and sewerage services	**258.3**	250.1	495.6
Other regulated services	**4.1**	4.4	10.9
Unregulated services	**4.4**	5.4	9.1
Total revenue	**266.8**	259.9	515.6

Notes to the Interim Financial Information *(continued)*

4. Operating Costs

	Half year to 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Employment costs	**70.1**	65.9	131.6
Power	**24.0**	15.1	30.7
Raw Materials and consumables	**8.3**	7.1	14.4
Rates	**12.5**	12.5	24.9
Charge for bad and doubtful debts	**5.5**	5.4	15.4
Service charges	**3.3**	3.3	6.5
Depreciation of property, plant and equipment	**63.5**	62.7	125.3
Depreciation of right-of-use assets	**0.1**	0.1	0.3
Amortisation of intangible assets	**5.0**	5.1	9.3
(Loss)/profit on disposal of property, plant and equipment	**0.6**	(0.6)	(2.3)
Short term lease expense	**3.6**	2.8	6.7
Hire of plant and machinery	**0.2**	0.2	0.4
Infrastructure maintenance expenditure	**10.0**	11.4	19.4
Ofwat licence fee	**0.7**	1.0	1.2
Other operating costs	**50.5**	42.6	91.6
	257.9	234.6	475.4
Amortisation of deferred income	**(1.7)**	(1.6)	(3.2)
Own work capitalised	**(56.6)**	(52.7)	(107.2)
Total operating costs	**199.6**	180.3	365.0

5. Net Finance Costs

	Half year to 30.09.22 (unaudited) £m	**Half year to 30.09.21 (unaudited) £m**	**Year to 31.03.22 (audited) £m**
Finance income			
Interest receivable on short term bank deposits	**-**	0.1	0.2
Total finance income	**-**	0.1	0.2
Finance expense			
To subsidiary undertakings	**(58.2)**	(38.4)	(73.6)
Net interest on net defined benefit pension plan liability	**(1.2)**	(1.5)	(1.7)
On bank loans and leases	**(1.9)**	(1.0)	(7.0)
Total finance expense	**(61.3)**	(40.9)	(82.3)
Net finance cost	**(61.3)**	(40.8)	(82.1)

6. 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 30.09.22 (unaudited) £m	Half year to 30.09.21 (unaudited) £m	Year to 31.03.22 (audited) £m
Corporation tax			
Current period	**-**	0.6	-
Adjustment in respect of previous periods	**-**	-	(4.1)
Deferred tax			
Current period	**1.1**	7.2	13.9
Increase in tax rate	**-**	96.9	96.9
Adjustment in respect of previous periods	**1.0**	1.9	6.2
Taxation charge	**2.1**	106.6	112.9

Tax charged within the six months ended 30 September 2022 has been calculated by applying the effective rate of tax which is expected to apply to the Company for the year ended 31 March 2023 using rates substantively enacted by 30 September 2022 as required by IAS34 'Interim Financial Reporting'.

Notes to the Interim Financial Information *(continued)*

7. 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 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 30.09.22 (unaudited) £m	**Half year to 30.09.21 (unaudited) £m**	**Year to 31.03.22 (audited) £m**
Interim dividends for the current year	**41.1**	35.5	49.5
Final dividend for the current year	**-**	-	14.0
	41.1	35.5	63.5

8. Intangible assets

	£m
Cost	
At 1 April 2022	86.1
Additions in the period	6.4
At 30 September 2022 (unaudited)	92.5
Accumulated depreciation	
At 1 April 2022	36.9
Charge for the period	5.0
At 30 September 2022 (unaudited)	41.9
Net book amount	
At 30 September 2022 (unaudited)	**50.6**

9. Property, plant and equipment

	£m
Cost	
At 1 April 2021	5,658.1
Additions in the period	112.6
Disposals	(3.3)
At 30 September 2022 (unaudited)	5,767.4
Accumulated depreciation	
At 1 April 2022	1,639.9
Charge for the period	63.6
Disposals	(1.9)
At 30 September 2022 (unaudited)	1,701.6
Net book amount	
At 30 September 2022 (unaudited)	**4,065.8**

10. Analysis of net debt

	30.09.22 (unaudited) £m	**30.09.21 (unaudited) £m**	**31.03.22 (audited) £m**
Cash at bank and in hand	-	11.2	4.1
Bank overdraft	**(19.2)**	-	-
Lease liabilities under 1 year	**(0.2)**	(0.1)	(0.2)
Lease liabilities over 1 year	**(2.1)**	(2.0)	(2.2)
Loans under 1 year	**(15.9)**	(15.9)	(15.9)
Loans over 1 year	**(531.1)**	(466.8)	(479.0)
Loans from subsidiary company over 1 year	**(1,956.8)**	(1,912.7)	(1,925.8)
	(2,525.3)	(2,386.3)	(2,419.0)

11. Related party transactions

There has been no material change during the six months ended 30 September 2022 in transactions with related parties from that disclosed in the Company's annual report and accounts for the year ended 31 March 2022.

12. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

A number of claimaints have commenced litigation against The Company 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 the case remains at an early stage, however the company is defending 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, of which the Company's share is approx..£8 million.

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

Investigations into the incident at Avonmouth in December 2020 are ongoing and it is uncertain when they will be concluded. We continue to co-operate with the investigating authorities. No proceedings have been started and, as such, it is not possible to assess whether any financial penalties or related costs could be incurred.

Flow to full treatment investigation

In November 2021, Ofwat and the Environment Agency announced separate industry-wide investigations into Flow to Full Treatment at waste water recycling centres. Ofwat has since opened enforcement cases into five companies, including the Company. The Company continues to work with Ofwat and the Environment Agency as they gather further information to inform the investigations and next steps.

13. Commitments

Capital expenditure contracted but not provided at 30 September 2022 was £99.2m (2021 - £61.3m).

The Company has guaranteed Bonds of £1,956.8m (2021 - £1,912.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.2m (2021 – £0.2m).

14. 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.