Interim Financial Information and Report

for the six months to 30 September 2023

Wessex Water
YTL GROUP

Business Review

Chief Executive's Overview

Customers rightly have high expectations of the water services they receive and the way we protect the environment around us. In the first half of this financial year, we have finalised our business plan for 2025-2030. We submit these business plans to our economic regulator, Ofwat, every five years. This sets out what we need to do to maintain our existing assets, to build new ones and to meet the requirements of customers, new development and our various quality regulators.

This plan represents a major change – we are proposing to double our current level of investment to £3.5bn and to deliver a massively ambitious set of outcomes. The plan will not only reduce pollution, storm overflow operation and leakage, but at the same time leave more water in the environment to cater for all our needs over the long term. We've listened closely to our customers and as a result our plan invests in the areas they care about.

It will be challenging for us all – shareholders will have to provide more investment and, regretfully, customers will have to pay higher bills. But we will always protect our hardest hit customers – we will make sure bills are affordable for all. If we all collaborate and pull together, we can strike a balance and achieve the very best outcomes for all.

In a dynamic environment marked by shifting regulatory landscapes and global uncertainties, our commitment to sustainable water management, efficient delivery, and operational excellence serves as the bedrock of our activities. We are consistently seen by our independent regulators as leaders across the industry. This is reflected in our performance for the last six months, which has been stable or improving across all our key targets.

However, climate change continues to drive real changes in weather patterns – we have seen the hottest June in the UK since records began in 1884, significant flooding events, and more frequent, more intense rainfall. These events all have significant impacts on our operations, but we have continued to provide resilient services to our customers throughout. This is something we are immensely proud of but cannot take for granted. Significant investment is required to ensure we maintain these levels of service in increasingly unstable and extreme weather events.

We are also committed to playing our part in solving the climate emergency. Traditional approaches across industry involve infrastructure built of concrete and steel, which is carbon and often chemical heavy. Such an approach would be at odds with our drive to support nature recovery and to reach net zero 10 years earlier than the wider economy. Instead, we are pursuing alternative approaches wherever these are allowed by policy and regulation, are cost effective and in line with customer preferences. We use innovation to enhance our work, from harnessing advances in technology, design and data insight on one hand, to new ways of working, new partnerships, and new mindsets on the other.

We are currently the leading water and sewerage company for customer service and for drinking water quality. We have also made substantive improvements against the Environment Agency's assessment of environmental performance and, for the 2023 calendar year, are currently rated in the leading category, 4 star with one month to go. We are further through a major programme of investment to monitor all parts of our sewerage network so that we can predict changes that may lead to pollution incidents, and we continue to support calls for government to ban wet wipes, which cause the majority of blockages that result in pollutions. We have also made great progress on a number of significant engineering schemes across our region, including places such as Bath and Bradford-on-Avon, to reduce the frequency of storm overflow spills.

Business Review *(continued)*

Our regulator, Ofwat, has just published customer experience scores for the first half of the year and confirmed that we remain top of the leader board for water and sewerage companies. We have also been revealed as the top performing water and sewerage company in CCW's latest household complaint-handling report published in October. Each year, CCW compares the performance of water companies on the number of complaints they receive per 10,000 connections and assesses how well complaints have been handled. We were one of just two water and sewage companies to achieve good performance in total complaints and better than average performance in complaint handling. The report also acknowledges our track record for consistently holding a sustained lead in this area.

Ensuring the health, safety and wellbeing of all our colleagues will always be one of our highest priorities. Investigations continue after the tragic incident at Avonmouth in December 2020. The Board focuses its health and safety activity through a dedicated sub-committee, supported by an advisory board of leading health and safety and process safety specialists.

We are acutely aware of the media and public concern around the financial stability of a small number of water companies. However, our financial position remains very stable, and our investors are committed to maintaining simple financial structures and robust credit metrics.

It has also been a tough year for many of our customers, with extremely high energy prices and food bills fuelled by continuing high inflation. With budgets squeezed, affordability has become increasingly difficult for many, particularly for those in vulnerable circumstances. We have always devoted a lot of attention to our range of support packages, which are collectively called our tailored assistance programme (tap), to help our customers afford their bills through very difficult times. It is now quicker and easier than ever to access these packages and we are committed to eradicating water poverty in our area.

Performance for customers and the environment

In the first six months of the year, we continued to demonstrate strong performance to meet our 2023-24 regulatory targets and performance indicators, against the ongoing challenges of volatile weather patterns and tighter regulatory standards. The table shows our key measures for customers and the environment and whether performance to date is consistent with meeting the full year target.

Outcome	Key measures	Performance commitment target	Status in current reporting year	Trend versus last year
Providing excellent service to customers	Customer satisfaction score (C-MeX)	Upper quartile	On target	Stable
	Developer satisfaction score (D-MeX)	Upper quartile	On target	Stable
	Customers rating good value for money	83%	Pending annual survey	-
Providing excellent drinking water	Compliance with drinking water standards (CRI)	0	Behind target - see below [1]	Stable
Using water efficiently	Volume of water leaked	<66.0 Ml/day	On target	Stable
	Volume of water used per person (litres per day)	<137.2 l/p/d	Behind target - see below [2]	Improving

Business Review *(continued)*

Outcome	Key measures	Performance commitment target	Status in current reporting year	Trend versus last year
Minimising sewer flooding	Internal sewer flooding incidents (nr/per 10,000 sewer connections)	<1.44	Ahead of target	Stable
	Customer property sewer flooding (external) (nr/10000 sewer connections)	<16.03	Behind target - see below [3]	Improving
Resilient services	Restrictions on water use (e.g. hosepipe bans)	None	On target	Stable
	Water supply interruptions >3 hours (minutes per property)	<5 min 23s	Ahead of target	Stable
Protecting and enhancing the environment	EA Environmental performance assessment	Leading	On target	Improving
	Treatment works compliance	100%	Behind target - see below [4]	Stable
	Satisfactory sludge disposal	100%	On target	Stable
	Greenhouse gas emissions (tCO_2)	<105,000	Ahead of target	Stable

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

[2] Water consumption is measured as the volume of water used per person in the home. Although not meeting our target, we are pleased to see that household consumption maintains the downward trend seen since the pandemic. We are delivering a range of demand management activities including metering; offering high users our Home Check efficiency service; promotion of non-household efficiency audits and our GetWaterFit calculator. We have distributed around 6,000 water butts to help reduce demand, and looked to incorporate behavioural science approaches in our water efficiency communications. We expect consumption to continue reducing as we deliver these activities, and as customers remain aware of their water and energy use with the cost-of-living challenges.

[3] External sewer flooding is defined as the escape of water from a sewerage system within the curtilage of a building normally used for residential, public, community and business purposes. With around 90% of incidents recorded in 2022-23 a result of sewer blockages, we welcome Defra's launch of its UK-wide consultation to ban wet wipes containing plastic. In the meantime, we continue with our Sewer Misuse Strategy to encourage positive and sustained changes in behaviours and appropriate disposal into the sewerage system.

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

Business Review *(continued)*

Financial Performance

Key financial performance indicators

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Increase/ (decrease) %
Income Statement			
Operating costs	**209.0**	199.6	4.7%
(Loss)/profit after tax	**(8.0)**	3.8	(310.5%)
Dividends declared	**37.0**	41.1	(10.0%)
Statement of financial position			
Regulatory gearing[1]	**67.0%**	66.8%	0.4%
Regulatory capital value	**4,184.3**	3,778.2	10.7%
Statement of cashflows			
Net capital investment	**161.9**	100.7	60.8%
Cash (outflow)/inflow before dividends	**(100.3)**	17.0	(690.0%)

[1] as defined in Ofwat RAG4.09 as net debt divided by Regulatory Capital Value.

Financial statements review

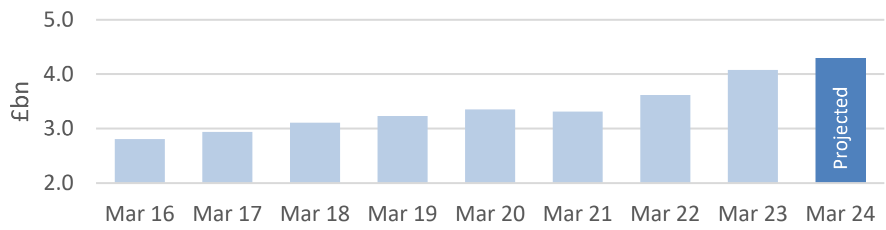
Results for the half year show operating profit increased by £10.8m from £67.2m to £78.0m, whilst the position after taxation eroded from a profit of £3.8m in 2022 to a loss after taxation of £8.0m.

Total revenues increased by £20.2m from £266.8m to £287.0m. Regulated tariff revenue increased by £17.5m, mainly due to price rises allowed by Ofwat. Operating costs increased by £9.4m from £199.6m to £209.0m. There were significant upward pressures on costs due to continuing high energy market prices, general high inflation within the economy and new obligations such as phosphorus removal, partially offset by on-going efficiency programmes. Depreciation and amortisation reduced by £7.8m from £66.9m to £59.1m primarily as a result of the change in asset lives disclosed in note 2.

Net financing expenses increased by £29.8m from £61.3m to £91.1m. Financial expenses increased by £35.0m as a result of high inflation impacting on our index linked bond portfolio against which there was a £0.2m reduction in the interest costs relating to IAS 19 pension accounting. Financial income rose by £5.0m as a result of higher interest rates on short and medium term deposits.

Net capital investment for the six months was £161.9m, a significant increase on £100.7m last year and remains consistent with the timing of the construction programme for the current regulatory period. The increased level of spend meant Regulatory gearing eroded by 0.4%.

The regulatory capital value increased by £406.1m to £4,184.3m primarily as a result of the high levels of inflation applied as part of the calculation. Since privatisation the regulatory capital value has continued to reflect the growth of the size of the business and the investment programme.



Business Review *(continued)*

Total taxation, including deferred tax, reduced from a charge of £2.1m last year to a credit of £5.1m this year. There was no tax paid in either period due to the availability of the super deduction for capital expenditure.

Dividends declared for the six months to 30 September 2023 were £37.0m, a reduction from £41.1m for the same period last year.

Cash and cash equivalents ended the period at £27.2m, reducing by £137.3m from an opening cash reserve of £164.5m. The net cash inflow from operating activities was £87.2m less cash outflows from investment activities of £27.0m less net cash outflows from financing of £197.5m.

Risk Management

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

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

The risks are categorised as:

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

The Company regularly scans for emerging risks and opportunities of relevance to the business and incorporates any changes into the corporate risk register together with the plans for mitigating these risks. The last few months have seen significant strategic uncertainty between the alignment of political, regulatory and customer expectations alongside affordability and deliverability challenges. Following the submission of the PR24 business plan, we continue to work with all stakeholders to promote the most effective balance of needs whilst maintaining performance in the face of increasing external threats.

To deliver excellent service to customers and the environment, we continually seek to identify opportunities to more efficiently meet our outcomes, working with Government and regulators where appropriate. We are committed to achieving the benefits of using new technology to provide improved information to support decision making and investment planning. We are committed to providing open and transparent information about our performance to help engage with customers and stakeholders and to deliver the improvements that are expected.

The supply chain continues to experience volatile market conditions and costs due to unsettled global conditions. It is anticipated that global prices will be unpredictable in the coming months following the conflict in Israel/Palestine and the ongoing war in Ukraine. Resource shortages remain challenging for our supply chain and our own workforce. In transitioning to deliver the larger environmental programme in AMP8 we are working with our supply chain to strengthen our resilience and are focusing on the development and retention of key resources to maintain a high level of service to customers.

Business Review *(continued)*

The current trends of principal risks are shown below:

Principal risks - strategic

Principal risk	Description	Change in risk exposure	Risk level
Reputation & positioning	National or regional issues that impact the perception of the business and the trust the public have in us	Unchanged	High
Political action	Actions taken by government that fundamentally change our operating environment affecting the business and/or cash flows.	Unchanged	High
Regulatory action	Actions taken by regulators that fundamentally change our operating environment affecting the business and/or cash flows.	Increasing	High
Environment & public value	The expectation on the business to create value beyond a focus on short term performance	Unchanged	High
Climate volatility	The need to adapt to changing climate and weather patterns	Increasing	High

Principal risks – compliance, financial and operational

Principal risk	Description	Change in risk exposure	Risk level
Environmental harm	Acute (e.g. major pollutions) or chronic harm to the natural environment as a result of activities conducted by or on behalf of the company	Increasing	High
Resources and skills	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	Increasing	Moderate
Supply chain resilience	Resource scarcity or disruptions to supply chains which prevent the procurement of products or services at the expected cost, availability, or quality	Increasing	Moderate
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors, or the public	Unchanged	Moderate
Technology resilience	Technology fails to be available, secure (e.g. to cyber-attack), reliable or perform as expected resulting in the corruption or loss of data, reputational impact and/or inefficient operations	Increasing	Moderate
Supply of unfit or insufficient water	Inability to provide a reliable source of water to customers when they need it in line with quality standards	Unchanged	Low
Financial viability	Inability to raise finance at appropriate levels and/or manage cash/gearing to maintain financial viability and provide a sufficient return on investment	Unchanged	Low

Principal risk	Description	Change in risk exposure	Risk level
Uninformed action	Inadequate information (e.g. poor asset data) resulting in sub-optimal decision-making, unsatisfactory day to day business operation/ performance and/or an increase in cost and risk	Increasing	High
Governance and ethics	Non-compliance with our own values, behaviors, and standards, or with statutory and regulatory obligations, either unintentionally, intentionally or maliciously (e.g. insider threat)	Unchanged	Low

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 56 to 59 of the Company's 2023 Annual Report.

By order of the board

Andrew Pymer
Director

Condensed Income Statement

	Note	**Half year to 30.09.23 (unaudited) £m**	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Revenue	*3,4*	**287.0**	266.8	530.5
Other operating costs		**(202.8)**	(194.1)	(407.1)
Charge for bad and doubtful debts		**(6.2)**	(5.5)	(12.1)
Total operating costs	*5*	**(209.0)**	(199.6)	(419.2)
Operating profit	*3*	**78.0**	67.2	111.3
Financial income		**5.0**	-	0.4
Financial expenses		**(96.1)**	(61.3)	(140.6)
Net financing expense	*6*	**(91.1)**	(61.3)	(140.2)
(Loss)/profit before tax		**(13.1)**	5.9	(28.9)
Taxation	*7*	**5.1**	(2.1)	17.8
(Loss)/profit for the period		**(8.0)**	3.8	(11.1)

Condensed Statement of Other Comprehensive Income

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
(Loss)/profit for the period	**(8.0)**	3.8	(11.1)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability	**9.3**	70.1	(0.5)
Income tax on items that will not be reclassified to profit or loss	**(0.8)**	(16.0)	0.1
Other comprehensive gain/(loss) for the period, net of income tax	**8.5**	54.1	(0.4)
Total comprehensive income/(loss) for the period	**0.5**	57.9	(11.5)

Condensed Statement of Financial Position

	Note	**30.09.23 (unaudited)**	30.09.22 (unaudited)	31.03.23 (audited)
		£m	£m	£m
Non-current assets				
Property, plant and equipment	*10*	**4,260.9**	4,065.8	4,143.2
Intangible assets	*9*	**51.5**	50.6	50.3
Investment in subsidiaries		**-**	-	-
Retirement benefit surplus		**10.4**	49.5	-
		4,322.8	4,165.9	4,193.5
Current assets				
Inventories		**6.9**	5.3	6.3
Trade and other receivables		**164.2**	157.9	196.2
Corporation tax receivable		**7.0**	10.8	10.8
Other financial assets		**-**	-	130.0
Cash and cash equivalents	*11*	**45.0**	-	164.5
		223.1	174.0	504.0
Total assets		**4,545.9**	4,339.9	4,697.5
Current liabilities				
Bank Overdraft		**(17.8)**	(19.2)	-
Other interest-bearing loans and borrowings	*11*	**(166.2)**	(16.1)	(208.9)
Trade and other payables		**(194.8)**	(151.9)	(225.6)
Provisions		**(1.2)**	(1.2)	(1.9)
		(380.0)	(188.4)	(436.4)
Non-current liabilities				
Other interest-bearing loans and borrowings	*11*	**(2,666.5)**	(2,490.0)	(2,707.8)
Contract liabilities		**(5.9)**	(5.4)	(5.6)
Retirement benefit deficit		**(0.7)**	(0.8)	(17.0)
Deferred grants and contributions		**(317.8)**	(312.6)	(315.0)
Deferred tax liabilities		**(575.0)**	(607.3)	(579.2)
		(3,565.9)	(3,416.1)	(3,624.6)
Total liabilities		**(3,945.9)**	(3,604.5)	(4,061.0)
Net assets	*3*	**600.0**	735.4	636.5
Equity				
Share capital		**-**	-	-
Retained earnings		**600.0**	735.4	636.5
Total equity		**600.0**	735.4	636.5

The interim financial statements were approved by the board of directors on 27 November 2023 and signed on its behalf by

Andrew Pymer, Director

Condensed Statement of Changes in Equity

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2022		-	718.6	718.6
Total comprehensive income for the period				
Profit for the period		-	3.8	3.8
Other comprehensive income		-	54.1	54.1
Total comprehensive income for the period		-	57.9	57.9
Transactions with owners, recorded directly in equity				
Dividends	*8*	-	(41.1)	(41.1)
Total contributions by and distributions to owners		-	(41.1)	(41.1)
Balance at 30 September 2022 (unaudited)		-	735.4	735.4
Balance at 1 April 2023		**-**	**636.5**	**636.5**
Total comprehensive income for the period				
Loss for the period		-	**(8.0)**	**(8.0)**
Other comprehensive income		-	**8.5**	**8.5**
Total comprehensive income for the period		-	**0.5**	**0.5**
Transactions with owners, recorded directly in equity				
Dividends	*8*	-	**(37.0)**	**(37.0)**
Total contributions by and distributions to owners		-	**(37.0)**	**(37.0)**
Balance at 30 September 2023 (unaudited)		**-**	**600.0**	**600.0**

Condensed Statement of Cash Flows

	Note	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Cash flows from operating activities				
(Loss)/profit for the period		**(8.0)**	3.8	(11.1)
Adjustments for:				
Depreciation and amortisation		**59.4**	66.9	140.6
Financial income		**(5.0)**	-	(0.4)
Financial expense		**96.1**	61.3	140.6
Taxation		**(5.1)**	2.1	(17.8)
		137.3	134.0	251.9
Decrease/(increase) in trade and other receivables		**30.9**	17.0	(21.3)
(Increase) in inventories		**(0.6)**	(0.5)	(1.5)
(Decrease)/increase in trade and other payables		**(62.8)**	(56.2)	38.2
(Decrease) in provisions and employee benefits		**(17.6)**	(13.2)	(16.7)
		(50.1)	(52.9)	(1.3)
Tax received		**-**	-	11.1
Net cash from operating activities		**87.2**	81.1	261.7
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**1.0**	0.8	2.1
Interest received		**3.9**	-	0.4
Acquisition of property, plant and equipment		**(158.2)**	(97.0)	(251.8)
Acquisition of intangible assets		**(5.5)**	(6.4)	(10.7)
Purchase of financial instruments		**-**	-	(130.0)
Sale of financial instruments		**130.0**	-	-
Proceeds from infrastructure charges and capital contributions		**1.8**	2.7	5.8
Net cash from investing activities		**(27.0)**	(99.9)	(384.2)
Cash flows from financing activities				
Proceeds from new borrowings		**-**	80.0	522.0
Interest payments		**(24.7)**	(16.1)	(68.1)
Repayment of borrowings		**(135.6)**	(28.0)	(100.9)
Repayment of lease liabilities		**(0.2)**	(0.1)	(0.2)
Dividend payments		**(37.0)**	(40.3)	(69.9)
Net cash from financing activities		**(197.5)**	(4.5)	282.9
(Decrease)/increase in cash and cash equivalents		**(137.3)**	(23.3)	160.4
Opening cash and cash equivalents		**164.5**	4.1	4.1
Closing cash and cash equivalents	*11*	**27.2**	(19.2)	164.5

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 27 November 2023. It has been prepared in accordance with the Disclosure and Transparency Rules (DTR) of the Financial Services Authority and with IAS 34 "Interim Financial Reporting" as adopted by the UK. It should be read in conjunction with the 2022 Annual Review and Accounts, which are available on the Company website, and which contain the audited financial statements for the year ended 31 March 2023.

The information for the year ended 31 March 2023 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 2023 and have been delivered to the Registrar of Companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The accounting policies, presentation and methods of computation are prepared in accordance with UK adopted international accounting standards and are consistent with those applied in the audited financial statement of the Company for the year ended 31 March 2023. Any estimates and judgements used in preparing these accounts are consistent with those used in the preparation of the financial statements for 31 March 2023 except as disclosed in Note 2.

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 2023. In forming this assessment the directors have considered the following information:

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

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

• The financial position of the company, its forecast monthly cash flows for the period to March 2025, 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 £252.2 million at 30 September 2023 (2022 - £250.8 million). In early November 2023, the company issued four fixed rate bonds for a combined value of £200m, maturing between 2033 and 2043.

• 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 January 2024.

• 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.

Notes to the Interim Financial Information *(continued)*

1. Basis of preparation and accounting policies *(continued)*

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.

2. Changes in accounting estimates

During the period the estimated useful economic lives of certain items of plant and equipment and infrastructure assets were revised, with effect from 1 April 2023. This followed a detailed review of the asset lives coinciding with the preparation of the regulatory business plan which occurs every five years. The detailed work involved in preparing the plan enabled us to gain a greater understanding of our assets and their expected lives, and to ensure they are maintained in a sustainable manner. It also ensures that any extension to those lives is reflected in reduced customer bills over the foreseeable future.

Sewer infrastructure – economic life increased from 125 years to 200 years
Water recycling plant and equipment – economic life increased from 20 years to 25 years

The revised lives were based on operational experience, revisions to design horizons and industry comparisons. The net effect of the changes in the 6 months to 30 September 2023 was a reduction in the depreciation charge of £11.8m.

Assuming the assets are held until the end of their estimated useful lives, depreciation in the short term in relation to these assets will be decreased by approx. £23.8m per annum.

3. Business unit performance

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Revenue			
Regulated	**281.2**	262.4	520.6
Unregulated	**5.8**	4.4	9.9
Total revenue	**287.0**	266.8	530.5
Operating profit			
Regulated	**78.0**	67.2	111.3
Unregulated	**-**	-	-
Total operating profit	**78.0**	67.2	111.3
Net assets			
Regulated	**600.0**	735.4	636.5
Unregulated	**-**	-	-
Total net assets	**600.0**	735.4	636.5

Notes to the Interim Financial Information *(continued)*

4. Revenue analysis

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Water and sewerage services			
Household – measured	**158.2**	147.5	263.8
Household - unmeasured	**77.7**	74.6	147.5
Non-household - measured	**37.7**	34.6	97.3
Non-household - unmeasured	**2.2**	1.6	3.6
Total water and sewerage services	**275.8**	258.3	512.2
Other regulated services	**5.4**	4.1	8.4
Unregulated services	**5.8**	4.4	9.9
Total revenue	**287.0**	266.8	530.5

5. Operating Costs

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Employment costs	**78.2**	70.1	142.7
Power	**25.0**	24.0	51.1
Raw Materials and consumables	**10.1**	8.3	19.2
Rates	**11.2**	12.5	25.0
Charge for bad and doubtful debts	**6.2**	5.5	12.1
Service charges	**3.3**	3.3	6.6
Depreciation of property, plant and equipment	**56.1**	63.5	132.8
Depreciation of right-of-use assets	**0.2**	0.1	0.4
Amortisation of intangible assets	**4.3**	5.0	9.6
(Loss)/gain on disposal of property, plant and equipment	**0.3**	0.6	1.2
Short term lease expense	**5.6**	3.6	8.8
Hire of plant and machinery	**0.4**	0.2	0.5
Infrastructure maintenance expenditure	**10.6**	10.0	20.2
Ofwat licence fee	**1.5**	0.7	1.0
Cost of finished goods and w.i.p.	**2.8**	1.7	3.7
Charges from other group companies	**7.8**	7.5	16.4
Other operating costs	**48.5**	41.3	86.6
	272.1	257.9	537.9
Amortisation of deferred income	**(1.5)**	(1.7)	(3.4)
Own work capitalised	**(61.6)**	(56.6)	(115.3)
Total operating costs	**209.0**	199.6	419.2

6. Net Finance Costs

	Half year to 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Finance income			
Interest receivable on short term bank deposits	**3.7**	-	0.4
Gains on short-term financial investments	**1.3**	-	-
Total finance income	**5.0**	-	0.4
Finance expense			
To subsidiary undertakings	**(86.4)**	(58.2)	(127.3)
Net interest on net defined benefit pension plan liability	**(1.0)**	(1.2)	(0.5)
On bank loans and leases	**(15.6)**	(6.0)	(19.9)
Interest capitalised	**6.9**	4.1	7.1
Total finance expense	**(96.1)**	(61.3)	(140.6)
Net finance cost	**(91.1)**	(61.3)	(140.2)

7. 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 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Corporation tax			
Current period	**-**	-	-
Adjustment in respect of previous periods	**-**	-	(7.8)
Deferred tax			
Current period	**(16.4)**	1.1	(10.9)
Adjustment in respect of previous periods	**11.3**	1.0	0.9
Taxation charge	**5.1**	2.1	(17.8)

Tax charged within the six months ended 30 September 2023 has been calculated by applying the effective rate of tax which is expected to apply to the Company for the year ended 31 March 2024 using rates substantively enacted by 30 September 2023 as required by IAS34 'Interim Financial Reporting'.

Finance (No 2) Bill 2023, that includes BEPS Pillar Two legislation, was substantively enacted on 20 June 2023 for IFRS purposes. The company has applied the exemption from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes as required by the amendments to IAS 12 - International Tax Reform—Pillar Two Model Rules – issued in May 2023.

8. 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 considering both current and projected business performance.

In particular the board considers:

- 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 30.09.23 (unaudited) £m	Half year to 30.09.22 (unaudited) £m	Year to 31.03.23 (audited) £m
Interim dividends for the current year	**37.0**	41.1	55.8
Final dividend for the current year	**-**	-	14.8
	37.0	41.1	70.6

9. Intangible assets

	£m
Cost	
At 1 April 2023	93.4
Additions in the period	5.5
At 30 September 2023 (unaudited)	98.9
Accumulated depreciation	
At 1 April 2023	(43.1)
Charge for the period	(4.3)
At 30 September 2023 (unaudited)	(47.4)
Net book amount	
At 30 September 2023 (unaudited)	**51.5**

10. Property, plant and equipment

	£m
Cost	
At 1 April 2023	5,877.0
Additions in the period	175.3
Disposals	(13.9)
At 30 September 2023 (unaudited)	6,038.4
Accumulated depreciation	
At 1 April 2023	(1,733.8)
Charge for the period	(56.3)
Disposals	12.6
At 30 September 2023 (unaudited)	(1,777.5)
Net book amount	
At 30 September 2023 (unaudited)	**4,260.9**

11. Analysis of net debt

	30.09.23 (unaudited) £m	**30.09.22 (unaudited) £m**	**31.03.23 (audited) £m**
Cash at bank and short term deposits	**45.0**	-	164.5
Medium term deposits	**-**	-	130.0
Bank overdraft	**(17.8)**	(19.2)	-
Lease liabilities under 1 year	**(0.2)**	(0.2)	(0.4)
Lease liabilities over 1 year	**(2.4)**	(2.1)	(2.0)
Loans under 1 year	**(166.0)**	(15.9)	(115.9)
Loans over 1 year	**(409.3)**	(531.1)	(502.1)
Loans from subsidiary company under 1 year	**-**	-	(92.6)
Loans from subsidiary company over 1 year	**(2,254.8)**	(1,956.8)	(2,203.7)
	(2,805.5)	(2,525.3)	(2,622.2)

During the period the Company repaid £43.0m of loans and revolving credit facilities together with £92.6m of loans from its subsidiary.

Notes to the Interim Financial Information *(continued)*

12. Financial instruments

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount	**Fair value**	**Level 1**	**Level 2**
	30.09.23 (unaudited) £m	**30.09.23 (unaudited) £m**	**30.09.23 (unaudited) £m**	**30.09.23 (unaudited) £m**
Financial liabilities				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	**1,487.0**	**1,327.4**	**1,227.4**	**100.0**
Floating rate borrowings	**477.8**	**477.8**	**-**	**477.8**
Indexed-linked borrowings	**867.9**	**1,024.1**	**1,024.1**	**-**
Total financial liabilities	**2,832.7**	**2,829.3**	**2,251.5**	**577.8**

	Carrying amount	Fair value	Level 1	Level 2
	31.03.23 (audited) £m	31.03.23 (audited) £m	31.03.23 (audited) £m	31.03.23 (audited) £m
Financial liabilities				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	1,487.9	1,327.4	1,227.4	100.0
Floating rate borrowings	520.4	520.4	-	520.4
Indexed-linked borrowings	908.4	1,024.1	1,024.1	-
Total financial liabilities	2,916.7	2,871.9	2,251.5	620.4

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

13. Related party transactions

There has been no material change during the six months ended 30 September 2023 in transactions with related parties from that disclosed in the Company's annual report and accounts for the year ended 31 March 2023.

Notes to the Interim Financial Information *(continued)*

14. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

Alongside the rest of the sector, five claims have been issued against the Company. The claims allege that in breach of the UK Environmental Information Regulation obligations, the Company failed to provide environmental information free of charge. Consequently, the personal search companies were required to purchase CON29DW searches in order to access information. The claimants are seeking restitution of the sums paid, however, these sums are not considered reliable. The first phase trial has been scheduled for November 2023 with the disclosure exercise and exchange of witness evidence now completed. The Company is defending the 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

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

Flow to full treatment investigation

In November 2021, Ofwat and the Environment Agency announced separate industry-wide investigations into Flow to Full Treatment at waste water recycling centres. Ofwat has since opened enforcement cases into five companies, including the Company. Ofwat published an update on its investigation in August 2023: Investigation into sewage treatment works - Ofwat. The EA continue to issue written requests for information and have conducted four visits of Water Recycling Centres with more visits expected over the coming months. The Company continues to work with both organisations as they continue to gather further information to inform the investigations and next steps.

15. Commitments

Capital expenditure contracted but not provided at 30 September 2023 was £129.6m (2022 - £99.2m).

The Company has guaranteed Bonds of £2,254.8m (2022 - £1,956.8m) 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 (2022 – £0.2m).

16. Post balance sheet events

In early November 2023, the company issued four fixed rate bonds for a combined value of £200m, maturing between 2033 and 2043.