WESSEX WATER SERVICES FINANCE PLC

Annual Report and Financial Statements
30 June 2020

Registered in England and Wales No. 03704265

CONTENTS

STRATEGIC REPORT

Principal activities

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

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

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

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

Profit and dividend

There was no profit in the year (2019 - £nil).

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

Review of activities

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

During the year the company issued a £250m fixed rate bond at a rate of 1.5% with maturity in September 2029.

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

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

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

The Strategic Report was approved by the Board of Directors on 8 October 2020 and signed on its behalf by:

Mark Watts
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 2020.

Internal control and risk management

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

Charitable and political donations

There were no charitable or political donations in either year.

Going Concern

The Directors have considered the financial position of the Company and have concluded that they will be able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short-term financing requirements of the company for the 12 month period from the date of the approval of these accounts. The Directors have noted there is a need for refinancing debt falling due in later years, in particular a £300m bond due on 24th September 2021. Based on market experience and a successful history of issuing bonds over the last 20 years, most recently £250m in September 2019, the Directors are satisfied this will be achievable. Further evidence that this is a reasonable assumption is the number of water utility companies that have been able to issue bonds totalling £1.9bn since Covid-19 first surfaced in the UK. The Company has begun to run a number of pre-market roadshows with investors from which positive feedback was received around the parent company's consistently strong operating performance and the supportive and stable ownership. The parent company also has access to £225m of undrawn bank facilities if required.

For the parent company, Wessex Water Services Limited, a long-term viability statement has been prepared which extends to March 2030 and against which 36 scenarios of varying severity have been modelled, all of which included the impact of Covid-19. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the company during the going concern period to the end of October 2021.

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

Directors

The Directors of the Company during the year were;

Colin Skellett
Mark Watts

Directors' emoluments in respect of services to group companies will be disclosed in the accounts of Wessex Water Services Ltd, Wessex Water Ltd and YTL Utilities (UK) Ltd (see note 12). The services provided by the directors to the Company are negligible in 2020.

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

2011 UK Plan	Opening 30/06/2019	Exercise price RM	Date of grant	Exercise date	Expiry date	Closing 30/06/2020
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.41	01/06/2012	01/06/2015	31/03/2021	1,913,000
Mark Watts	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Mark Watts	913,000	1.41	01/06/2012	01/06/2015	31/03/2021	913,000

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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,

Mark Watts
Director

8 October 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Company financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 results for that period. In preparing the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We, Colin Skellett and Mark Watts (in our capacity as Directors of the Company), confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- 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 it faces.

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 2020 which comprise the Income Statement and Statement of Other Comprehensive Income, Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2020 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Impact of COVID-19, including on the Company's Going Concern Assessment
Materiality	• Overall materiality of £9.7m which represents 0.5% of total assets.

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

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impact of COVID-19, including on the Company's Going Concern Assessment *Refer to the Directors' Report (page 3) and Accounting policies (page 18);* Since March 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity and may ultimately impact the Company's future performance and asset values. Government measures taken to contain the virus have had an impact not only on the way in which businesses operate, but also in the way in which an audit can be performed. We have considered: 1. How the audit would be undertaken given the remote working restrictions and the resulting refinements to our team, approach and procedures; 2. The going concern basis of preparation, focusing on the impact of the COVID-19 pandemic on the Company and the Guarantor's liquidity and covenant compliance, specifically in respect of the	Our audit procedures covered four key areas: • Audit logistics • Going concern • Other audit matters • Adequacy of disclosure. <u>Audit Logistics</u>: We had already completed the audit planning procedures and some early substantive audit testing in advance of the year end. We have performed the year-end audit fully remotely. We have engaged with the Company throughout this period, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required. We held bi-weekly calls with management to monitor progress, discuss evidence provided, challenge judgements and determine appropriate accounting conclusions. <u>Going Concern:</u> We have assessed the Going Concern assumption adopted by the Directors of the Company, which included: • Confirming our understanding of Management's Going Concern process and also engaging with	We have completed our audit in line with our plan. We concur with Directors' assessment that it remains appropriate to prepare the financial statements on a going concern basis. We conclude that the disclosure on the impact of COVID-19 is appropriate.

bond repayment due in September 2021; and 3. The adequacy of the disclosures made in the accounts.	management early to ensure all key matters, such as forecast and budgets, borrowing facilities, medium and long term plans, product services and markets, timing of cashflow , contingent liabilities, financial and operational risk management and sensitivity and stress testing were considered in their assessment; • Obtaining management's going concern assessment, forecast cash flows and covenant calculations for the Guarantor covering the period from the date of signing to the end of the going concern period, October 2021. • Performing sensitivity analysis and stress testing which 36 scenarios of varying severity have been modelled, all of which included the impact of Covid-19, on management's forecasts for the Guarantor to understand how plausible the severe downside scenarios would be to result in negative liquidity or a covenant breach. • Assessing management's COVID-19 impact assessment on the forecasts, considering both past historical accuracy of management's forecasting against the actual impact experienced by the Company and the Guarantor in April 2020 through to August 2020; • Considering management's assessment of options available to the group to reduce cash flow spend in the Going Concern period, to determine whether such actions could be affected; • Performing a detailed review of all the facilities to assess their continued availability to the Company and the Guarantor and to ensure completeness and compliance to covenants	

	identified by management. Refer to other audit matters for further details. <u>Other Audit Matters:</u> As a result of COVID-19 there have been a number of areas of the audit which have been reassessed and where increased audit focus was applied. Our audit procedures in relation to assessing management's ability to pay the bond when it becomes due have included: • Confirmed the undrawn revolving credit facilities amounting to £225m from third party lenders through to August 2024. • Assessing management's ability to obtain further financing from the bond market to support the remaining bond value not covered by the revolving credit facilities. • We obtained management's assessment that sets out their plan and the likelihood of obtaining further financing. • We obtained evidences through the recent Roadshow conducted for the Company that there are investors willing to invest to the Company • We have engaged our experts, Transactions Advisory Services team, who provided their assessment on the likelihood of the Company being unable to raise financing through the sterling bond market to be remote. <u>Adequacy of disclosures:</u> We have considered whether management's additional disclosures, included within the Directors' Report (page 3) and Note 1.3 within Accounting policies (page 18) sufficiently capture the impacts of COVID-19 on the Company and its ability to continue as a going concern.	

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, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

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 £9.7 million (2019: £8.3m) which is 0.5% of total assets (2019: 0.5% of total assets). We believe that total assets provide us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt.

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

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality (2019: 75%), namely £7.3m (2019: £6.1m). We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2019: £0.4m), 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.

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

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.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

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

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

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

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

Other matters we are required to address

- We were appointed by the company on 30 September 2019 to audit the financial statements for the year ending 30 June 2020 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the year ending 30 June 2020 .

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee

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.

Ernst & Young LLP

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 15/10/2020

INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Note	**2020**	2019
		£000	£000
Revenue	*3*	**80,681**	82,455
Operating cost		**(80,681)**	(82,455)
Profit before and after tax, and total comprehensive income		**-**	-

The notes on pages 18 to 29 are an integral part of these financial statements.

STATEMENT OF FINANACIAL POSITION

At 30 June 2020

	Note	2020 £000	2019 £000
Non-current assets			
Other financial assets	*4*	**1,899,707**	1,631,279
		1,899,707	1,631,279
Current assets			
Trade and other receivables	*5*	**34,388**	31,340
Cash and cash equivalents	*6*	**13**	13
		34,401	31,353
Total assets		**1,934,108**	1,662,632
Current liabilities			
Trade and other payables	*7*	**(34,388)**	(31,340)
		(34,388)	(31,340)
Non-current liabilities			
Other interest-bearing loans and borrowings	*8*	**(1,899,707)**	(1,631,279)
		(1,899,707)	(1,631,279)
Total liabilities		**(1,934,095)**	(1,662,619)
Net assets		**13**	13
Equity			
Share capital	*9*	**13**	13
Retained earnings		**-**	-
Total equity		**13**	13

The notes on pages 18 to 29 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 8 October 2020 and signed on its behalf by:

Mark Watts
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 July 2018		13	-	13
Total comprehensive income for the year		-	-	-
Balance at 30 June 2019		**13**	**-**	**13**
Balance at 1 July 2019		13	-	13
Total comprehensive income for the year		-	-	-
Balance at 30 June 2020		**13**	**-**	**13**

STATEMENT OF CASH FLOWS
For the year ended 30 June 2020

	Note	2020 £000	2019 £000
Cashflow used in operating activities			
Profit for the year		-	-
Adjustments for:			
Finance income	3	**(80,681)**	(82,455)
Finance expense	3	**80,681**	82,455
		-	-
(Increase) in trade and other receivables		**(3,048)**	(135)
Increase in trade and other payables		**3,048**	135
Interest payments		**(56,874)**	(56,851)
Interest received		**56,874**	56,851
Issuance of debt		**(247,669)**	-
Proceeds from issue of Bonds		**247,669**	-
Net cashflow used in operating activities		**-**	-
Net cashflow used in investing activities		**-**	-
Net cashflow used in financing activities		**-**	-
Increase/(decrease) in cash and cash equivalents		**-**	-
Cash and cash equivalents at 1 July		**13**	13
Cash and cash equivalents at 30 June	6	**13**	13

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

1.1 Basis of preparation

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

The Company financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 15.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

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 the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these accounts. In coming to this conclusion, the directors have evaluated the impact of Covid-19 on revenues and debt collectability and reviewed the short-term financing requirements of the company for the 12 month period from the date of the approval of these accounts. The Directors have noted there is a need for refinancing debt falling due in later years, in particular a £300m bond due on 24th September 2021. Based on market experience and a successful history of issuing bonds over the last 20 years, most recently £250m in September 2019, the Directors are satisfied this will be achievable. Further evidence that this is a reasonable assumption is the number of water utility companies that have been able to issue bonds totalling £1.9bn since Covid-19 first surfaced in the UK. The Company has begun to run a number of pre-market roadshows with investors from which positive feedback was received around the parent company's consistently strong operating performance and the supportive and stable ownership. The parent company also has access to £225m of undrawn bank facilities if required.

For the parent company, Wessex Water Services Limited, the guarantor of the bonds (see note 12), a long-term viability statement has been prepared which extends to March 2030 and against which 36 scenarios of varying severity have been modelled, all of which included the impact of Covid-19. In the few most severe cases where multiple shocks were modelled, the impacts were short lived and did not affect the underlying viability of the company during the going concern period to the end of October 2021.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1.4 Financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes intercompany loans repayable in more than 12 months, and interest receivable.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

1.4 Financial instruments (continued)

Impairment of financial assets

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

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

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

Subsequent measurement - Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 10.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

1.5 Revenue

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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 (2019 - £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 (2019 – £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 2020 as there were no distributable reserves (2019 - £nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. Operating profit

There were no expenses incurred by the company apart from finance costs in either year as they were borne by other group companies. Audit fees were £nil, as they were borne by its immediate holding company, Wessex Water Services Ltd (2019: £nil).

The Directors did not receive any remuneration from the Company during the year ended 30 June 2020 (2019: £nil). The Directors did not receive any remuneration from the immediate holding company in respect of this company (2019: £nil). Other than the directors, the company had no employees.

3. Revenue and expense

	2020	2019
	£000	£000
Finance income		
Interest receivable from immediate holding company	**80,681**	82,455
Total finance income	**80,681**	82,455
Finance expense		
Interest payable on bonds	**(80,681)**	(82,455)
Total finance expense	**(80,681)**	(82,455)
Net interest payable	**-**	-

4. Other Financial Assets

	2020	2019
	£000	£000
Non-current		
Intercompany loans repayable in more than 12 months	**1,899,707**	1,631,279

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

5. Trade and other receivables

	2020	2019
	£000	£000
Interest receivable	**34,388**	31,340

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

6. Cash and cash equivalents

	2020	2019
	£000	£000
Cash at bank	**13**	13

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Trade and other payables

	2020	2019
	£000	£000
Current		
Accrued expenses	**34,388**	31,340

8. Other interest-bearing loans and borrowings

	2020	2019
	£000	£000
Non-current liabilities		
Listed bonds	**1,899,707**	1,631,279

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 2020 £000**	**Carrying amount 2020 £000**	Face value 2019 £000	Carrying amount 2019 £000
Fixed Rate Bond	Sterling	5.38%	2028	**200,000**	**198,827**	200,000	198,705
Fixed Rate Bond	Sterling	5.75%	2033	**350,000**	**346,518**	350,000	346,345
Fixed Rate Bond	Sterling	4.00%	2021	**300,000**	**300,758**	300,000	301,426
Fixed Rate Bond	Sterling	1.50%	2029	**250,000**	**247,669**	-	-
Index Linked Bond	Sterling	5.90%	2023	**50,000**	**82,738**	50,000	80,492
Index Linked Bond	Sterling	3.00%	2039	**50,000**	**68,371**	50,000	66,606
Index Linked Bond	Sterling	2.63%	2046	**75,000**	**111,286**	75,000	108,264
Index Linked Bond	Sterling	2.63%	2051	**75,000**	**111,286**	75,000	108,264
Index Linked Bond	Sterling	2.06%	2057	**75,000**	**111,286**	75,000	108,264
Index Linked Bond	Sterling	2.07%	2057	**75,000**	**111,286**	75,000	108,264
Index Linked Bond	Sterling	2.08%	2058	**50,000**	**69,894**	50,000	68,216
Index Linked Bond	Sterling	2.09%	2058	**50,000**	**69,894**	50,000	68,216
Index Linked Bond	Sterling	2.09%	2058	**50,000**	**69,894**	50,000	68,216
				1,650,000	**1,899,707**	1,400,000	1,631,279

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

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

Changes in liabilities arising from financing activities

	1st July 2019	Cash flows	Other	30th June 2020
	£000	£000	£000	£000
Non-current interest-bearing loans and borrowings (excluding items listed below)	1,631,279	247,669	20,759	1,899,707
Total liabilities from financing activities	**1,631,279**	**247,669**	**20,759**	**1,899,707**

	1st July 2018	Cash flows	Other	30th June 2019
	£000	£000	£000	£000
Non-current interest-bearing loans and borrowings (excluding items listed below)	1,605,820	0	25,459	1,631,279
Total liabilities from financing activities	**1,605,820**	**0**	**25,459**	**1,631,279**

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings.
The company classifies interest paid as cash flows from operating activities.

9. Share capital

Ordinary shares

	2020	2019
	£	£
Authorised shares		
Ordinary shares of £1 each	**50,000**	50,000
Ordinary shares issued and fully paid		
At 1 July 2019 and 30 June 2020 - quantity	**2**	2
At 1 July 2019 and 30 June 2020 - £1.00 per share	**2**	2
Ordinary shares issued and partially paid		
At 1 July 2019 and 30 June 2020 – quantity	**49,998**	49,998
At 1 July 2019 and 30 June 2020 - £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 and floating rate borrowings approximate to book value. The fair value of long-term fixed rate borrowings has been calculated using market values because they are all listed in recognised financial markets.

The fair values of long-term intercompany loans are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,899,707k and a fair value of £2,473,553k.

The fair values of long-term fixed rate listed bonds are classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,899,707k and a fair value of £2,473,553k.

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.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

(a) Fair values of financial instruments

	Carrying amount 2020 £000	**Fair Value 2020 £000**	**Level 1 2020 £000**	**Level 2 2020 £000**	Carrying amount 2019 £000	Fair Value 2019 £000	Level 1 2019 £000	Level 2 2019 £000
Loans and receivables								
Intercompany loans repayable in more than 12 months (Note 4)	**1,899,707**	**2,473,553**	**2,473,553**	-	1,631,279	2,208,486	2,208,486	-
Total financial assets	**1,899,707**	**2,473,553**	**2,473,553**	-	1,631,279	2,208,486	2,208,486	-
Liabilities								
Fixed rate borrowings	**(1,093,772)**	**(1,346,830)**	**(1,346,830)**	-	(846,476)	(1,079,975)	(1,079,975)	-
Indexed-linked borrowings	**(805,935)**	**(1,126,723)**	**(1,126,723)**	-	(784,803)	(1,128,511)	(1,128,511)	-
Total financial liabilities	**(1,899,707)**	**(2,473,553)**	**(2,473,553)**	-	(1,631,279)	(2,208,486)	(2,208,486)	-

The management assessed that the fair value 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.

10. Financial Instruments *(continued)*

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if the immediate parent company fails to meet its contractual obligations.

The Company is a financing subsidiary of Wessex Water Services Limited (WWSL). Its principal activity is to ensure the liquidity needs of the securitisation group are met through continued access to the capital market. Proceeds of funding activities are on lent to WWSL, which is a regulated water company characterised by relatively stable and predictable cash flows, the credit risk exposure is deemed immaterial and no amounts are considered to be impaired.

This risk is mitigated as the immediate parent company has a credit rating Baa1 by Moody's (2019: A3). The rating by Moody's reflects an assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of WWSL specifically.

The parent company maintains its gearing ratio under 70%. This is the group policy to retain investment grade credit ratings that allow it to access efficiently priced debt to fund investment programmes, whilst keeping bills affordable for our customers.

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

	2020	2019
	£000	£000
Cash and cash equivalents	**13**	13

(c) Cash flow hedges

The Company does not have any cash flow hedges (2019 – £nil).

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Financial Instruments *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

(d) Liquidity risk *(continued)*

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2019	2019	2019	2019	2019
	£000	£000	£000	£000	£000
Non-derivative financial instruments					
Bonds	1,631,279	3,973,394	57,660	602,177	3,313,557
Trade and other payables	31,340	31,340	31,340	-	-
Total financial instruments	1,662,619	4,004,734	89,000	602,177	3,313,557

(e) 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

	2020	2019
	£000	£000
Fixed rate instruments	**1,093,772**	846,476
Index linked instruments	**805,935**	784,803
	1,899,707	1,631,279

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.

10. Financial Instruments *(continued)*

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.

	2020	2019
	£000	£000
Interest expense	**(8,059)**	(7,848)
Interest income	**8,059**	7,848
Net assets	**-**	-

(f) Capital Management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio for the parent company Wessex Water Services Ltd (WWSL), which is net debt divided Regulatory Capital Value (RCV). WWSL's policy is to keep the gearing ratio below 70%. The Company includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits.

11. Contingencies

There are no material contingent liabilities at 30 June 2020 for which provision has not been made in these accounts (2019: £nil).

12. Related parties

Significant transactions with related parties

	2020	2019
	£000	£000
Interest Income:		
Immediate holding company	**80,681**	82,455
Year-end balances owing by:		
Immediate holding company	**1,934,095**	1,662,619

Terms and conditions of transactions with related parties

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Ultimate parent company and parent company of larger group

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

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

The largest group in which the results of the Company are consolidated is that headed by YTL Corporation Berhad incorporated in Malaysia. The consolidated financial statements of these groups are available to the public and can be obtained from Menara YTL, 205 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

14. Subsequent Events

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

15. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Company is required to make reasonable estimates and judgements based on the available information. The carrying value of bonds is based on known factors determined by the bond agreements whereas fair values are estimates as described in note 10.