

WESSEX WATER SERVICES FINANCE PLC

Annual Report and Financial Statements 30 June 2023

Registered in England and Wales No. 03704265

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STRATEGIC REPORT

Principal activities

The sole activity of the Company is the raising of listed debt, the proceeds of which are lent to the immediate parent 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 risk.

The carrying 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 (2022 - £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 listed debt on behalf of the parent company WWSL.

During the year the company issued a £300m fixed rate bond at a rate of 5.125% with maturity in October 2032.

There are no employees and no expenses apart from finance costs incurred by the Company.

Note 10(c) explains the strength of WWSL in terms of its Licence to operate. It also explains how the risks on the Bonds are mitigated.

Principal risks and uncertainties

The Directors have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for the business and have also considered the scale of this risk to the Company. Climate change is not a principal risk for this Company for the year ended 30 June 2023, but climate transition has been identified as an emerging risk due to its intensifying importance to all stakeholders.

Despite the current environment of volatile inflation, the Directors do not consider this a principal risk due to the regulatory funding arrangement the parent company operates within.

The Company's sole function is to raise borrowings and provide finance for its immediate parent company, WWSL. The company is wholly reliant on principal and interest receipts from WWSL to meet its external borrowings obligations.

The principal risk relates to the recoverability of the intercompany receivables from WWSL if it does not meet its obligations in respect of its borrowings.

Future developments

The Directors expect the activities as detailed above to continue in the foreseeable future without material change.

The Strategic Report was approved by the Board of Directors on 18 September 2023 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 2023.

Internal control and risk management

The Company does not operate separately to WWSL and therefore its risks are governed by WWSL's policies and procedures. These policies and procedures are discussed in Note 10.

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 to 30 September 2024. 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 to 30 September 2024. In July 2023, the Directors repaid the 3.52% £50m index linked bond from the proceeds of the March 2023 bond issue and are currently reviewing future financing requirements.

The Directors have also considered the ability of Wessex Water Services Limited, its immediate parent company to whom all proceeds are lent, to meet its liabilities to the company as they fall due.

Wessex Water Services Limited meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18 of their financial statements. In addition Wessex Water Services Limited has access to £225m of undrawn bank facilities if required until August 2025. Under some of the facilities the entity is required to comply with an interest cover and gearing covenant tested quarterly.

The Directors have considered the financial position of Wessex Water Services Limited and cash flow forecasts for the period through 30 September 2024 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the 'cost of living' crisis and climate change on revenues and debt collectability, the repayment of the £50m index linked bond which took place in July 2023 from the proceeds of the March 2023 bond issue and reviewed the financing requirements of the company.

The Directors have noted there is further debt falling due for repayment within 12 months, in particular £150m of European Investment Bank loans due in early 2024. Based on consistently strong operating performance, market experience for the company and other water companies and a successful history of issuing bonds and raising debt over the past 20 years, most recently in March 2023, the Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

In order to facilitate the future issuance of bonds the Company established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme will take place in Autumn 2023.

As part of the Wessex Water Services Limited statutory financial statements, a long-term viability statement has been prepared which extends to March 2035 and against which 33 scenarios of varying severity have been modelled. In the few most severe cases where multiple shocks were modelled, these downsides have been considered as part of the going concern assessment. The impacts were short lived and did not affect the underlying viability of the company during the going concern period to 30 September 2024.

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that Wessex Water Services Limited has adequate resources to continue in operational existence for the foreseeable future and to comply with its financial covenants.

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

Directors

The Directors who held office during the year and up to the date of signing the financial statements were as follows;

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 2023.

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.

Corporate governance

The Board are appointed by the shareholders and meet regularly to review the financial and operational performance of the Company. The Company does not operate separately to WWSL and is specifically established for the raising of listed debt to on-lend to WWSL as noted in its principal activities in the Strategic report. The risk management process includes clear accountabilities, delegated authority limits and well-defined policies and procedures.

Post balance sheet event

On 6 September 2023 the Company established a £5bn Euro medium-term note programme in order to facilitate the future issuance of bonds. The first issuance under the new programme will take place in Autumn 2023.

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
18 September 2023

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 UK adopted International Accounting Standards.

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.

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 UK adopted International Accounting Standards 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, which 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 UK adopted International Accounting Standards 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.

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	<i>Note</i>	2023	2022
		£000	£000
Interest income	3	142,050	86,738
Interest expense	3	(142,050)	(86,738)
Profit before and after tax, and total comprehensive income		-	-

The notes on pages 10 to 18 are an integral part of these financial statements.

STATEMENT OF FINANACIAL POSITION

At 30 June 2023

	Note	2023 £000	2022 £000
Non-current assets			
Other financial assets	4	2,229,506	1,939,588
		2,229,506	1,939,588
Current assets			
Trade and other receivables	5	31,736	27,215
Other financial assets	4	90,524	-
Cash and cash equivalents	6	13	13
		122,273	27,228
Total assets		2,351,779	1,966,816
Current liabilities			
Trade and other payables	7	(31,736)	(27,215)
Other interest-bearing loans and borrowings	8	(90,524)	-
		(122,260)	(27,215)
Non-current liabilities			
Other interest-bearing loans and borrowings	8	(2,229,506)	(1,939,588)
		(2,229,506)	(1,939,588)
Total liabilities		(2,351,766)	(1,966,803)
Net assets		13	13
Equity			
Share capital	9	13	13
Retained earnings		-	-
Total equity		13	13

The notes on pages 10 to 18 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 18 September 2023 and signed on its behalf by:

Colin Skellett
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2023

	<i>Note</i>	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 July 2021		<u>13</u>	<u>-</u>	<u>13</u>
Total comprehensive income for the year		-	-	-
Balance at 30 June 2022	9	<u>13</u>	<u>-</u>	<u>13</u>
Balance at 1 July 2022		<u>13</u>	<u>-</u>	<u>13</u>
Total comprehensive income for the year		-	-	-
Balance at 30 June 2023	9	<u>13</u>	<u>-</u>	<u>13</u>

STATEMENT OF CASH FLOWS

For the year ended 30 June 2023

	Note	2023 £000	2022 £000
Cashflow used in operating activities			
Profit for the year		-	-
<i>Adjustments for:</i>			
Finance Income	3	(142,050)	(86,738)
Finance Cost	3	<u>142,050</u>	<u>86,738</u>
		-	-
Working Capital Adjustments			
(Increase)/decrease in trade and other receivables		(4,521)	8,948
Increase/(decrease) in trade and other payables		<u>4,521</u>	<u>(8,948)</u>
Interest paid		(55,097)	(65,390)
Interest received		<u>55,097</u>	<u>65,390</u>
Issuance of Debt		297,957	-
Proceeds from Issue of Bonds		<u>(297,957)</u>	<u>-</u>
Repayment of Bonds		-	(299,978)
Proceeds from repayment of debt		-	<u>299,978</u>
Net cashflow used in operating activities		<u>-</u>	<u>-</u>
Net cashflow used in investing activities		<u>-</u>	<u>-</u>
Net cashflow used in financing activities		<u>-</u>	<u>-</u>
Increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at 1 July		<u>13</u>	<u>13</u>
Cash and cash equivalents at 30 June	6	<u><u>13</u></u>	<u><u>13</u></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 03704265 and the registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

The Company financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards in accordance with the provisions of the Companies Act 2006. 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.

In preparing the financial statements, the Directors have considered the impact of the physical and transition risks of climate change and have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 30 June 2023.

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 to 30 September 2024. 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 to 30 September 2024. In July 2023, the Directors repaid the 3.52% £50m index linked bond from the proceeds of the March 2023 bond issue and are currently reviewing future financing requirements.

The Directors have also considered the ability of Wessex Water Services Limited, its immediate parent company to whom all proceeds are lent, to meet its liabilities to the company as they fall due.

Wessex Water Services Limited meets its day-to-day working capital requirements and medium and long term funding requirements through the cash and short term deposits described in note 17 and the facilities described in note 18 of their financial statements. In addition Wessex Water Services Limited has access to £225m of undrawn bank facilities if required until August 2025. Under some of the facilities the entity is required to comply with an interest cover and gearing covenant tested quarterly.

The Directors have considered the financial position of Wessex Water Services Limited and cash flow forecasts for the period through 30 September 2024 (the going concern review period) and have concluded they will be able to meet their liabilities as they fall due and comply with the covenants for the going concern review period. In coming to this conclusion, the directors have evaluated the impact of the ‘cost of living’ crisis and climate change on revenues and debt collectability, the repayment of the £50m index linked bond which took place in July 2023 from the proceeds of the March 2023 bond issue and reviewed the financing requirements of the company.

The Directors have noted there is further debt falling due for repayment within 12 months, in particular £150m of European Investment Bank loans due in early 2024. Based on consistently strong operating performance, market experience for the company and other water companies and a successful history of issuing bonds and raising debt over the past 20 years, most recently in March 2023, the Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

In order to facilitate the future issuance of bonds the Company established a £5bn Euro medium-term note programme on 6 September 2023. The first issuance under the new programme taking place in Autumn 2023.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1.3 ***Going concern (continued)***

As part of the Wessex Water Services Limited statutory financial statements, a long-term viability statement has been prepared which extends to March 2035 and against which 33 scenarios of varying severity have been modelled. In the few most severe cases where multiple shocks were modelled, these downsides have been considered as part of the going concern assessment. The impacts were short lived and did not affect the underlying viability of the company during the going concern period to 30 September 2024.

Accordingly, after considering the forecasts, appropriate sensitivities, available facilities and the ability to raise additional debt, the Directors have a reasonable expectation that Wessex Water Services Limited has adequate resources to continue in operational existence for the foreseeable future and to comply with its financial covenants.

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.

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, intercompany loans.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1.4 *Financial instruments (continued)*

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 or financial liabilities at amortised cost, as appropriate.

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

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

Subsequent measurement – Financial liabilities at amortised cost

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 income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1.5 *Finance income*

Finance income 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 (2022: £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 (2022: £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 2023 as there were no distributable reserves (2022: £nil).

1.8 *Standards issued but not effective*

There are no IFRS standards issued but not effective that will have a material impact on these financial statements.

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 £29,120, and they were borne by its immediate parent company, Wessex Water Services Ltd (2022: £nil). Non audit fees totalled £11,736 and related to other services primarily related to the issue of bonds and were borne by its immediate parent company, Wessex Water Services Ltd (2022: £nil)

The Directors did not receive any remuneration from the Company during the year ended 30 June 2023 (2022: £nil). The Directors are also directors of other companies in the Wessex Water Limited group and are remunerated for their services to the group as a whole. As the services provided to the Company are incidental to their roles a £nil allocation has been made to Wessex Water Services Finance plc. Other than the directors, the company had no employees.

3. *Finance Income and expense*

	2023 £000	2022 £000
<i>Finance income</i>		
Interest receivable from immediate parent company	142,050	86,738
Total finance income	142,050	86,738
<i>Finance expense</i>		
Interest payable on bonds	(142,050)	(86,738)
Total finance expense	(142,050)	(86,738)
Net interest payable	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Other financial assets

	2023 £000	2022 £000
Current		
Intercompany loans repayable in less than 12 months	<u>90,524</u>	<u>-</u>
Non-current		
Intercompany loans repayable in more than 12 months	<u>2,229,506</u>	<u>1,939,588</u>

Intercompany loans consist of bonds lent to the immediate parent company with the same terms as bonds issued by the Company. None of the loans to the parent are past due, and no material expected credit loss provision has been recognised. See Note 8 for details of bonds issued by the Company.

5. Trade and other receivables

	2023 £000	2022 £000
Intercompany interest receivable	<u>31,736</u>	<u>27,215</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

	2023 £000	2022 £000
Cash at bank	<u>13</u>	<u>13</u>

7. Trade and other payables

	2023 £000	2022 £000
Current		
Accrued expenses	<u>31,736</u>	<u>27,215</u>

8. Other interest-bearing loans and borrowings

	2023 £000	2022 £000
Current liabilities		
Listed bonds	<u>90,524</u>	<u>-</u>
Non-current liabilities		
Listed bonds	<u>2,229,506</u>	<u>1,939,588</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face Value 2023 £000	Carrying amount 2023 £000	Face Value 2022 £000	Carrying amount 2022 £000
Fixed Rate Bond	Sterling	5.375%	2028	200,000	199,225	200,000	199,085
Fixed Rate Bond	Sterling	1.500%	2029	250,000	248,262	250,000	248,001
Fixed Rate Bond	Sterling	5.125%	2032	300,000	298,010	-	-
Fixed Rate Bond	Sterling	5.750%	2033	350,000	347,109	350,000	346,901
Fixed Rate Bond	Sterling	1.250%	2036	300,000	295,507	300,000	295,179
Index Linked Bond	Sterling	3.520%	2023	50,000	90,524	50,000	87,030
Index Linked Bond	Sterling	2.186%	2039	50,000	85,874	50,000	75,650
Index Linked Bond	Sterling	1.750%	2046	75,000	128,861	75,000	117,058
Index Linked Bond	Sterling	1.750%	2051	75,000	128,861	75,000	117,058
Index Linked Bond	Sterling	1.369%	2057	75,000	128,861	75,000	117,058
Index Linked Bond	Sterling	1.374%	2057	75,000	128,861	75,000	117,058
Index Linked Bond	Sterling	1.489%	2058	50,000	80,025	50,000	73,170
Index Linked Bond	Sterling	1.495%	2058	50,000	80,025	50,000	73,170
Index Linked Bond	Sterling	1.499%	2058	50,000	80,025	50,000	73,170
				1,950,000	2,320,030	1,650,000	1,939,588

All bonds are listed on the London Stock Exchange and are wholly guaranteed by Wessex Water Services Ltd. Interest is payable based on the nominal interest rate as disclosed. Index-linked bonds increase in value annually in line with the Retail Prices Index.

9. Share capital

Ordinary shares

	2023 £	2022 £
Authorised shares		
Ordinary shares of £1 each	50,000	50,000
Ordinary shares issued and fully paid		
At 1 July 2022 and 30 June 2023 – quantity	2	2
At 1 July 2022 and 30 June 2023 - £1.00 per share	2	2
Ordinary shares issued and partially paid		
At 1 July 2022 and 30 June 2023 – quantity	49,998	49,998
At 1 July 2022 and 30 June 2023 - £0.26p per share	12,999	12,999

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 borrowings approximates 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 2 in the IFRS 13 fair value hierarchy and have a carrying value of £2,320,030k and a fair value of £2,273,688k. (2022: £1,939,588k and £2,080,833k).

The fair values of listed bonds are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £2,320,030k and a fair value of £2,273,688k. (2022: £1,939,588k and £2,080,833k).

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.

(b) Cash flow hedges

The Company does not have any cash flow hedges (2022: £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:

	Carrying amount 2023 £000	Contractual cash flows 2023 £000	Year 1 2023 £000	Years 2 to 5 2023 £000	Over 5 years 2023 £000
Non-derivative financial instruments					
Bonds	2,320,030	4,681,946	162,675	492,787	4,026,484
Trade and other payables	31,736	31,736	31,736	-	-
Total financial instruments	<u>2,351,766</u>	<u>4,713,682</u>	<u>194,411</u>	<u>492,787</u>	<u>4,026,484</u>
	Carrying amount 2022 £000	Contractual cash flows 2022 £000	Year 1 2022 £000	Years 2 to 5 2022 £000	Over 5 years 2022 £000
Non-derivative financial instruments					
Bonds	1,939,588	3,491,570	55,281	213,765	3,222,524
Trade and other payables	27,215	27,215	27,215	-	-
Total financial instruments	<u>1,966,803</u>	<u>3,518,785</u>	<u>82,496</u>	<u>213,765</u>	<u>3,222,524</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Financial Instruments *(continued)*

(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

	2023	2022
	£000	£000
Fixed rate instruments	1,388,113	1,089,166
Index linked instruments	931,917	850,422
	2,320,030	1,939,588

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

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.

	2023	2022
	£000	£000
Interest expense	(9,319)	(8,504)
Interest income	9,319	8,504
Net assets	-	-

(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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Contingencies

There are no material contingent liabilities at 30 June 2023 for which provision has not been made in these accounts (2022: £nil).

12. Related parties

Significant transactions with related parties

	2023 £000	2022 £000
Interest Income:		
Immediate parent company	142,050	86,738
Year-end balances owing by:		
Immediate parent company	2,351,766	1,966,803

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(c) 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 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

On 31 July 2023, the company repaid £90.5m in relation to the 3.52% £50m index linked bond. On 6 September 2023 the Company established a £5bn Euro medium-term note programme in order to facilitate the future issuance of bonds.

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.

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 2023 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 UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2023 and of its result for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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. 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. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We gained an understanding of the process undertaken by management to perform the going concern assessment, including discussion with management to ensure key factors were taken into account.
- We considered the Company's access to available sources of liquidity and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We considered the results of other audit procedures and other knowledge obtained in the audit and whether it was consistent with or contradicted management's assumptions.
- We inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern.
- We assessed the appropriateness of disclosures within the Annual Report and Accounts.

As the Company is reliant on Wessex Water Services Limited to meet its intercompany commitments, we performed procedures on the Wessex Water Services Limited going concern assessment prepared for the period through to 30 September 2024, to do this we:

- Gained an understanding of the process undertaken by management to perform the going concern assessment, including discussion with management to ensure all key factors were taken into account.
- Obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 September 2024 and agreed these to the Board and regulatory approved budgets and forecasts.

- Inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern.
- Tested the mathematical accuracy of the cash flow forecasts, as well as the calculation of the forecast covenants.
- Compared forecast future cashflows to historical data, ensuring variations are in line with our expectations, such as historical performance, and understanding of the business and considered the reliability of past forecasts.
- Considered the ability to obtain additional liquidity, with the support of our debt advisory specialists and agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- Performed forecast covenant testing and considered any potential indicators of breach in the assessment period.
- Considered two of the most severe downside scenarios modelled by management in respect of the assumptions used in the going concern assessment and performed sensitivity analysis on management's forecast cashflows to understand how more severe conditions would have to be to breach liquidity and/or covenants.
- Understood and challenged the Board's controllable mitigation plans and the forecast impact on the ability of the business to operate within its financial covenants. We obtained supporting documentation to evaluate the plausibility and achievability of management's mitigation plans considering actions delivered to date.

Our key observations

- In March 2023, the Company secured a £300 million bond of which some proceeds were used in July 2023, as the Company repaid the £50 million index linked bond.
- In September 2023 the Company established a £5,000,000,000 Euro Medium Term Note programme.
- The Directors are satisfied that the issuance of debt included within the forecasts prepared for the going concern period is achievable.

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 matters	• Expected credit losses on Intercompany receivables
Materiality	• Overall materiality of £11.8m which represents 0.5% of Total Assets.

An overview of the scope of our audit

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, the potential impact of climate change 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.

Changes from the prior year

There are no scoping changes from the prior year.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact all companies. The company has determined that there are no significant future impacts from climate change on its operations. This is explained on page 2 in the principal risks and uncertainties, which form part of the “Other information,” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment that there is no significant impact of climate change risk, the adequacy of the Company disclosures in the financial statements and the conclusions that no issues were identified that would impact the carrying value of assets on the financial statements. to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors’ considerations of climate change risks in their assessment of going concern and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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>Expected credit losses on Intercompany receivable</p> <p><i>Refer to Note 4 Other financial assets</i></p> <p>The balance sheet includes intercompany receivables of £2.3 bn (2022: £1.9 bn) which are due from the immediate holding company Wessex Water Services Limited. There is a risk that the receivables may be impaired.</p> <p>Management has applied the expected credit loss model under IFRS 9: “Financial Instruments” to determine whether a provision is necessary.</p>	<ul style="list-style-type: none">• We have inspected the inter company loan agreements and confirmed that the terms are consistent with the terms of the company's borrowings. We have confirmed the disclosures are consistent with those agreements.• We considered the ability of Wessex Water Services Limited (‘WWSL’) to settle their intercompany position, and, in turn, the recoverability of the intercompany receivables held by the company.• We reperformed an expected credit loss calculation considering any change in credit risk, the exposure at default, probability of default, and loss given default and assessed for any contradictory evidence to management’s assumptions.	<p>The intercompany receivables are valued appropriately.</p>

In the prior year, our auditor's report included a key audit matter in relation to the risk over the incorrect valuation of the listed debt, including the interest calculation, due to the complexity of the accounting treatment of these financial instruments. We have reassessed the likelihood of a material misstatement over incorrect valuation of listed debt and the amount of audit effort related to our testing and concluded it is no longer a key audit matter.

This year we have included the estimated credit losses due to the risk of impairment and downgrade of the parent undertaking's credit rating as a key audit matter given the significance of the loan receivable.

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 £11.8 million (2022: £9.8 million), which is 0.5% (2022: 0.5%) of Total Assets. We believe that Total Assets provides us with rationale for use of materiality basis and any significant qualitative considerations relating to our evaluation of PM.

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% (2022: 75%) of our planning materiality, namely £8.8m (2022: £7.4m). 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 those charged with governance that we would report to them all uncorrected audit differences in excess of £0.6m (2022: £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 this gives rise to 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.

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 company and management.

- 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
 - UK Adopted International Accounting Standards
 - Tax Legislation (governed by HM Revenue and Customs)
 - Listing requirements of the 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 Group's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations of the UK ultimate parent company and all its subsidiaries. We corroborated our enquiries through review of correspondence with regulatory bodies.
- 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 journal entries and performed audit procedures to address the potential for management bias.
- 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

- Following the recommendation from the audit committee we were appointed by the company on 6 March 2018 to audit the financial statements for the year ending 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 30 June 2018 to 30 June 2023.
- 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 those charged with governance.

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.

Simon O'Neill (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
18 September 2023