

# **WESSEX WATER SERVICES FINANCE PLC**

**Annual Report and Financial Statements  
30 June 2021**

**Registered in England and Wales No. 03704265**

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## **STRATEGIC REPORT**

### **Principal activities**

The sole activity of the Company is to issue bonds, the proceeds of which are lent to the immediate holding company Wessex Water Services Ltd (WWSL).

The bonds are admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc.

The bond proceeds are lent to WWSL on the same terms as the bonds themselves. WWSL guarantees the bonds, hence protecting the Company from any risk.

The market and fair values of the bonds are disclosed in note 10, along with a description of the risks associated with the financial instruments.

### **Profit and dividend**

There was no profit in the year (2020 - £nil).

The Directors did not recommend the payment of a dividend in either year.

### **Review of activities**

The only activity of the Company is to issue Bonds on behalf of the parent company WWSL.

During the year the company issued a £300m fixed rate bond at a rate of 1.25% with maturity in January 2036.

There are no employees and no expenses incurred by the Company.

Note 10(d) explains the strength of WWSL in terms of its Licence to operate. It also explains how the risks on the Bonds are mitigated. WWSL guarantees the bonds, hence protecting the Company from any risk.

The Directors conclude that the Company does not run any major risks and they are confident about the future viability of the Company.

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 Wessex Water Services Finance PLC (Registered in England and Wales No. 03704265) for the year to 30 June 2021.

### Internal control and risk management

The Company's policy on risk identification and management is subject to annual review by the Board. The Board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

### Charitable and political donations

There were no charitable or political donations in either year.

### Going Concern

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 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 reviewed the financing requirements of the company for the 12-month period from the date of the approval of these accounts. During the year the Directors addressed future financing requirements by issuing a £300m 1.25% bond which will be used to repay the 4% bond due in September 2021.

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

### Directors

The Directors of the Company during the year were;

Colin Skellett

Mark Watts

Directors' emoluments in respect of services to group companies will be disclosed in the accounts of Wessex Water Ltd (WWL) and YTL Utilities (UK) Ltd. The services provided by the directors to the Company are negligible in 2021.

The Directors were granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, a parent company (see note 13).

<i>2011 UK Plan</i>	Opening 01/07/2020	Exercise price RM	Date of grant	Expiry date	Lapsed	Closing 30/06/2021
Colin Skellett	87,000	1.65	01/06/2012	31/03/2021	(87,000)	-
Colin Skellett	1,913,000	1.41	01/06/2012	31/03/2021	(1,913,000)	-
Mark Watts	87,000	1.65	01/06/2012	31/03/2021	(87,000)	-
Mark Watts	913,000	1.41	01/06/2012	31/03/2021	(913,000)	-

### Disclosure of information to 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 Company's auditors are 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 Company's auditors are aware of that information.

## **DIRECTORS' REPORT** *(continued)*

### **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 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 Company's 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 Company and of the profit or loss for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with international financial reporting standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 Company's financial position and financial performance;
- in respect of the company's financial statements, state whether International Accounting Standards in conformity with the requirements of the Companies Act 2006 (and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union 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 will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company 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 and Directors' report, 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 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 for the Company; and
- 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 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 SERVICES FINANCE PLC

## Opinion

We have audited the financial statements of Wessex Water Services Finance Plc for the year ended 30 June 2021 which comprise the Income Statement and Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 15, 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.

In our opinion, the financial statements:

- give a true and fair view of the company’s affairs as at 30 June 2021 and of its result for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- 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 below. We are independent of the company 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 as applied to listed public interest entities, 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of 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 company’s ability to continue as a going concern.

## Overview of our audit approach

Key Audit Matter	<ul style="list-style-type: none"><li>• Inherent risk over the accounting treatment of the listed debt, including interest calculation, due to the complexity of the valuation of these financial instruments.</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall materiality of £11.2m which represents 0.5% of total assets.</li></ul>

## Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC**  
*(continued)*

**Key audit matters**

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Inherent risk over the valuation of the listed debt, including interest calculation, due to the complexity of the accounting treatment of these financial instruments.</b></p> <p><i>Accounting policies (page 16); and Note 8 of the financial statements (page 20)</i></p> <p>We have identified an inherent risk over the accounting treatment of the listed debt, including the interest calculation, due to the complexity of the valuation of these financial instruments.</p>	<p>We have performed the below procedures in relation to the identified inherent risk:</p> <ul style="list-style-type: none"> <li>• We have obtained and reviewed the key terms of the bond agreement for each of the fixed interest and index linked bonds and have tied through to the client prepared schedules.</li> <li>• We have performed a recalculation of the interest charge for the year and compared it to the interest charge as calculated by the client schedules.</li> </ul>	<p>We concluded that the bond interest and debt calculations are in line with the bond arrangements and the accounting treatment as defined for financial instruments under IFRS 9.</p>

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the company to be £11.2 million (2020: £9.7m) which is 0.5% of total assets (2020: 0.5% of total assets). We believe that total assets provide us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC** *(continued)*

### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality (2020: 75%), namely £8.4m (2020: £7.3m). We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6m (2020: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### **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.

### **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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC** *(continued)*

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 5, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC** *(continued)*

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are:
  - Companies Act 2006
  - Financial Reporting Council (FRC)
  - Tax Legislation (governed by HM Revenue and Customs)
  - Listing requirements of London Stock Exchange
- We understood how Wessex Water Services Finance Plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement.
- Based on this understanding we designed our audit procedures to identify non-compliance 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. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

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.

### **Other matters we are required to address**

- We were appointed by the company on 30 September 2019 to audit the financial statements for the year ending 30 June 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the year ending 30 June 2020 .
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESSEX WATER SERVICES FINANCE PLC**  
*(continued)*

**Use of our report**

This report is made solely to the 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  
Date: 8 September 2021

## INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	<i>Note</i>	<b>2021</b> £000	2020 £000
<b>Revenue</b>	3	<b>78,707</b>	80,681
<b>Operating cost</b>	3	<b>(78,707)</b>	(80,681)
<b>Profit before and after tax, and total comprehensive income</b>		<u>          </u> <u>          </u> -	<u>          </u> <u>          </u> -

The notes on pages 16 to 24 are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Note	2021 £000	2020 £000
<b>Non-current assets</b>			
Other financial assets	4	<u>1,909,292</u>	<u>1,899,707</u>
		<u>1,909,292</u>	<u>1,899,707</u>
<b>Current assets</b>			
Trade and other receivables	5	36,163	34,388
Other financial assets	4	300,089	-
Cash and cash equivalents	6	<u>13</u>	<u>13</u>
		<u>336,265</u>	<u>34,401</u>
<b>Total assets</b>		<u><u>2,245,557</u></u>	<u><u>1,934,108</u></u>
<b>Current liabilities</b>			
Trade and other payables	7	(36,163)	(34,388)
Other interest-bearing loans and borrowings	8	<u>(300,089)</u>	<u>-</u>
		<u>(336,252)</u>	<u>(34,388)</u>
<b>Non-current liabilities</b>			
Other interest-bearing loans and borrowings	8	<u>(1,909,292)</u>	<u>(1,899,707)</u>
		<u>(1,909,292)</u>	<u>(1,899,707)</u>
<b>Total liabilities</b>		<u><u>(2,245,544)</u></u>	<u><u>(1,934,095)</u></u>
<b>Net assets</b>		<u><u>13</u></u>	<u><u>13</u></u>
<b>Equity</b>			
Share capital	9	13	13
Retained earnings		<u>-</u>	<u>-</u>
<b>Total equity</b>		<u><u>13</u></u>	<u><u>13</u></u>

The notes on pages 16 to 24 are an integral part of these financial statements.

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

Colin Skellett  
Director

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 July 2019		<u>13</u>	<u>-</u>	<u>13</u>
Total comprehensive income for the year		-	-	-
<b>Balance at 30 June 2020</b>	<b>9</b>	<b><u>13</u></b>	<b><u>-</u></b>	<b><u>13</u></b>
Balance at 1 July 2020		<u>13</u>	<u>-</u>	<u>13</u>
Total comprehensive income for the year		-	-	-
<b>Balance at 30 June 2021</b>	<b>9</b>	<b><u>13</u></b>	<b><u>-</u></b>	<b><u>13</u></b>

## STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Note	2021 £000	2020 £000
<b>Cashflow used in operating activities</b>			
Profit for the year		-	-
<i>Adjustments for:</i>			
Finance income	3	(78,707)	(80,681)
Finance expense	3	78,707	80,681
		<u>-</u>	<u>-</u>
(Increase) in trade and other receivables		(1,775)	(3,048)
Increase in trade and other payables		1,775	3,048
Interest payments		(62,131)	(56,874)
Interest received		62,131	56,874
Issuance of debt		(294,873)	(247,669)
Proceeds from issue of Bonds		294,873	247,669
		<u>-</u>	<u>-</u>
<b>Net cashflow used in operating activities</b>		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
<b>Net cashflow used in investing activities</b>		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
<b>Net cashflow used in financing activities</b>		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 July		13	13
<b>Cash and cash equivalents at 30 June</b>	6	<u>13</u>	<u>13</u>



## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

#### 1.1 Basis of preparation

Wessex Water Services Finance Plc (the “Company”) is a private company limited by shares which is incorporated, domiciled and registered in England in the UK. The registered number is 3704265 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these 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 15.

#### 1.2 Measurement convention

The financial statements are prepared on a cost basis and presented in pounds sterling which is the company’s functional and presentational currency.

#### 1.3 Going concern

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 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 reviewed the financing requirements of the company for the 12-month period from the date of the approval of these accounts. During the year the Directors addressed future financing requirements by issuing a £300m 1.25% bond which will be used to repay the 4% bond due in September 2021.

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

#### 1.4 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 Company’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 Company’s business model for managing them. The Company 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 Company’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.

The Company’s financial assets include trade and other receivables and intercompany loans.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 1.4 *Financial instruments (continued)*

#### *Subsequent measurement*

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company 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 impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company'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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

#### *Impairment of financial assets*

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company has based the calculation of its ECL provision on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

### **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 Company's financial liabilities include trade and other payables and loans and borrowings.

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

### **1.4 Financial instruments (continued)**

#### *Subsequent measurement - Loans and borrowings*

This is the category most relevant to the Company. 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 10.

#### *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 income statement.

### **1.5 Revenue**

Revenue represents interest income on loans receivable from the immediate Parent Company. Interest receivable is calculated using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period.

### **1.6 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except 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. Current tax for the year has been nil (2020 - £nil).

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 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. Deferred tax for the year has been nil (2020 – £nil).

### **1.7 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. The company has not paid dividends in 2021 as there were no distributable reserves (2020 - £nil).

## **2. Operating profit**

There were no expenses incurred by the company apart from finance costs in either year as they were borne by other group companies. Audit fees were £nil, as they were borne by its immediate holding company, Wessex Water Services Ltd (2020: £nil).

The Directors did not receive any remuneration from the Company during the year ended 30 June 2021 (2020: £nil). The Directors did not receive any remuneration from the immediate holding company in respect of this company (2020: £nil). Other than the directors, the company had no employees.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. Revenue and expense

	2021 £000	2020 £000
<i>Finance income</i>		
Interest receivable from immediate parent company	<u>78,707</u>	<u>80,681</u>
Total finance income	<u>78,707</u>	<u>80,681</u>
<i>Finance expense</i>		
Interest payable on bonds	<u>(78,707)</u>	<u>(80,681)</u>
Total finance expense	<u>(78,707)</u>	<u>(80,681)</u>
Net interest payable	<u>-</u>	<u>-</u>

### 4. Other Financial Assets

	2021 £000	2020 £000
<b>Current</b>		
Intercompany loans repayable in less than 12 months	<u>300,089</u>	<u>-</u>
<b>Non-current</b>		
Intercompany loans repayable in more than 12 months	<u>1,909,292</u>	<u>1,899,707</u>

Intercompany Loans consist of bonds lent to the immediate parent company with the same terms as bonds issued by the Company. See Note 8 for details of bonds issued by the Company.

### 5. Trade and other receivables

	2021 £000	2020 £000
Interest receivable	<u>36,163</u>	<u>34,388</u>

Amounts included in interest receivable above are due from the immediate parent company and reflect the terms of the external borrowings included in note 8.

### 6. Cash and cash equivalents

	2021 £000	2020 £000
Cash at bank	<u>13</u>	<u>13</u>

### 7. Trade and other payables

	2021 £000	2020 £000
<b>Current</b>		
Accrued expenses	<u>36,163</u>	<u>34,388</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 8. Other interest-bearing loans and borrowings

	2021 £000	2020 £000
<b>Current liabilities</b>		
Listed bonds	<u>300,089</u>	<u>-</u>
<b>Non-current liabilities</b>		
Listed bonds	<u>1,909,292</u>	<u>1,899,707</u>

#### *Terms and debt repayment schedule*

	Currency	Nominal interest rate	Year of maturity	Face Value 2021 £000	Carrying amount 2021 £000	Face Value 2020 £000	Carrying amount 2020 £000
Fixed Rate Bond	Sterling	5.375%	2028	200,000	198,947	200,000	198,827
Fixed Rate Bond	Sterling	5.750%	2033	350,000	346,694	350,000	346,518
Fixed Rate Bond	Sterling	4.000%	2021	300,000	300,089	300,000	300,758
Fixed Rate Bond	Sterling	1.500%	2029	250,000	247,746	250,000	247,669
Fixed Rate Bond	Sterling	1.250%	2036	300,000	294,873	-	-
Index Linked Bond	Sterling	3.520%	2023	50,000	84,113	50,000	82,738
Index Linked Bond	Sterling	2.186%	2039	50,000	69,386	50,000	68,371
Index Linked Bond	Sterling	1.750%	2046	75,000	113,136	75,000	111,286
Index Linked Bond	Sterling	1.750%	2051	75,000	113,136	75,000	111,286
Index Linked Bond	Sterling	1.369%	2057	75,000	113,136	75,000	111,286
Index Linked Bond	Sterling	1.374%	2057	75,000	113,136	75,000	111,286
Index Linked Bond	Sterling	1.489%	2058	50,000	71,663	50,000	69,894
Index Linked Bond	Sterling	1.495%	2058	50,000	71,663	50,000	69,894
Index Linked Bond	Sterling	1.499%	2058	50,000	71,663	50,000	69,894
				<u>1,950,000</u>	<u>2,209,381</u>	<u>1,650,000</u>	<u>1,899,707</u>

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

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 9. Share capital

#### Ordinary shares

	2021 £	2020 £
<b>Authorised shares</b>		
Ordinary shares of £1 each	<b>50,000</b>	50,000
<b>Ordinary shares issued and fully paid</b>		
At 1 July 2020 and 30 June 2021 – quantity	<b>2</b>	2
At 1 July 2020 and 30 June 2021 - £1.00 per share	<b>2</b>	2
<b>Ordinary shares issued and partially paid</b>		
At 1 July 2020 and 30 June 2021 – quantity	<b>49,998</b>	49,998
At 1 July 2020 and 30 June 2021 - £0.26p per share	<b>12,999</b>	12,999

### 10. 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 because they are all listed in recognised financial markets.

The fair values of intercompany loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £2,209,381k and a fair value of £2,651,334k.

The fair values of listed bonds are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £2,209,381k and a fair value of £2,651,334k.

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.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 10. Financial Instruments *(continued)*

#### *(b) Cash flow hedges*

The Company does not have any cash flow hedges (2020 – £nil).

#### *(c) 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 immediate parent company 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. 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 £000	Contractual cash flows 2021 £000	Year 1 2021 £000	Years 2 to 5 2021 £000	Over 5 years 2021 £000
<b>Non-derivative financial instruments</b>					
Bonds	2,209,381	3,851,508	365,325	293,817	3,192,366
Trade and other payables	36,163	36,163	36,163	-	-
Total financial instruments	<u>2,245,544</u>	<u>3,887,671</u>	<u>401,488</u>	<u>293,817</u>	<u>3,192,366</u>

	Carrying amount 2020 £000	Contractual cash flows 2020 £000	Year 1 2020 £000	Years 2 to 5 2020 £000	Over 5 years 2020 £000
<b>Non-derivative financial instruments</b>					
Bonds	1,899,707	3,855,462	61,584	598,151	3,195,727
Trade and other payables	34,388	34,388	34,388	-	-
Total financial instruments	<u>1,934,095</u>	<u>3,889,850</u>	<u>95,972</u>	<u>598,151</u>	<u>3,195,727</u>

#### *(d) 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

	2021 £000	2020 £000
Fixed rate instruments	1,388,349	1,093,772
Index linked instruments	821,032	805,935
	<u>2,209,381</u>	<u>1,899,707</u>

The Company policy is to keep an appropriate mix of fixed rate and index linked financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 10. Financial Instruments *(continued)*

#### **Sensitivity**

There are no floating rate instruments where the interest charge is subject to changes in the interest rate.

#### *Interest rate sensitivity*

All bonds are either fixed rate or index linked so movements in general interest rates do not have an effect on the Company.

#### *Inflation sensitivity*

Index linked bonds are sensitive to movements in the inflation rate. At 1% increase in the inflation rate would have the following effects.

	<b>2021</b>	2020
	<b>£000</b>	£000
Interest expense	<b>(8,210)</b>	(8,059)
Interest income	<b>8,210</b>	8,059
	<u>          </u>	<u>          </u>
Net assets	<u>          </u>	<u>          </u>

#### ***(e) Capital Management***

For the purpose of the Company'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 Company's capital management is to maximise the shareholder value.

The Company 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 Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio for the parent company Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Capital Value (RCV). WWSL's policy is to keep the gearing ratio below 70%. The Company includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits.

### 11. Contingencies

There are no material contingent liabilities at 30 June 2021 for which provision has not been made in these accounts (2020: £nil).

### 12. Related parties

#### **Significant transactions with related parties**

	<b>2021</b>	2020
	<b>£000</b>	£000
<b>Interest Income:</b>		
Immediate parent company	<b>78,707</b>	80,681
<b>Year-end balances owing by:</b>		
Immediate parent company	<b>2,245,544</b>	1,934,095



## **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

### **12. Related parties** *(continued)*

#### *Terms and conditions of transactions with related parties*

The interest income received from related parties is made on terms equivalent to those that prevail in arm's length transactions. Note 10(d) explains the strength of WWSL in terms of its Licence to operate. It also explains how the risks on the Bonds are mitigated. WWSL guarantees the bonds, hence protecting the Company from any risk.

### **13. Ultimate parent company and parent company of larger group**

The smallest group into which the financial statements of the Company are consolidated is that headed by Wessex Water Ltd, a company incorporated in England whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

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

### **14. Subsequent Events**

There were no subsequent events requiring disclosure in these financial statements.

### **15. Accounting estimates and judgements**

There were no accounting estimates and judgements made during the year that would have a material impact on the financial statements.