

# Interim Financial Information and Report

for the six months to 30 September 2021

## Business Review

### Chief Executive's Overview

Wessex Water maintained a strong performance in the first six months of this year despite the continued impact of COVID19 on customers, communities and businesses across our region. This ongoing success is thanks to the hard work and dedication of all of our staff who always do a great job in challenging circumstances.

There has been much media coverage of storm overflows and the impact on rivers and beaches. Storm overflows are not new, they have always been part of the UK sewerage network because the majority of the system was built with combined sewers to carry both foul sewage and surface drainage. Overflows were part of the design to prevent flooding of properties and gardens during times of very heavy rainfall.

Across the Wessex Water region there are only eight water bodies (stretches of river) out of a total of 444, where failure to meet environmental standards is in part due to the impact of storm overflows. We fully support the proposed provisions within the Environment Bill that will require companies to progressively eliminate any harm from storm overflows. We already have a programme of work during this regulatory period and will be bidding for additional funding as part of our PR24 submission.

Wherever possible, we will use nature based solutions to solve storm overflows problems. This is part of a wider approach to minimise our carbon footprint. In advance of COP26, Wessex Water published its routemap to net zero with a commitment and plan to achieve net zero operational carbon emissions by 2030 and full net zero total emissions by 2040.

Our vision is to be recognised as a leader in environmental stewardship, but to do this we need our regulators to help us unlock solutions that will enable society to pay less for more environmental improvements. Working with Frontier Economics we have set out proposals for a move to outcome based environmental regulation, which we hope government and regulators will embrace as part of the next periodic review.

Innovation is a key part of driving even better customer service and improved environmental outcomes. We have recently launched a range of initiatives, including the roll out of artificial intelligence across our sewer network, the use of shading balls to prevent algal growth at Didmartin Recycling Centre and the creation of a wetland at Cromhall works, which avoids the use of expensive and carbon intense chemical treatment in removing phosphorus from sewage effluent.

Our people are the key to our success, so I am delighted by the continued growth of our apprenticeship and trainee programmes. This year we have over 100 young people taking part in our apprenticeship, graduate, work experience and work placement programmes; and for the first time, we have also created 45 new work placements targeted at young people at risk of long term unemployment, in support of the government's Kickstart Initiative.

Our continued successful delivery during these challenging times gives me confidence that we will be able to meet the even greater challenges that lie ahead.

### Performance for customers and the environment

In the first six months of the year we continue to be on track to meet the great majority of our 2021-22 regulatory targets and performance indicators, despite some on-going effects of COVID-19 and supply chain constraints. The table shows our key measures for customers and the environment and whether performance to date is consistent with meeting the full year target.

## Business Review *(continued)*

Outcome	Key measures	Performance commitment target	Status in current reporting year	Trend versus last year
<b>Providing excellent service to customers</b>	Customer satisfaction score (C-MeX)	Upper quartile	Ahead of target	Stable
	Developer satisfaction score (D-MeX)	Upper quartile	Ahead of target	Stable
	Customers rating good value for money	79%	Ahead of target	Stable
<b>Providing excellent drinking water quality</b>	Compliance with drinking water standards (CRI)	0	Behind target - see below <sup>1</sup>	Improving
<b>Using water efficiently</b>	Volume of water leaked	<70.5 Ml/day	Ahead of target	Improving
	Volume of water used per person (litres per day)	<137.5	Behind target - see below <sup>2</sup>	Improving
<b>Minimising sewer flooding</b>	Internal sewer flooding incidents (nr/per 10,000 properties)	<1.63	Ahead of target	Stable
<b>Resilient services</b>	Restrictions on water use (e.g. hosepipe bans)	None	On target	Stable
	Water supply interruptions >3 hours (minutes per property)	<6 min 8s	Ahead of target	Stable
<b>Protecting and enhancing the environment</b>	Environmental performance assessment (EA assessment)	Leading	On target	Stable
	Treatment works compliance	100%	On target	Stable
	Satisfactory sludge disposal	100%	On target	Stable
	Greenhouse gas emissions (tCO <sub>2</sub> )	<110,000	Ahead of target	Stable

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

<sup>2</sup> Water consumption is measured as the volume of water used per person in the home. With people continuing to work more at home than historically, personal consumption continues to be higher than expected when the targets were set, although it has reduced from last year. We are continuing to actively help people to use less water, including through our homecheck service, where we will install water saving devices in people's homes and are on track against our target for water efficiency improvements. We are working alongside regulators, Government and NGOs to promote wider action to help householders use less water to deliver greater long-term resilience in supplies. Overall, it should be noted that the increase in domestic water use is more than countered by the reduction in non-domestic water use, as it was last year.

## Business Review (continued)

### Financial Performance

#### Key financial performance indicators

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Increase/ (decrease) %
<b>Income Statement</b>			
Operating costs <sup>1</sup>	168.9	161.0	4.9%
Profit after corporation tax	38.2	36.5	4.7%
Dividends declared	35.5	25.0	42.0%
<b>Statement of financial position</b>			
Regulatory gearing <sup>2</sup>	69.9%	68.1%	2.6%
<b>Statement of cashflows</b>			
Net capital investment	124.1	114.2	8.7%
Cash (outflow)/inflow before dividends	(23.7)	96.3	(124.6%)

<sup>1</sup> excluding infrastructure maintenance expenditure

<sup>2</sup> as defined in Ofwat RAG4.09 as net debt divided by Regulatory Capital Value.

#### Financial statements review

Results for the half year show operating profit decreased by £4.7m from £84.3m to £79.6m, while profit after taxation fell from £33.0m to a loss after taxation of £67.8m.

Total turnover increased by £5.6m from £254.3m to £259.9m. Regulated tariff turnover increased by £7.6m, mainly due to price rises allowed by Ofwat combined with a return to normal operating patterns for Household and Non Household revenues as Covid-19 impacts reduce. Operational costs (excluding depreciation and amortisation) increased by £5.7m from £108.3m to £114.0m. There were upward pressures on costs due to general inflation, new obligations, power costs and Covid -19, all partially offset by on-going efficiency programmes. Depreciation and amortisation increased by £4.6m from £61.7m to £66.3m as a result of assets being depreciated for the first time.

Net interest payable reduced by £1.3m from £42.1m to £40.8m. Interest payable fell by £1.8m because of reduced interest rates on new loans. There was a £0.4m increase in the interest costs relating to IAS 19 pension accounting whilst interest receivable was £0.1m less than last year.

Total taxation, including deferred tax, increased substantially from £9.2m last year to £106.6m this year. This mainly reflects the UK Budget announcement on 3 March 2021 increasing the statutory rate of corporation tax from 19% to 25% effective from 1 April 2023 which was substantially enacted on 24 May 2021. This resulted in a £96.9m charge to the income statement for deferred tax and £38.4m charged in Other Comprehensive Income. Tax paid reduced by £6.1m from £8.9m to £2.8m due to the availability of the super deduction for capital expenditure.

Dividends declared for the six months to 30 September 2021 were £35.5m, an increase from £25.0m for the same period last year.

Gross capital investment for the six months was £126.0m, an increase on £115.9m last year which is consistent with the timing of the construction programme for the current regulatory period.

Cash and cash equivalents reduced by £57.7m from £68.9m to £11.2m in the six months to 30 September 2021. The net cash inflow from operating activities was £126.1m plus cash inflows from investment activities of £168.3m less net cash outflows from financing of £352.1m.

## Business Review (continued)

### Risk Management

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

Strategic risks are defined as those risks that can affect the overall structure and nature of the business and sector. While they may have short- and medium-term impact, they specifically can have an impact on delivery of our outcomes in the long-term and require Board level policy decisions to mitigate. The 25-year Strategic Direction Statement incorporates our approach to addressing these risks. These risks and their mitigation are reviewed by the Environment and Public Value Committee and reported to the full Board.

There are five strategic risks that the Board confirmed at their July 2021 meeting, political action, regulatory action, reputation & positioning, environment & public value and climate volatility.

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

The Risk Management Group regularly scan for emerging risks and opportunities of relevance to the business. Following consideration by the Board, any changes will be incorporated into our corporate risk register together with the plans for mitigating these risks.

There have been no new principal risks identified since the 2021 Annual Report and Accounts were published. The mitigation of the current risks is shown in the 2021 Annual Report and Accounts on pages 58 to 71. The current trends of strategic and principal risks are shown below:

#### Strategic Risks

Risk	Description	Risk trend
<b>Political action</b>	Actions taken by government that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	<b>Increasing</b>
<b>Regulatory action</b>	We are locked into an increasingly unsatisfactory regulatory environment which compromises our ability to do the right things over the long term.	<b>Increasing</b>
<b>Reputation &amp; positioning</b>	That national issues and wider perceptions of the sector drown out our own achievements affecting the perception of our customers	<b>Increasing</b>
<b>Environment &amp; public value</b>	Society is increasingly expecting companies to create value beyond an exclusive focus on returns, delivering profitable solutions to the problems of people and planet.	<b>Stable</b>
<b>Climate volatility</b>	The natural environment we are operating within is changing and we have to adapt to that environment as well as reducing our impact on the environment.	<b>Increasing</b>

#### Principal Risks

Risk	Description	Risk trend
<b>Health and safety</b>	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	<b>Stable</b>
<b>Digital resilience &amp; Cybersecurity</b>	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	<b>Increasing</b>

## Business Review (continued)

### Principal Risks (continued)

Risk	Description	Risk trend
<b>Supply of unfit water</b>	External factors (e.g., contamination of supply or customer pipes) or internal factors (e.g., asset failure or poor operating performance) that results in the supply of unfit water affecting public health	<b>Stable</b>
<b>Major pollution incident</b>	External factors (e.g., sewer misuse or asset failure caused by a third party) or internal factors (e.g., asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	<b>Stable</b>
<b>Insider threat</b>	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	<b>Stable</b>
<b>Anti-competitive behaviour</b>	Ineffective internal controls resulting in anti-competitive behaviour	<b>Stable</b>
<b>Pandemic infection</b>	Loss of resources (goods/services/people) or revenue that inhibits our ability to operate.	<b>Stable</b>
<b>Resources and skills</b>	Failure to have the right resources with the right skills in the right place will have an impact on our ability to operate effectively and on our strategic objectives	<b>Stable</b>
<b>Supply chain failure</b>	Global resource scarcity or disruptions to supply chains which prevent critical products or services from reaching their required destinations	<b>Increasing</b>
<b>Failure to meet performance commitments</b>	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	<b>Stable</b>
<b>Ability to raise finance</b>	Inability to raise finance either to cover funding shortfalls or existing liabilities. Possible causes - closure of bond markets, loss of credit rating	<b>Stable</b>

In the last 2 years our supply chain has become increasingly less resilient, so much so that this risk has been added by the Board as a principal risk to the performance of the regulated business. Operationally our business continuity arrangements have been able to manage out the impact of many logistical issues that we have experienced. However, the chemical supply chain has been increasingly fragile despite the company and sector stepping up its emergency arrangements. There has been a reduction in the number of suppliers of certain products in the UK and Europe, and reduction of capacity/storage in the UK. To sustainably improve the resilience of this supply chain will require national / government focus as otherwise the challenges will only increase.

On a wider basis, supply chain disruptions, for example due to the impact of Covid, with decreased supply have resulted in price increases and shortages or substantially longer lead times. The impact will be both increased costs not yet represented by inflation and further delays (on top of those caused by Covid) to project and programme delivery.

## Statement of Directors' Responsibilities

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

- have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the UK;
- give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- include a fair review of the information required by DTR 4.2.7R, being an indication of the important events during the period and descriptions of the principal risks and uncertainties for the remaining months of the year;
- include a fair review of the information required by DTR 4.2.8R, disclosure of related party transactions and changes therein.

The Directors of Wessex Water Services Ltd are listed on pages 3 to 7 of the Company's 2021 Annual Report.

Since the publication of the Annual Report, the following changes to the composition of the Board have occurred: Huw Davies stepped down as a non-executive director on 30 September 2021.

By order of the board

Andrew Pymer  
Director

## Condensed Income Statement

	<i>Note</i>	<b>Half year to 30.09.21 (unaudited) £m</b>	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Revenue</b>	2,3	<b>259.9</b>	<b>254.3</b>	514.7
Other operating costs		<b>(174.9)</b>	<b>(164.2)</b>	(333.9)
Charge for bad and doubtful debts		<b>(5.4)</b>	<b>(5.8)</b>	(13.5)
<b>Total expenses</b>	4	<b>(180.3)</b>	<b>(170.0)</b>	(347.4)
<b>Operating profit</b>	2	<b>79.6</b>	<b>84.3</b>	167.3
Financial income		<b>0.1</b>	<b>0.2</b>	0.5
Financial expenses		<b>(40.9)</b>	<b>(42.3)</b>	(84.5)
<b>Net financing expense</b>	5	<b>(40.8)</b>	<b>(42.1)</b>	(84.0)
<b>Profit before tax</b>		<b>38.8</b>	<b>42.2</b>	83.3
Taxation	6	<b>(106.6)</b>	<b>(9.2)</b>	(14.5)
<b>(Loss)/profit for the period</b>		<b>(67.8)</b>	<b>33.0</b>	68.8



## Condensed Statement of Other Comprehensive Income

	<b>Half year to 30.09.21 (unaudited) £m</b>	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>(Loss)/profit for the period</b>	<b>(67.8)</b>	33.0	68.8
<b>Other comprehensive income</b> <i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability	<b>19.7</b>	(72.7)	(11.9)
Income tax on items that will not be reclassified to profit or loss	<b>(41.8)</b>	14.4	2.3
<b>Other comprehensive (loss) for the period, net of income tax</b>	<b>(22.1)</b>	(58.3)	(9.6)
<b>Total comprehensive (loss)/income for the period</b>	<b>(89.9)</b>	(25.3)	59.2

## Condensed Statement of Financial Position

	<i>Note</i>	<b>30.09.21 (unaudited)</b>	30.09.20 (unaudited)	31.03.21 (audited)
		£m	£m	£m
<b>Non-current assets</b>				
Intangible assets	8	53.0	53.0	47.9
Tangible assets	9	3,952.4	3,831.5	3,901.4
Investment in subsidiaries		-	-	-
		<b>4,005.4</b>	3,884.5	3,949.3
<b>Current assets</b>				
Inventories		4.3	4.0	4.4
Corporation tax receivable		6.0	-	3.4
Trade and other receivables		152.0	143.3	179.7
Other financial assets		-	-	290.0
Cash and cash equivalents	10	11.2	104.1	68.9
		<b>173.5</b>	251.4	546.4
<b>Total assets</b>		<b>4,178.9</b>	4,135.9	4,495.7
<b>Current liabilities</b>				
Other interest-bearing loans and borrowings	10	(16.0)	(16.1)	(391.3)
Corporation tax payable		-	(2.4)	-
Trade and other payables		(135.2)	(118.8)	(171.1)
Provisions		(0.1)	(0.2)	(0.1)
		<b>(151.3)</b>	(137.5)	(562.5)
<b>Non-current liabilities</b>				
Other interest-bearing loans and borrowings	10	(2,381.5)	(2,363.1)	(2,283.0)
Contract liabilities		(5.5)	(6.2)	(6.3)
Employee benefits		(62.0)	(153.5)	(91.8)
Deferred grants and contributions		(300.7)	(297.6)	(296.6)
Deferred tax liabilities		(570.2)	(404.4)	(422.4)
		<b>(3,319.9)</b>	(3,224.8)	(3,100.1)
<b>Total liabilities</b>		<b>(3,471.2)</b>	(3,362.3)	(3,662.6)
<b>Net assets</b>	2	<b>707.7</b>	773.6	833.1
<b>Equity</b>				
Share capital		-	-	-
Retained earnings		707.7	773.6	833.1
<b>Total equity</b>		<b>707.7</b>	773.6	833.1

The interim financial statements were approved by the board of directors on 29 November 2021 and signed on its behalf by

Andrew Pymer, Director

## Condensed Statement of Changes in Equity

	<i>Note</i>	<b>Share capital £m</b>	<b>Retained earnings £m</b>	<b>Total equity £m</b>
Balance at 1 April 2020		-	823.9	823.9
<b>Total comprehensive income for the period</b>				
Profit for the period		-	33.0	33.0
Other comprehensive (loss)		-	(58.3)	(58.3)
Total comprehensive (loss) for the period		-	(25.3)	(25.3)
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	7	-	(25.0)	(25.0)
Total contributions by and distributions to owners		-	(25.0)	(25.0)
<b>Balance at 30 September 2020 (unaudited)</b>		-	773.6	773.6
Balance at 1 April 2021		-	<b>833.1</b>	<b>833.1</b>
<b>Total comprehensive income for the period</b>				
(Loss) for the period		-	(67.8)	(67.8)
Other comprehensive (loss)		-	(22.1)	(22.1)
Total comprehensive (loss) for the period		-	(89.9)	(89.9)
<b>Transactions with owners, recorded directly in equity</b>				
Dividends	7	-	(35.5)	(35.5)
Total contributions by and distributions to owners		-	(35.5)	(35.5)
<b>Balance at 30 September 2021 (unaudited)</b>		-	<b>707.7</b>	<b>707.7</b>

## Condensed Statement of Cash Flows

	Note	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Cash flows from operating activities</b>				
(Loss)/profit for the period		(67.8)	33.0	68.8
<i>Adjustments for:</i>				
Depreciation and amortisation		65.5	61.7	119.8
Financial income		(0.1)	(0.2)	(0.5)
Financial expense		40.9	42.3	84.5
Taxation		106.6	9.2	14.5
		<b>145.1</b>	<b>146.0</b>	<b>287.1</b>
Decrease in trade and other receivables		27.5	39.4	3.0
Decrease/(increase) in inventories		0.1	(0.1)	(0.5)
(Decrease)/increase in trade and other payables		(32.2)	(39.8)	13.7
(Decrease) in provisions and employee benefits		(11.6)	(10.9)	(12.6)
		<b>(16.2)</b>	<b>(11.4)</b>	<b>3.6</b>
Tax paid		(2.8)	(8.9)	(10.8)
<b>Net cash from operating activities</b>		<b>126.1</b>	<b>125.7</b>	<b>279.9</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment		2.1	0.7	8.9
Interest received		0.3	0.2	0.5
Acquisition of property, plant and equipment		(115.8)	(115.9)	(240.0)
Acquisition of intangible assets		(10.2)	-	(6.4)
Purchase of financial instruments		-	-	(290.0)
Sale of financial instruments		290.0	-	-
Proceeds from infrastructure charges and capital contributions		1.9	1.7	7.7
<b>Net cash from investing activities</b>		<b>168.3</b>	<b>(113.3)</b>	<b>(519.3)</b>
<b>Cash flows from financing activities</b>				
Proceeds from new loans		100.0	108.6	403.3
Interest payments		(35.0)	(24.3)	(69.1)
Repayment of borrowings		(383.0)	-	(8.0)
Repayment of lease liabilities		(0.1)	(0.4)	(0.7)
Dividend payments		(34.0)	(34.5)	(59.5)
<b>Net cash from financing activities</b>		<b>(352.1)</b>	<b>49.4</b>	<b>266.0</b>
(Decrease)/increase in cash and cash equivalents		(57.7)	61.8	26.6
Opening cash and cash equivalents		68.9	42.3	42.3
<b>Closing cash and cash equivalents</b>	10	<b>11.2</b>	<b>104.1</b>	<b>68.9</b>

## Notes to the Interim Financial Information

### 1. Basis of preparation and accounting policies

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

The interim report was approved by the Directors on 29 November 2021. It has been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 "Interim Financial Reporting" as adopted by the UK. It should be read in conjunction with the 2021 Annual Review and Accounts, which are available on the Company website, and which contain the audited financial statements for the year ended 31 March 2021.

The information for the year ended 31 March 2021 does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The latest statutory financial statements have been reported on by the Company's auditor for the year ended 30 June 2021 and have been delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The accounting policies, presentation and methods of computation are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK and are consistent with those applied in the audited financial statement of the Company for the year ended 31 March 2021. Any estimates and judgements used in preparing these accounts are consistent with those used in the preparation of the financial statements for 31 March 2021.

#### *Going Concern*

The directors believe, after due and careful enquiry, that the company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the interim financial statements to 30 September 2021. In forming this assessment the directors have considered the following information:

- The company's business activities, together with the factors likely to affect its future development, performance and position.
- The ongoing impact of COVID-19 on the company's operations and financial performance.
- The financial position of the company, its forecast monthly cash flows for the period to March 2023, liquidity position, covenants and borrowing facilities including reasonable downside sensitivities to the cash flows to check the company can operate within its current facilities and covenants.
- The positive financial headroom across key debt covenant ratios.
- The company has available a combination of cash and undrawn bank facilities totalling £136.2 million at 30 September 2021 (2020 - £329.1 million).
- The company's requirement to repay scheduled loan maturities and to finance the capital investment programme. The next scheduled requirement is to repay a loan of £50 million by 30 July 2023.
- The company operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

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

#### *Seasonality of operations*

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

## Notes to the Interim Financial Information *(continued)*

### 2. Segmental analysis

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Revenue</b>			
Regulated	254.5	246.9	500.9
Unregulated	5.4	7.4	13.8
<b>Total revenue</b>	<b>259.9</b>	<b>254.3</b>	<b>514.7</b>
<b>Operating profit</b>			
Regulated	79.6	84.3	167.3
Unregulated	-	-	-
<b>Total operating profit</b>	<b>79.6</b>	<b>84.3</b>	<b>167.3</b>
<b>Net assets</b>			
Regulated	707.7	773.6	833.1
Unregulated	-	-	-
<b>Total net assets</b>	<b>707.7</b>	<b>773.6</b>	<b>833.1</b>

### 3. Revenue analysis

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Water and sewerage services</b>			
Household - measured	139.9	130.5	255.0
Household - unmeasured	74.4	77.1	152.7
Non-household - measured	34.1	34.8	79.7
Non-household - unmeasured	1.7	1.6	3.4
<b>Total water and sewerage services</b>	<b>250.1</b>	<b>244.0</b>	<b>490.8</b>
Other regulated services	4.4	2.9	10.1
Unregulated services	5.4	7.4	13.8
<b>Total revenue</b>	<b>259.9</b>	<b>254.3</b>	<b>514.7</b>

## Notes to the Interim Financial Information (continued)

### 4. Operating Costs

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
Employment costs	65.9	65.4	127.0
Power	15.1	15.6	32.7
Raw Materials and consumables	7.1	9.0	14.6
Rates	12.5	12.3	24.4
Charge for bad and doubtful debts	5.4	5.8	13.5
Service charges	3.3	3.1	6.5
Depreciation of property, plant and equipment	62.7	58.2	117.7
Depreciation of right-of-use assets	0.1	0.4	0.6
Amortisation of intangible assets	5.1	4.7	9.7
Profit on disposal of property, plant and equipment	(0.6)	-	(5.0)
Short term lease expense	2.8	2.2	4.6
Hire of plant and machinery	0.2	0.1	0.3
Infrastructure maintenance expenditure	11.4	9.0	21.5
Ofwat licence fee	1.0	0.9	1.8
Other operating costs	42.6	32.5	82.1
	<b>234.6</b>	219.2	452.0
Amortisation of deferred income	(1.6)	(1.6)	(3.2)
Own work capitalised	(52.7)	(47.6)	(101.4)
<b>Total operating costs</b>	<b>180.3</b>	170.0	347.4

### 5. Net Finance Costs

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Finance income</b>			
Interest receivable on short term bank deposits	0.1	0.2	0.5
<b>Total finance income</b>	<b>0.1</b>	0.2	0.5
<b>Finance expense</b>			
To subsidiary undertakings	(38.4)	(40.0)	(75.9)
Net interest on net defined benefit pension plan liability	(1.5)	(1.1)	(1.8)
On bank loans and leases	(1.0)	(1.2)	(6.8)
<b>Total finance expense</b>	<b>(40.9)</b>	(42.3)	(84.5)
<b>Net finance cost</b>	<b>(40.8)</b>	(42.1)	(84.0)

## Notes to the Interim Financial Information *(continued)*

### 6. Taxation

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

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
<b>Corporation tax</b>			
Current period	0.6	5.7	10.2
Adjustment in respect of previous periods	-	-	(5.0)
<b>Deferred tax</b>			
Current period	7.2	3.5	5.5
Increase in tax rate	96.9	-	-
Adjustment in respect of previous periods	1.9	-	3.8
	<b>106.6</b>	<b>9.2</b>	<b>14.5</b>
Taxation charge			

The UK Budget announcements on 3 March 2021 included a proposed increase in the statutory rate of corporation tax from 19% to 25% effective from 1 April 2023. This measure was included as part of the 2021 Finance Bill which was substantively enacted on 24 May 2021. As a result, the deferred tax balances as at 30 September 2021 have been remeasured at the tax rate the temporary differences expect to reverse. This has resulted in a £96.9m charge to the income statement and £38.4m charge in Other Comprehensive Income.

Tax charged within the six months ended 30 September 2021 has been calculated by applying the effective rate of tax which is expected to apply to the Company for the year ended 31 March 2022 using rates substantively enacted by 30 September 2021 as required by IAS34 'Interim Financial Reporting'.



## Notes to the Interim Financial Information *(continued)*

### 7. Dividends

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

Dividend payments are reviewed and approved on a quarterly basis by the board after taking into account both current and projected business performance.

In particular the board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that the correct amount of tax has been paid
- that the company has met any unexpected additional expenditure needs that may have arisen during the period to date, as new operational risks emerge
- the level of regulatory gearing and its comparison with Ofwat's expectations pertaining at the time
- sufficiency of distributable reserves

The company will maintain a solid investment grade credit rating at all times.

	Half year to 30.09.21 (unaudited) £m	Half year to 30.09.20 (unaudited) £m	Year to 31.03.21 (audited) £m
Interim dividends for the current year	35.5	25.0	37.5
Final dividend for the current year	-	-	12.5
	<b>35.5</b>	<b>25.0</b>	<b>50.0</b>

### 8. Intangible assets

	£m
<b>Cost</b>	
At 1 April 2021	77.6
Additions in the period	10.2
At 30 September 2021 (unaudited)	<u>87.8</u>
<b>Accumulated depreciation</b>	
At 1 April 2021	29.7
Charge for the period	5.1
At 30 September 2021 (unaudited)	<u>34.8</u>
<b>Net book amount</b>	
At 30 September 2021 (unaudited)	<u><b>53.0</b></u>

## Notes to the Interim Financial Information *(continued)*

### 9. Tangible assets

	£m
<b>Cost</b>	
At 1 April 2021	5,436.1
Additions in the period	115.2
Disposals	<u>(9.2)</u>
At 30 September 2021 (unaudited)	5,542.1
<b>Accumulated depreciation</b>	
At 1 April 2021	1,534.7
Charge for the period	62.7
Disposals	<u>(7.7)</u>
At 30 September 2021 (unaudited)	1,589.7
<b>Net book amount</b>	
At 30 September 2021 (unaudited)	<u><u>3,952.4</u></u>

### 10. Analysis of net debt

	30.09.21 (unaudited) £m	30.09.20 (unaudited) £m	31.03.21 (audited) £m
Cash at bank and in hand	11.2	104.1	68.9
Financial instruments	-	-	290.0
Lease liabilities under 1 year	(0.1)	(0.4)	(0.1)
Lease liabilities over 1 year	(2.0)	(1.7)	(1.9)
Loans under 1 year	(15.9)	(15.9)	(90.9)
Loans over 1 year	(466.8)	(457.5)	(374.7)
Loans from subsidiary company under 1 year	-	-	(300.3)
Loans from subsidiary company over 1 year	<u>(1,912.7)</u>	<u>(1,903.7)</u>	<u>(1,906.4)</u>
	<u><u>(2,386.3)</u></u>	<u><u>(2,275.1)</u></u>	<u><u>(2,315.4)</u></u>

### 11. Related party transactions

There has been no material change during the six months ended 30 September 2021 in transactions with related parties from that disclosed in the Company's annual report and accounts for the year ended 31 March 2021.

## Notes to the Interim Financial Information *(continued)*

### 12. Contingencies

#### *Claims under the Environmental Information Regulations 2001 (EIR)*

The Company has been notified of a potential claim under the EIR relating to charges levied for drainage and water searches carried out since 2004, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however the company intends to defend all claims.

#### *Innovation competition*

As part of the regulatory settlement for 2020-2025 Ofwat established a £200 million Innovation competition to grow the water sector's capacity to innovate. The competition is to be funded from additional revenues collected from customer's bills.

Each year companies are invited to submit projects which if successful are awarded funding from the revenues already collected. If the company is unsuccessful the revenues are to be transferred to those companies that were successful. If at the end of the regulatory period the revenues have not been fully utilised the balance is returned to customers over the subsequent regulatory period.

Due to the uncertainty surrounding the nature, timing and value of any spend and the early stage of the competition, the Company does not believe a provision is appropriate.

#### *Incident at Avonmouth Water Recycling Centre*

On 3rd December 2020 there was an incident at Avonmouth WRC that resulted in the tragic loss of 4 lives. Investigations are still on going and the Company is fully co-operating with the investigating authorities. At this stage the potential value of any claims or fines remains unclear.

### 13. Commitments

Capital expenditure contracted but not provided at 30 September 2021 was £61.3m (2020 - £75.4m).

The Company has guaranteed Bonds of £1,912.7m (2020 - £1,903.7m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

The Company has provided performance guarantees on its own behalf of £0.2m (2020 – £0.2m).

### 14. Post balance sheet events

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