

# WESSEX WATER SERVICES LIMITED

Unaudited accounts for the six months to  
30 September 2019

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, consisting of several loops and a long horizontal stroke, positioned below the text "By order of the board".

Mark Watts  
Director

## Income Statement

	Note	Half year to 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
<b>Revenue</b>	2	<b>282.7</b>	278.1	547.7
Raw materials and consumables used		<b>(18.9)</b>	(19.7)	(38.4)
Staff costs		<b>(36.8)</b>	(41.2)	(70.9)
Depreciation and amortisation		<b>(55.5)</b>	(54.9)	(106.1)
Other expenses		<b>(58.0)</b>	(47.5)	(103.9)
<b>Total expenses</b>		<b>(169.2)</b>	(163.3)	(319.3)
<b>Operating profit</b>	2	<b>113.5</b>	114.8	228.4
Financial income		<b>0.1</b>	-	0.1
Financial expenses		<b>(46.6)</b>	(46.3)	(93.8)
<b>Net financing expense</b>		<b>(46.5)</b>	(46.3)	(93.7)
<b>Profit before tax</b>		<b>67.0</b>	68.5	134.7
Taxation	3	<b>(12.1)</b>	(13.5)	(24.5)
<b>Profit for the period</b>		<b>54.9</b>	55.0	110.2

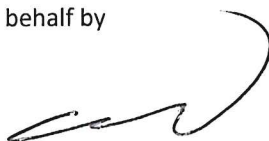
## Statement of Other Comprehensive Income

	Half year to 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
<b>Profit for the period</b>	<b>54.9</b>	55.0	110.2
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	11.4	26.8	5.3
Income tax on items that will not be reclassified to profit or loss	(1.7)	(4.6)	(0.9)
	<b>9.7</b>	22.2	4.4
<b>Other comprehensive gain for the period, net of income tax</b>			
	<b>64.6</b>	77.2	114.6
<b>Total comprehensive income for the period</b>			

## Balance Sheet

	Note	30.09.19 (unaudited) £m	30.09.18 (unaudited) £m	31.03.19 (audited) £m
<b>Non-current assets</b>				
Intangible assets		10.9	-	-
Tangible assets		3,731.6	3,604.4	3,676.0
Investment in subsidiaries		-	-	-
		<u>3,742.5</u>	<u>3,604.4</u>	<u>3,676.0</u>
<b>Current assets</b>				
Inventories		3.3	5.5	5.0
Trade and other receivables		165.2	150.0	183.9
Cash and cash equivalents		180.4	-	-
		<u>348.9</u>	<u>155.5</u>	<u>188.9</u>
<b>Total assets</b>		<b>4,091.4</b>	<b>3,759.9</b>	<b>3,864.9</b>
<b>Current liabilities</b>				
Bank overdraft		-	-	(20.4)
Other interest-bearing loans and borrowings		(70.1)	(141.4)	(31.4)
Trade and other payables		(149.7)	(153.4)	(174.6)
		<u>(219.8)</u>	<u>(294.8)</u>	<u>(226.4)</u>
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings		(2,250.4)	(1,887.9)	(2,039.6)
Contract liabilities		(6.3)	(0.3)	(6.3)
Employee benefits		(132.7)	(128.0)	(140.6)
Deferred grants and contributions		(275.0)	(261.5)	(269.3)
Provisions		(0.9)	(0.1)	(1.2)
Deferred tax liabilities		(360.8)	(355.8)	(356.6)
		<u>(3,026.1)</u>	<u>(2,633.6)</u>	<u>(2,813.6)</u>
<b>Total liabilities</b>		<b>(3,245.9)</b>	<b>(2,928.4)</b>	<b>(3,040.0)</b>
<b>Net assets</b>	2	<u>845.5</u>	<u>831.5</u>	<u>824.9</u>
<b>Equity</b>				
Share capital		-	-	-
Retained earnings		845.5	831.5	824.9
<b>Total equity</b>		<u>845.5</u>	<u>831.5</u>	<u>824.9</u>

The interim financial statements were approved by the board of directors on 2 December 2019 and signed on its behalf by



Mark Watts, Director

## Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018		-	801.8	801.8
Effect of change in accounting policy		-	(0.5)	(0.5)
Balance at 1 April 2018 (restated)		-	801.3	801.3
<b>Total comprehensive income for the period</b>				
Profit for the period		-	55.0	55.0
Other comprehensive income		-	22.2	22.2
Total comprehensive income for the period		-	77.2	77.2
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	4	-	(47.0)	(47.0)
Total contributions by and distributions to owners		-	(47.0)	(47.0)
<b>Balance at 30 September 2018 (unaudited)</b>		-	831.5	831.5
Balance at 1 April 2019		-	824.9	824.9
<b>Total comprehensive income for the period</b>				
Profit for the period		-	54.9	54.9
Other comprehensive income		-	9.7	9.7
Total comprehensive income		-	64.6	64.6
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	4	-	(44.0)	(44.0)
Total contributions by and distributions to owners		-	(44.0)	(44.0)
<b>Balance at 30 September 2019 (unaudited)</b>		-	845.5	845.5

## Cash Flow Statement

	Note	Half year to 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
<b>Cash flows from operating activities</b>				
Profit for the period		54.9	55.0	110.2
<i>Adjustments for:</i>				
Depreciation, amortisation and impairment		55.5	54.9	106.1
Financial income		(0.1)	-	(0.1)
Financial expense		46.6	46.3	93.8
Taxation		12.1	13.5	24.5
		<b>169.0</b>	<b>169.7</b>	<b>334.5</b>
Decrease in trade and other receivables		18.7	34.4	1.1
Decrease in inventories		1.7	0.2	0.7
(Decrease) in trade and other payables		(29.8)	(21.4)	(8.1)
Increase/(Decrease) in provisions and employee benefits		3.2	(1.1)	(10.6)
		<b>(6.2)</b>	<b>12.1</b>	<b>(16.9)</b>
Tax paid		(13.5)	(12.6)	(21.6)
<b>Net cash from operating activities</b>		<b>149.3</b>	<b>169.2</b>	<b>296.0</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment		1.2	1.3	2.2
Interest received		0.1	-	0.1
Acquisition of property, plant and equipment		(107.7)	(127.4)	(236.4)
Acquisition of intangible assets		(11.4)	-	-
Proceeds from infrastructure charges and capital contributions		2.9	3.3	10.8
<b>Net cash from investing activities</b>		<b>(114.9)</b>	<b>(122.8)</b>	<b>(223.3)</b>
<b>Cash flows from financing activities</b>				
Proceeds from new loans		248.3	-	170.0
Interest paid		(26.5)	(30.8)	(63.4)
Repayment of borrowings		(10.0)	-	(140.0)
Payment of finance lease liabilities		(1.4)	(5.4)	(5.5)
Dividends paid		(44.0)	(46.0)	(90.0)
<b>Net cash from financing activities</b>		<b>166.4</b>	<b>(82.2)</b>	<b>(128.9)</b>
Increase/(Decrease) in cash and cash equivalents		200.8	(35.8)	(56.2)
Opening cash and cash equivalents		(20.4)	35.8	35.8
<b>Closing cash and cash equivalents</b>	5	<b>180.4</b>	<b>-</b>	<b>(20.4)</b>

## 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.

The interim report was approved by the Directors on 2 December 2019. 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 2019 Annual Review and Accounts, which are available on the Company website, and which contain the audited financial statements for the year ended 31 March 2019.

The information for the year ended 31 March 2019 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 2019 with the exception of the adoption of IFRS 16 'Leases'. Adoption of this standard is in line with expectations set out in the March 2019 financial statements. Any estimates and judgements used in preparing these accounts are consistent with those used in the preparation of the financial statements for 31 March 2019.

#### *Adoption of new IFRSs during the period*

The Company adopted IFRS 16 on 1 April 2019, applying the modified retrospective transitional approach permitted by the standard in which both the right-of-use assets and lease liabilities brought onto the balance sheet were based on the present value of future lease payments at the adoption date calculated using the appropriate discount rate at 1 April 2019. Prior year comparatives have not been restated. The Company has utilised the practical expedient permitted by the standard whereby a single discount rate has been applied to portfolios of leases with reasonably similar characteristics. Following initial adoption of the standard, lease liabilities and right-of-use assets for new leases are based on the appropriate discount rate at the date the new contract is entered into.

The value of right-of-use assets and lease liabilities brought onto the balance sheet on 1 April was £0.9 million; there was an immaterial effect on retained earnings at the adoption date. The income statement charge during the period to 30 September 2019 in relation to depreciation, and financing charges was £0.1m. This compares with a similar value of operating lease expenses that would have been recognised under IAS 17. There has been no net cash flow impact arising from the application of the new standard.

At 30 September 2019 the value of right-of-use assets included within property, plant and equipment was £0.9 million and the value of lease liabilities included within borrowings was £1.0 million, of which £0.9 million was classified as non-current and £0.1 million was classified as current.



## Notes to the Interim Results (continued)

### 1. Basis of preparation (continued)

The typical items that the Company leases include land, buildings, and vehicles. The value of both right-of-use assets and lease liabilities is based on the present value of lease payments due over the term of the lease, with the asset being depreciated in accordance with IAS 16 'Property, Plant and Equipment' and the liability increased for the accretion of interest (being the unwinding of the discounting applied to the future lease payments) and reduced by lease payments.

The key judgements associated with applying this standard relate to the identification and classification of contracts containing a lease within the scope of IFRS 16, and the discount rate to use in calculating the present value of future lease payments on which the reported lease liability and right-of-use asset is based when it is not implicit in the lease contract.

Due to the nature of the Company's operations, many of the current leases have long remaining terms, which causes the discount rate to be a key factor in determining the value of the lease liability. When the interest rate is not implicit in the lease, which is the case for materially all of the Company's leases recognised under IFRS 16, the discount rate used was 1.5%. This is based on the Company's weighted average incremental borrowing rate.

The Company has applied recognition exemptions permitted by the standard in relation to short-term leases and leases of low-value items.

The adoption of IFRS 16 has not impacted the Company's ability to comply with any banking or financing covenants

### 2. Segmental analysis

	Half year to 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
<b>Turnover</b>			
Regulated	274.7	270.7	538.5
Unregulated	8.0	7.4	9.2
	<u>282.7</u>	<u>278.1</u>	<u>547.7</u>
<b>Operating profit</b>			
Regulated	113.5	114.8	228.4
Unregulated	-	-	-
	<u>113.5</u>	<u>114.8</u>	<u>228.4</u>
<b>Net assets</b>			
Regulated	845.5	831.5	824.9
Unregulated	-	-	-
	<u>845.5</u>	<u>831.5</u>	<u>824.9</u>

## Notes to the Interim Results (*continued*)

### 3. 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 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
<b>Corporation tax</b>			
Current period	9.5	10.8	17.4
Adjustment in respect of previous periods	-	-	0.3
<b>Deferred tax</b>			
Current period	2.6	2.7	7.9
Adjustment in respect of previous periods	-	-	(1.1)
Taxation charge	<u>12.1</u>	<u>13.5</u>	<u>24.5</u>

### 4. 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
- sufficiency of distributable reserves

The board will only agree to the resultant distribution of the dividend if, on a forward-looking basis, it is satisfied that regulatory gearing will not exceed 70%. The company will maintain a solid investment grade credit rating at all times.

	Half year to 30.09.19 (unaudited) £m	Half year to 30.09.18 (unaudited) £m	Year to 31.03.19 (audited) £m
Final dividend for the previous year	-	3.0	3.0
Dividends for the current year	<u>44.0</u>	<u>44.0</u>	<u>88.0</u>
	<u>44.0</u>	<u>47.0</u>	<u>91.0</u>

## Notes to the Interim Results *(continued)*

### 5. Analysis of net debt

	30.09.19 (unaudited) £m	30.09.18 (unaudited) £m	31.03.19 (audited) £m
Cash at bank and in hand	180.4	-	-
Bank overdraft	-	-	(20.4)
Finance lease liabilities under 1 year	(0.1)	(1.4)	(1.4)
Finance lease liabilities over 1 year	(1.0)	-	-
Loans under 1 year	(70.0)	(140.0)	(30.0)
Loans over 1 year	(413.8)	(275.0)	(413.7)
Loans from subsidiary company over 1 year	<u>(1,835.6)</u>	<u>(1,612.9)</u>	<u>(1,625.9)</u>
	<u>(2,140.1)</u>	<u>(2,029.3)</u>	<u>(2,091.4)</u>

### 6. 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 46 of the 2019 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 2019 Annual Report and Accounts on pages 47 to 57.

### 7. Related party transactions

There has been no material change during the six months ended 30 September 2019 in transactions with related parties from that disclosed in the Company's annual report and accounts for the year ended 31 March 2019.