YTL UTILITIES (UK) LIMITED

Annual Report and Financial Statements
30 June 2020

Registered in England & Wales No. 04341837

MONDAY
A9FHR7G2
A14 12/10/2020 #15
COMPANIES HOUSE

CONTENTS

STRATEGIC REPORT

Principal Activities

The principal activity of the Group is the supply of clean water and treatment and disposal of waste water.

The principal activity of the Company is that of a holding company.

The principal subsidiary of the Company is Wessex Water Ltd (WWL), also a holding company and a 100% subsidiary. WWL owns 100% of the share capital of Wessex Water Services Ltd (WWSL) a regulated company licenced for the supply of clean water and treatment and disposal of waste water. WWSL operates in a region of 10,000 square kilometres in the south west of England. From 1 April 2017 there was a change in the regulated activity of WWSL with the retail element of non-household companies being open to competition. To enter into that competitive market WWL set up with Bristol Water Holdings Ltd a new company Water 2 Business Ltd.

WWL owns 100% of the share capital of Wessex Water Enterprises Ltd, which undertakes unregulated water and waste water activities in the WWSL region.

WWL also owns SC Technology GmbH, another 100% subsidiary company which is registered in Switzerland, installs and operates sludge drying equipment with the principal contracts being in the Netherlands.

WWL has two further subsidiaries, Albion Water Ltd and Flipper Ltd, see sections D and E of Strategic Report.

In 2016 the Company acquired YTL Property Holdings (UK) Ltd for the purpose of developing Filton Airfield near Bristol into a mixed housing and commercial property portfolio.

All subsidiary companies are listed in note 14.

Financial performance

Profit after tax decreased by £58.5m from £104.1m to £45.6m, due to the factors shown below.

Turnover increased by £13.8m or 2.1% to £658.6m. This mainly resulted from growth in unregulated turnover of WWL in the form of the operation and maintenance contract at the Hinkley Point C construction site.

Total operating costs increased by £39.2m from £421.8m to £461.0m. In WWSL the increases in repair costs, site operations, pension costs, expected credit losses resulting from Covid-19 and Environment Agency charges exceeded cost savings made, and there were additional costs associated with the WWL Hinkley contract. Depreciation and amortisation charges (including the disposal of assets) have increased by £9.1m from £113.8m to £122.9m.

Interest charges, including other finance charges, reduced by £3.3m from £103.6m to £100.3m. There was an increase in the level of debt and the cost of debt reduced to 4.3%.

There was a £26.4m increase in taxation from a charge last year of £25.3m to a charge of £51.7m this year. The main item explaining this difference relates to deferred tax where the UK Governments decision to postpone the corporation tax rate change from 19% to 17% resulted in a £30.6m charge, as described in note 9.

Net debt (Total Financial Instruments as disclosed in note 26a) increased from £2,403.7m to £2,481.3m, a movement of £77.6m and comprised:

- cash flow from operating activities of £318.1m
- less net interest payments of £67.6m
- less tax payments of £25.6m
- less net capital investment of £241.6m
- plus net proceeds from new bonds and loans of £255.5m
- less dividend payments of £80.8m, less a working capital and bond accrual outflow of £80.4m.

Dividends declared in the year amounted to £70.2m compared to £86.3m last year.

Under IAS 19 the pension scheme deficit of £130.0m at the start of the year has increased to £164.1m at 30 June 2019, the increase in the liabilities of £62.8m being offset by the £28.7m increase in asset values.

The key performance indicators for WWSL are measured for the regulatory year to 31 March and are included in the Regulatory Accounts of WWSL that are available from Wessex Water Operations Centre, Claverton Down, Bath BA2 7WW.

Group operating profit as a percentage of turnover was 29.8% (2019 – 36.1%), the fall was due to the profit reduction in WWSL, resulting from increasing cost pressures and the regulatory price cap. Interest cover (before exceptional items) fell to 1.97 times (2019 – 2.25 times) as net interest cost reductions were out stripped by operating cost increases.

A. WESSEX WATER SERVICES LTD

Introduction

At Wessex Water, we are proud of our record in delivering essential water and environmental services. The Board always takes decisions for the long term, and our objective is always to uphold the highest standards of conduct. Further, we understand that our business will only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our regulator, suppliers and our shareholder.

We retain a strong sense of public service across our organisation, which is run by local employees who are customers themselves and members of the communities we serve.

We are pleased, therefore, that we have had another strong year, exceeding most of our targets and improving our service. The investment and performance that we have delivered in the past 12 months demonstrates that we take our responsibilities seriously.

<u>Setting the company's aspirations and performance for those it serves</u>

<u>Setting our aspirations</u>

The Board plans on the basis of stewardship in perpetuity and promotes investment at a water catchment level to improve services to local communities in ways which are affordable and add public value.

The Board also recognises that the Company has a critical role to play that goes far beyond the responsibility of providing an essential public service. We have an opportunity to help tackle the climate emergency, to support the communities we serve, to deliver wider environmental benefit and to contribute to the growth of the UK economy.

These opportunities form the core of our strategic direction statement and our business plan (which are available on our website), reflecting our long-term commitment to build a sustainable future with the support of our customers, communities, employees and stakeholders.

The Board considers that the Company's success in delivering long-term benefit to its members is best achieved by aspiring to:

- deliver the excellent and resilient services for customers and the environment that our stakeholders require
- at a price that is affordable to all our customers, and
- by contributing more widely to the communities we serve.

Therefore, throughout the development of the current business plan, the Company engaged with more than 140,000 customers to understand the things that matter most to them. We also spoke to all our major stakeholders representing areas including customers in vulnerable circumstances, local rivers, and wildlife.

On an ongoing basis the Company engages regularly with stakeholders including through the Wessex Water Partnership, the People's Council, the online customer panel, the Young People's Panel, and frequent customer surveys and consultations. In 2019 the Company held a series of stakeholder roadshows across our region each attended by directors.

STRATEGIC REPORT (continued)

The Board translates its aspirations into a set of stretching targets for the company's performance having regard to:

- The commitments made to customers and the environment in the published business plan
- Insight from ongoing stakeholder engagement
- The levels of performance for customers and the environment achieved in previous years
- Relevant regulatory determinations
- The best performance levels achieved by other water and sewerage companies
- The interests of employees
- Wider societal and economic trends and challenges
- The requirements of investors

For 2019-20, customer and environmental targets were set to:

- maintain the company's overall leading position amongst water and sewerage companies on key regulatory measures (Ofwat, Environment Agency, Drinking Water Inspectorate and Consumer Council for Water)
- achieve the key commitments we made in our 2015-2020 business plan
- ensure there is no reduction in standards against our average performance over the last three years on key measures of performance

Notably, the Board set a target in 2019 for the Company to achieve an Environment Agency assessment of "Leading" for environmental performance. This followed an assessment of "Good" in 2018 which was not in line with the Board's aspirations. The Board therefore took particular note of actions during the year designed to prevent pollution incidents and the company Chief Executive chaired regular strategy meetings on this subject.

Employee targets for the year were set to ensure continued high levels of employee safety and satisfaction and to promote continued progress in wellbeing, diversity and inclusion.

Financial targets were set to promote continued long-term financial resilience and, in line with the company's aims, to give investors fair returns.

Company targets are agreed by the Board in advance of the reporting year and are used for the remuneration of senior executives and managers in the business as set out in the Remuneration Committee report.

The Board reviews progress against these targets at each Board meeting and challenges company management on delivery.

The Board also monitors long-term trends in performance against a number of sustainability metrics and uses these to assess whether the company's progress overall is in line with its vision and its social and public purpose.

<u>Our performance in 2019-20</u>

The Company's performance this year is judged to be in line with the board's aspirations.

We expect to be:

- one of the top water and sewerage companies for customer service in Ofwat's service incentive mechanism,
- assessed as leading by the Environment Agency
- one of the leading water and sewerage companies for the DWI's key quality measure (CRI)

During the year we were also shown to be the water and sewerage company with the lowest number of complaints according to CCW.

STRATEGIC REPORT (continued)

The table below shows how the company performed against the board's targets.

Performance against target	Customer	Environment	Employee	Financial
Better	7	3	3	2
Same	2	5	2	3
Worse	1	1	0	0
Same or Better	**9/10**	**8/9**	**5/5**	**5/5**

In the financial year under review, 27 of the 29 Company targets were achieved or bettered. The two measures where performance was below target were 'Bathing waters not passing EU standards' (Environment measure) and 'Risk of flooding from public sewers due to hydraulic inadequacy' (Customer measure). Further detail is given in Section 3.

In 2015 we accepted a regulatory price determination from Ofwat (PR14) which included a number of performance commitments for 2019-20 as part of the regulator's incentive package. Our acceptance of a price determination is always in the round and recognises that there are trade-offs in the regulator's incentive framework.

We have met or exceeded our targets for 25 of our 32 PR14 regulatory targets for the year. We exceeded our target against those which are of most importance to stakeholders, such as minimising internal sewer flooding, leakage and water supply interruptions, for which we have achieved provisional incentive payments.

Where we have not met a regulatory performance commitment, we have provided stakeholders with an explanation of the reasons and the actions we are taking to improve performance in future years as part of our annual review summary.

Our current performance is available on our website here, and we talk in detail about our future performance here.

Financial Performance – Regulatory Year

The UK group structure has remained the same since 2002 with the company wholly owned by Wessex Water Limited, which in turn is wholly owned by YTL Utilities (UK) Limited.

Neither of these entities provide any intragroup funding to the company with virtually all the debt raised for the UK group sitting within the company and all borrowings at market rates provided by financial third parties.

Gearing, as measured by net debt to regulatory capital value (RCV), stands at 66%. On a pensions-adjusted basis, this figure rises to 69%, which the board still finds an acceptable level. During the year the board has continued to pay particular attention to the projected level of the company's gearing ratio with a view, when declaring dividends, to protect the company's existing credit ratings. The board remains committed to maintaining investment grade credit ratings for the company at all times.

The latest actuarial valuation of the company's pension scheme took place on 30 September 2019, showing a deficit of £157.0m. The company has agreed with the scheme's trustees a payment recovery plan in respect of the deficit comprising employer contributions of 21.7% and special contributions to reduce the deficit. The company paid a special contribution of £15m on 31 March 2020 and is committed to future contributions of £13.0m plus inflation annually through to 1 April 2026.

The company has an adequate liquidity position comprising cash and cash equivalents held on the balance sheet along with undrawn bank facilities, giving the company instant access to funding if needed. In September 2019 the company issued a new £250m corporate bond at 1.5%.

STRATEGIC REPORT (continued)

Highlights include:

- operating profit decreased by £15.9m from £228.4m to £212.5m
- turnover increased by £4.6m or 0.8% while underlying operating costs increased by £20.5m or 6.4%
- the cost of debt fell from 4.4% to 4.2%. We maintained a balanced mix of financial instruments.
- capital expenditure on Tangible & Intangible assets delivered in the final year of AMP6 was £271.7m, an increase of £27.2m over £244.5m last year but in line with expectations
- profit before tax fell by £13.5m from £134.7m last year to £121.2m. This was due, primarily, to increases in retail services, site operations, depreciation and the impact of Covid-19 on debt collectability.
- gearing, as measured by net debt to regulatory capital value, has risen from 64.7% last year end to 66.2% this year end
- we achieved all of our five key financial targets in the year (profit after corporation tax, operational costs, cash flow before dividends, capital expenditure and dividends declared).

Tax Strategy

Our attitude towards UK tax planning

Our approach to tax is fully aligned with our overall objectives. We seek to comply with the spirit and letter of UK tax legislation and claim all tax reliefs and allowances to which we are entitled. We will consider reasonable tax planning opportunities which are in line with our risk appetite. But as a rule, we do not enter into complicated structures nor engage in any aggressive or artificial tax planning, as we do not believe it is the correct thing to do. Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise so, consistent with other business areas, we will seek external advice when required.

Approach to risk management and governance arrangements in relation to UK tax

The finance director is ultimately responsible for our tax strategy and engages with relevant individuals within the company to ensure the strategy is implemented and monitored. Board oversight over our tax policy is exercised by the Audit Committee. As a UK regulated business with a significant capital programme, we believe obtaining tax relief on capital expenditure is a key factor affecting our tax liability. Other factors, such as changes in tax legislation or changes in interpretations, may also affect the amount of tax due, compared with what has been allowed as part of the regulatory final determination.

The level of risk in relation to UK tax the company is prepared to accept

As documented in our finance policy, we adopt a risk-averse and cautious approach to tax. In addition, tax is included as part of our risk assessment framework. We monitor the overall risk framework and provide regular updates to the board.

The company approach towards dealings with HMRC

We have an open, regular and professional dialogue with HMRC and, as part of its business risk reviews, HMRC have always regarded our company as low risk. We are committed to maintaining this low risk status in the long term and believe that our approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating. We will also engage with HMRC on industry-wide matters through our membership of Water UK.

STRATEGIC REPORT (continued)

Risk Management

The effective management of risk is central to how we can deliver effective and efficient services to our customers and minimise the impact we have on the environment. It is critical that we have a robust risk management framework in which material risks to the business are proactively identified, communicated and managed. The Company's processes are flexible to respond to changes in risk and ensure that the necessary controls and mitigation measures are put in place. Risks are defined as any event that can impede our ability to achieve our objectives. The most significant risks facing us are referred to as 'principal risks'.

Risk management process

Our policy on risk assessment and management is subject to regular review by the Board. Identification and management of risk is delivered through a hierarchy of risk management reviews from operational colleagues, senior management and Executive Directors. The Board reviews and is ultimately responsible for risk. To assist it in discharging its responsibilities, the Audit and Risk Committee reviews the company's internal control systems and process for managing risk.

Operational staff and senior management review, assess and record asset and operational risk monthly. Risks are scored in line with our process of assessing probability and impact on a "five-by-five" scoring mechanism. Risk mitigation plans are recorded and implemented where appropriate and pre-and post-mitigation scores are monitored.

Operational risks act as a foundation for separate tactical risk registers which feed into the corporate risk register. The Risk Management Group maintains and reviews all business risks; the corporate risk register includes emerging (e.g. climate change) and strategic risks.

The Risk Management Group comprises senior managers from across the whole business. The risks are assessed by subject matter experts and subject to independent challenge from our risk experts. We assess risk based on their financial, social, and environmental impacts. Risks above our tolerance levels will have additional measures to reduce the risk exposure.

Every six months the Risk Management Group submits the corporate risk register and summary report to the Executive Leadership Team (ELT), comprising the Executive Directors.

The ELT scrutinises and challenges the risks included within the register, ensures that we have comprehensively classified and assessed our risks and have appropriate mitigation methods. Any significant emergent risks or material changes in existing risks are reported to the ELT and the Board as they arise.

The CEO submits a bi-annual risk review paper to the Board for its review. This paper details the risk review process, identifies the current principal risks (listed below) to the business and the mitigation measures. It also records the status of emerging risks that have been identified.

The Board reviews the Company's risk identification and management policy annually and reviews the principal risks bi-annually. It delegates its authority to the Audit and Risk Committee for the review and oversight of the effectiveness of the risk management process. To aid it in doing this, the Audit and Risk Committee includes audits that review the status and mitigations of the principal risks when agreeing the annual Internal Audit programme.

Risks have been identified evaluated and managed in line with our processes throughout the year and up to the approval of the Annual Report and Accounts.

STRATEGIC REPORT (continued)

Risk management governance

The diagram below explains the governance structure for risk management across the business.

BOARD OF DIRECTORS

Responsible for regular oversight of risk management for annual strategic risk review

Monitors risks through Board processes and management reports

AUDIT AND RISK COMMITTEE

Reviews effectiveness of risk management process with support from Internal Audit and External Audit

EXECUTIVE LEADERSHIP TEAM (CHAIRED BY CHIEF EXECUTIVE)

Bi-annually reviews the company's risk profile and makes recommendations to the Board

Cross-functional attendees, encompassing all Executive Directors

Reviews the company's risk management process and makes recommendations to the Board

RISK MANAGEMENT GROUP (CHAIRED BY DIRECTOR OF RISK & INVESTMENT)

Reviews external and internal environment for emerging risks

Performs deep dive reviews of principal risks

Reviews risk register updates from risk owners

Identifies changes to significant risks and the effectiveness and adequacy of mitigating action to achieve agreed risk tolerance

Meets monthly and reports to the Executive Leadership Team and Audit and Risk Committee

Cross-functional attendees, encompassing senior management from Operations, Engineering and Construction, Legal, Finance, HR and IT

RISK & INVESTMENT TEAM

Establishes the risk management framework and policy

Facilitates updates to risk registers

Provides resources and training to support process

Prepares reports for Risk management group

BUSINESS RISK OWNERS

Carries out day-to-day risk management activities

Identifies and assess risk and implements action to mitigate risk within their area

Updates risk registers

INTERNAL AUDIT AND COMPLIANCE FUNCTIONS

Reviews risk management process

Functions provide independent assurance to management and Board on risk status

STRATEGIC REPORT (continued)

We continuously review and improve the risk management framework. Since the last annual review, the following changes have been made:

- following the review of risk management software applications, we have procured a governance, risk and compliance tool for implementation in 2020-21.
- Development of a series of tactical risk registers to improve escalation of risk from operational risk registers to the corporate risk register
- Development of a risk and resilience management framework as part of our resilience action plan, submitted in August 2019 that adopts a systems-based approach to managing the impact of shocks and stresses to the business
- Risk based review of the PR19 final determination and the creation of an internal business plan to achieve the stretching performance targets within the totex allowance we have while maintaining an acceptable level of risk.
- Updated the definitions of our risk scores to reflect the priorities of the Board following the review of the PR19 Final Determination.

STRATEGIC REPORT (continued)

Principal risks

While the corporate risk register holds 40-50 risks at any time, the principal risks are those that the board consider could have a material impact on the capability of the business to perform its functions. All these risks are subject to active mitigation strategies and the Board considers that the company is taking appropriate action to mitigate the severity and likelihood of those risks to an acceptable level.

Since 2018-19, there has been one new principal risk, pandemic infection. Pandemic infection has always been on our corporate risk register, however, with the outbreak of Covid-19 it is clearer that either this virus will have an on-going impact or that another virus could arise within the foreseeable future. We are also much clearer in terms of the potential root cause effects of such a virus on our business and as a result we have escalated pandemic infection to be a principal risk.

We have summarised our principal risks below. Further information is then provided on each principal risk including a statement on the context, strategic objectives affected and the mitigation in place to address each risk.

Principal risk	Description	Risk trend
Political / regulatory action	Actions taken by Government or regulators that fundamentally change the operating environment in which we work, affecting the business and/or cash flows	**Decreasing**
Anti-competitive behaviour	Ineffective internal controls resulting in anti-competitive behaviour	**Increasing**[1]
Digital resilience	A malicious attack or failure of cyber security that results in the corruption or loss of data and/or inefficient operations	**Stable**
Widespread unfit water	External factors (e.g., contamination of supply or customer pipes) or internal factors (e.g., asset failure or poor operating performance) that results in the supply of unfit water affecting public health	**Stable**
Major pollution incident	External factors (e.g., sewer misuse or asset failure caused by a third party) or internal factors (e.g., asset failure or poor operating performance) that results in a major pollution incident significantly affecting the natural environment	**Decreasing**
Health and safety	Failure of operational controls or an external hazard that affects the health and safety of employees, contractors or the public	**Stable**
Insider threat	A disgruntled, vulnerable or radicalised employee or contractor causes malicious damage to operational activities and/or the company's reputation	**Decreasing**
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	**Stable**
Failure to meet performance commitments	Failure to manage delivery of performance commitments resulting in a net penalty and/or reputational damage to the business	**Increasing**[2]
Pandemic infection	Loss of resources (goods/services/people) and/or revenue inhibit our ability to operate	**Increasing**[3]
Ability to raise finance	We are unable to fund the business sufficiently in order to meet our liabilities as they fall due	**Stable**

1. Internal controls remain robust; however, we believe the regulator has signalled it is more likely to use its enforcement powers because it wants to do more to promote competitive markets
2. It is expected that it will be more challenging to achieve consistently high performance against the stretching new AMP7 performance commitments.
3. The trend reflects the likely on-going impact of Covid-19 and that another virus could arise within the foreseeable future

B. WESSEX WATER ENTERPRISES LTD

The company generated turnover of £36.9m (2019 - £38.7m) from a number of unregulated activities in the Wessex Water Services Ltd region. The principal subsidiary is GENeco Ltd and the unregulated activities were the treatment of organic waste, power generation, food waste treatment, solicitors' searches and sale of industrial cooling water.

In 2017 the company commissioned a gas to grid plant at Avonmouth, Bristol sewage treatment works, allowing gas generated on site to be sent direct to the grid, a more efficient process than using the gas to generate electricity and then sending the electricity to the grid.

The company also has food waste contracts that are operated by 100% subsidiary GENeco (South West) Ltd and an industrial laundry business in our 100% subsidiary Enterprise Laundry Services Ltd that provides laundry services in the Bath area.

C. SC TECHNOLOGY GMBH

Trading under the name Swiss Combi the turnover of the company for the year was £6.9m (2019 - £7.2m). The principal subsidiary in Holland operates two sludge drying plants and has long term contracts with two major customers.

D. ALBION WATER LTD

In 2016, WWL acquired 51% of Albion Water Ltd from Albion Water Group. The principal activity of Albion Water Ltd is to win water and sewerage inset appointments in the competitive market in England and Wales. Turnover for the period to 30 June 2020 was 1.0m (2019 - £0.6m).

E. FLIPPER LTD

In 2017, WWL set up two new subsidiary companies, Wessex Concierge Ltd and its 100% subsidiary Wessex Concierge Services Ltd. The subsidiary company has acquired 100% of the activities of Flipper Ltd, whose principal activity is energy switching for domestic customers in United Kingdom. Turnover for the period to 30 June 2020 was 0.4m (2019 - £0.3m).

F. YTL PROPERTY HOLDINGS (UK) LTD

On 8 July 2015 this company was incorporated to enable the Group to purchase land at Filton Airport near Bristol for future development opportunities in respect of housing and commercial property.

During the year construction commenced on the first residential phase to deliver 288 dwellings on a 10 acre parcel of land located by the Blenheim roundabout on the northern edge of the site. These will be launched for sale in late 2020 with the first legal completions expected to take place in the first half of 2021. In March 2020 the company received resolution to grant planning consent for a 17,000 capacity arena complex in the Brabazon Hangars.

During the year the company engaged Savills (UK) Limited, an accredited independent valuer to provide a valuation of the investment properties as at 30 June 2020. The resulting value of development land was £93.6m which produced a £1.7m revaluation loss as disclosed in note 15.

Acting to promote the success of the group (s.172 (1) statement)

As the ultimate owner of our social purpose, the Board is committed to considering all stakeholders in its decision making with the aim of ensuring the long-term success of the group including its delivery for customers, communities, employees, regulators, investors and our supply chain.

This section sets out how the Board has had regard to the matters set out in s.172(1) (a) to (f) of the Companies Act when acting to promote the success of the group for its members. In particular:

- the likely consequence of any decision in the long term;
- the interests of the group's employees;

- the need to foster the group's business relationships with suppliers, customers and others;
- the impact of the group's operations on the community and the environment;
- the desirability of the group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the group.

Our directors have a duty, individually and collectively at the Board, to act as they consider most likely to promote the success of the Group, for the benefit of our stakeholders. As part of this duty, our directors must have regard for likely long-term consequences of decisions and the reputation of the business through high standards of business conduct. Our directors must also have regard for our employees' interests; business relationships with our wider stakeholders; the impact of our operations on the environment and the communities we serve; and the need to act fairly. Consideration of these factors and other relevant matters is embedded into all Board decision-making, strategy development and risk assessment throughout the year.

Our key stakeholders and how we engage with them are set out in the table below.

Stakeholder group	What matters to our stakeholders?	Who?	Group engagement	Board level engagement and Impact
Customers Our aim is to be a world-leading water and sewerage company and we can only do this through providing customers with excellent service and value for money.	Our customers want an excellent service from us delivered efficiently at excellent value. They want bills to be affordable, and have the peace of mind that they are supported in times of need. They want excellent drinking water quality and waste removed without pollution. They want us to provide our services into the long-term, ensuring we have resilience through sustainable and responsible investment.	Residential Non-residential Those in vulnerable circumstances Developers Retailers and bulk supply customers Future customers including children and students	Customer feedback surveys Customer contacts Market research Feedback routes through customer magazine Website, including livechat Developer consultations Young People's Panel	Performance metrics CEO / MD correspondence Young People's Panel The outcome informs our business planning priorities as well as our charges and pricing strategy.
Customer representatives We value the opinions of all our customers and their representatives.	Our customer representatives want to ensure that we value all customers and engage fully with them to understand their requirements, needs and concerns. Our customer representatives want to provide unrestricted challenge to us for the betterment of all customers.	Organisations representing customers in general such as Citizens Advice, Consumer Council for Water or representing particular groups such as RNIB	Wessex Water Partnership Affordability Advisory Group Online partner hub and roadshows CCW public meetings	Wessex Water Partnership CCW public meetings We believe that "every customer matters", and this information informs our business planning, priorities and decisions.
Our people Our people are the embodiment of our culture and allow us to provide excellent service to our customers. Our people are also our customers.	Our people strive for excellence in their work and want to be developed to their full potential, working in a fully inclusive workplace, be given opportunities to shine and be rewarded fairly for the work they do. They want to be valued and their health and wellbeing kept safe from harm.	Current employees Pension scheme members and trustee board Future employees Unions	People's council Staff survey "Ask the CEO" Staff roadshows Lunchtime talks Pension Trustee Board Apprentice days Staff committee Health, safety and welfare committee	People's council Ask the "CEO" Pension Trustee Board Staff committee Health, safety and welfare committee We listen and act on our employees' opinions to provide our people with satisfying careers.

Stakeholder group	What matters to our stakeholders?	Who?	Group engagement	Board level engagement and Impact
Our local communities and charitable organisations Everything we do touches our wider communities, the society we serve and the world we all live in.	Our communities and charitable organisations we work with want us to value and respect all aspects of the society which we serve. They want us to provide growth through economic and employment opportunities whilst protecting and enhancing the environment.	Schools, universities, local charities, pressure groups, farmers, landowners	Education programme, visits to sites, community talks Community email groups Capital schemes community meetings and exhibitions Wessex Water Foundation Employee volunteering scheme Catchment Panel	Stakeholder roadshows Wessex Water Foundation Our communities' opinions inform our corporate aspirations and help us to prioritise our work.
Our supply chain Excellent relationships with our suppliers are key to delivering excellent services to our customer and nurturing business and innovation within our communities.	Our suppliers want us to provide them with fair, open and competitive opportunities regardless of their size, so that both ourselves and they can grow and excel. Our suppliers want fair payment terms and assistance during times of economic hardship, so that they can support us in delivering critical services to our customers.	External suppliers Other group companies	Wessex Water marketplace Membership of British Water Pipeline Industries Guild CBI	Wessex Water marketplace Our suppliers have provided us with innovative and new ways of working to deliver more services for less. We listen and nurture our supply base ensuring that they have been supported during the Covid-19 outbreak
Our investors Our investors provide the financial support to enable us to deliver our strategy and live our values.	Our investors want to support a group that provides reputational and financial benefits to them. They want long-term performance that is supported by sound strategy, planning, governance, risk management and sustainability.	Banks and financial institutions Bond holders Shareholder	Ratings agencies Annual Report	Ratings agencies Annual Report Our investors provide our financial resilience
Government and Regulators Our Regulators provide the oversight to allow us to contribute to the UK as a nation, to support our environment, our public health standards and our economic infrastructure.	Our regulators and government want the best outcomes for our customers, the environment and resilience. They want us and the water industry to be responsible, trustworthy and transparent in all our activities.	Government departments MPs Local councillors Ofwat Environment Agency Natural England DWI Health & Safety Executive Pensions regulator Market Operator Services Ltd (MOSL)	Performance and risk reporting Formal meetings Annual Review, Annual Performance Report and interim accounts Health liaison panel	Attendance at board meetings Pre-appointment interviews Business planning and target setting Health and Safety strategy Our regulators inform our strategy, our business plans, our processes. They provide valuable input into everything we do.
Environmental NGOs We take our role as a custodian of our local environment	Our environmental colleagues want us to value, protect, preserve and enhance our local environment, and contribute	Wildlife interests Bathing water and river amenity interests	Catchment Panel Wessex Water Foundation Liaison groups	Futures Panel We embed the opinions of our environmental colleagues into our

Stakeholder group	What matters to our stakeholders?	Who?	Group engagement	Board level engagement and Impact
seriously and with that the opinions of our environmental colleagues.	to wider environmental improvement.			aspirational direction and priorities.

The following case studies for WWSL provide some examples of how stakeholder interests have been taken into account in Board discussions and principal decisions taken during the reporting year. Principal decisions are central to the formation and delivery of our strategy and are those critical to our long-term performance and success. In any decision we consider the needs and requirements of all of our stakeholder groups, cognisant that we may not be able to meet everyone's requirements as positively as we would like and take careful consideration of competing priorities.

Principal decision 1 - Publishing an updated business plan for 2020-25

In April 2019 WWSL published a business plan for the period to 2025 which was approved by the Board. This updated the previous plan that had been published in September 2018.

In making the changes the Board considered feedback from stakeholders, in particular in January 2019 the regulator Ofwat published its Initial Assessment. The company also continued to engage with customers through additional market research, with the Wessex Water Partnership (who act as our regulatory Customer Challenge Group), and with environmental regulators.

The original plan had been developed through unprecedented engagement with customers, employees and other stakeholders, with more than 140,000 direct responses taken into account.

The plan itself coupled ambitious targets for environmental improvements and measures to enhance the involvement of the company within the community with affordable bills for customers. Research had shown that the original plan had very high levels of acceptability amongst bill payers.

Based on this further engagement however the Board agreed a small number of amendments that allowed future required revenues (and therefore bills) to be reduced further. In particular the Board:

- accepted amended regulatory targets which allowed it to reduce the future expenditure requirement
- revised its view on the appropriate cost of capital, taking account of new evidence

In making this decision, the Board considered at length how these changes would impact the company in terms of long-term financial resilience and its ability to meet its obligation to employees, including but not limited to pension liabilities.

Principal decision 2 - Decision not to appeal Ofwat's determination for 2020-25

During the year the Board resolved not to appeal Ofwat's final determination for 2020-25, published in December 2019, which set revenues and an incentive package around costs and service levels over the same period.

The Board did so after considering whether the proposed package allowed the company to deliver the expectations of customers, employees and investors while delivering the required environmental improvements up to 2025. It concluded that, in the round, it did allow the Company to do this. The Board also resolved to write to Ofwat to express its concerns that the PR19 settlement did not adequately further long-term financial and operational resilience.

STRATEGIC REPORT (continued)

Principal decision 3 - Decision to approve investment (Wareham WRC)

The Urban Waste Water Treatment Directive (UWWTD) includes a requirement to reduce the amount of nitrogen discharging into Poole Harbour, a designated environmentally sensitive area. The Company has considered two options to deliver these tightened targets at its Wareham Water Recycling Centre:

- **nitrate treatment asset solution:** build an extension to the current site to house additional treatment plant in an area of outstanding natural beauty. The scheme would have an estimated cost of over £7m with ongoing operational costs of in excess of £200k a year.
- **catchment alternative to nitrate treatment:** agree and purchase nitrogen offsets from local farmers. This would include initiatives such as conversion of arable farmland to grassland or wetland. This solution was estimated to cost £250k with ongoing operational costs of £50k a year. The Company has significant experience and success with catchment-based solutions and this approach would provide longer term sustainable catchment investment over 20 years.

Considering the best interests of the environment and the communities served, the Board agreed to engage with a number of stakeholders, including the Secretary of State and the Environment Agency, on the outputs required under the UWWTD. Despite advancing the case that the environmental outcome would be better achieved through catchment nutrient balancing rather than an asset solution, the Board ultimately had no option but to approve the asset solution given the stringent requirements of the UWWTD and the lack of support from the Secretary of State.

Principal decision 4 – Response to the COVID-19 pandemic

The COVID-19 crisis had a significant operational impact on the business in the final part of the reporting year. The Company took quick action to ensure continuity of essential services for all of our customers and to ensure the safety of our people in line with latest government advice. It also amended some non-essential service provision for reasons of safety, for instance by pausing programmes of household metering, water sampling at customer taps and in-home assistance to save water.

The Board recognised that the Company had wider obligations to the communities that we serve, and that compared to many other businesses we were in a fortunate position. The Board therefore agreed the following:

- That the Company would not take any government funding or furlough any employees.
- Wessex Water volunteers are engaged in a wider variety of community support.
- A £50 bill rebate for additional uniform washing by NHS frontline staff.
- Additional encouragement for any customers with difficulty in paying their bills to contact us so we can use our wide range of affordability assistance measures to greatest effect.
- Enhanced payment terms for our supply chain.
- Continued funding of our staff restaurant and cleaning contractors at our Operations Centre so that they could support our free community meals service.
- A £75,000 donation to support the work of Marie Curie nurses caring for COVID-19 patients.
- The provision of additional liquidity into the non-household retail market through delayed invoicing and revised payment terms.

The strategic report was approved by the Board of Directors on 23 September 2020 and signed on its behalf by:

Mark Watts
Director

DIRECTORS' REPORT

The Directors present their Directors' Report and the financial statements for the year to 30 June 2020.

DIRECTORS

The Directors of the Company during the year and subsequently were:

Colin Skellett

Mark Watts

Francis Sock Ping Yeoh

Seok Kah Dato Yeoh

Seok Hong Yeoh

Seok Kian Yeoh

Directors' Interests

During the year no Director was materially interested in any contract with the Company or with any of its subsidiaries.

Directors' Emoluments

	Salary £000	Bonus £000	LTIP £000	Benefits £000	Pension £000	**Total 2019-20 £000**	Total 2018-19 £000
Colin Skellett	460	-	-	33	-	**493**	908
Mark Watts	382	-	-	33	-	**415**	811
Total	842	-	-	66	-	**908**	1,741

Directors' emoluments and share interests in respect of services to group companies for Francis Sock Ping Yeoh, Seok Kah Dato Yeoh, Seok Hong Yeoh and Seok Kian Yeoh are shown in the accounts of YTL Power International Berhad and YTL Corporation Berhad, the pre-penultimate holding company. There were no material services to the company.

No directors are accruing benefits under Group pension schemes.

Directors' Share Interests

Share options

The following Directors have been granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad (see note 21), under the 2011 UK Plan. The share price as at 30 June 2020 was RM0.67 or £0.13.

	At 30 June 2019	Exercise price RM	Date of grant	Exercise date	Expiry date	At 30 June 2020
Colin Skellett	87,000	1.65	01/06/2012	01/06/2015	31/03/2021	87,000
Colin Skellett	1,913,000	1.38	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	1.38	01/06/2012	01/06/2015	31/03/2021	913,000

Approved options were granted at an exercise price of RM1.65. Unapproved options were granted at an exercise price of RM1.49, which was adjusted to RM1.41 following the distribution to all shareholders of one share for every 20 ordinary shares held in 2014, and to RM1.38 following the distribution to all shareholders of one share for every 50 ordinary shares held in 2017.

No share options were exercised during the year (2019 – none) and no gains were made (2019 – none).

Shares held

The ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 held were:

	At 30 June 2019	Movements	At 30 June 2020
Mark Watts	395,790	-	395,790

There is no requirement for directors to hold shares in the company.

Dividends

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Board of YTL Utilities (UK) Ltd ensures that its gearing stays at or below 70% in order to secure the current credit ratings and ongoing access to the capital markets. The dividend is shown in note 10.

Going concern

The Directors have considered the financial position of the Group 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 Group 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 Group has begun to run a number of pre-market roadshows with investors from which positive feedback was received around the Group's consistently strong operating performance and the supportive and stable ownership. The Group also has access to £225m of undrawn bank facilities if required.

For the main subsidiary of the Group, 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 September 2021. The remaining companies within the group do not have sufficient capacity to materially impact the conclusion for the Group as a whole.

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

Streamlined Energy and Carbon Reporting

The Group carbon reporting is disclosed in Wessex Water Services Limited financial statements as this is the only company captured by the requirements. These accounts can be viewed at:
https://www.wessexwater.co.uk/corporate/strategy-and-reports/performance/annual-results-2020#financial

Sustainability

The Group has a sustainability vision that guides its progress towards being a sustainable water group. The sustainability vision is reviewed bi-annually.

We are honest in the way we conduct our business. We treat one another, our customers and the environment with respect.

DIRECTORS' REPORT (continued)

Ethical policy

We are determined to maintain our reputation as a Company that observes the highest standards of personal and corporate integrity by adhering to a strict code of business ethics. We aim to be the best and value everyone's contribution in our pursuit of excellence.

Our People

It takes great people and great teamwork to provide our services. That's why we encourage and reward our employees for their contribution to achieving our aims. We seek their ideas and put them into practice, celebrate success and encourage them to go the extra mile. This year we launched our People Programme, a dedicated programme of initiatives to address current and future strategic people priorities in areas including resourcing, talent management, reward and recognition, future working, diversity and employee wellbeing.

Our apprenticeship strategy is proving successful for both the Company and the local community, offering secure employment opportunities across our region.

Employment

The Group is an equal opportunities employer. No person or group of persons applying for a job with the group is treated less favourably than any other person or groups of persons because of their gender, race, class, colour, nationality, ethnic origin, marital status, sexual orientation, age, trade union membership or activity, religious belief or physical or mental disability. Selection procedures and criteria ensure that individuals are selected and promoted on the basis of their relevant merits and abilities. These procedures are monitored and regularly reviewed. Where necessary, the Group provides staff with special training facilities to enable them to compete or qualify for positions, or to progress, within the Group.

Modern Slavery Act

The Group is committed to meeting the aims of the Modern Slavery Act 2015. We strongly oppose slavery and human trafficking in our supply chains and in any part of our business. To be trusted to do the right thing is one of our core values. We would never knowingly engage with suppliers or contractors involved in slavery or human trafficking. In accordance with the requirements of the Act we have published on our website a Slavery and human trafficking statement 2018.

Environment Policy

The Group protects, conserves and improves the environment and operates in a socially responsible manner. Working practices are continually revised as improved techniques and technologies become available. The environment policy is reviewed annually.

Research and Development

The Group carried out research and development in support of existing activities to improve the reliability and effectiveness of water and waste water services.

Market Value of Land and Buildings

In the opinion of the Directors, the market value of land and buildings of the Group exceeds the book value of these assets at 30 June 2020.

Charitable and political donations

We aspire to be responsible members of our community as it reflects our aim of doing the right thing. It is also important to colleagues, customers and our shareholder.

During the year £5.2m was donated to UK charities (2019 – £3.5m). There were no political donations in either year.

Supplier Payment Policy

We need to maintain relationships with suppliers who meet our high standards and demonstrate that they operate in accordance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.

The policy in respect of its suppliers is to agree the payment terms for transactions in advance and to make payments in accordance with those terms. At 30 June 2020 trade creditors represented approximately 20 days trade purchases (2019 – 29 days). The Group does not follow any specific external code or standard on payment policy.

DIRECTORS' REPORT (continued)

Corporate Governance

WWSL is required, under Condition F of its Instrument of Appointment as a water and sewerage undertaker, to take account of the principles of good governance in the UK Corporate Governance Code as approved for the purposes of the Listings Rules of the Financial Services Authority. Details of compliance are shown in the Regulatory Accounts and Annual Report and accounts of WWSL whose registered address is Wessex Water Operations Centre, Claverton Down, Bath, BA2 7WW.

Disclosure of Information to the 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 Group's auditor is 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 Group's auditor is aware of that information.

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 2 to 15. Information on the use of financial instruments by the Company are shown in note 26 to the financial statements.

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
Claverton Down
Bath BA2 7WW

23 September 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent 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 Group and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YTL UTILITIES (UK) LIMITED

Opinion

We have audited the financial statements of YTL Utilities (UK) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Statements of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 33, 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group and parent 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, 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 group's or the parent 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.

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 group and the parent 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 20, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YTL UTILITIES (UK) LIMITED *(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.

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.

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: 24 September 2020

Consolidated statement of profit or loss
for the year ended 30 June 2020

	Note	2020 £m	2019 £m
Revenue	4	**658.6**	644.8
Charge for bad and doubtful debts		**(21.5)**	(13.1)
Other operating costs	5	**(439.5)**	(408.7)
Total operating costs	5	**(461.0)**	(421.8)
Net valuation (losses)/gains	15	**(1.1)**	9.9
Operating profit	3	**196.5**	232.9
Financial income	8	**0.6**	0.1
Financial expenses	8	**(99.8)**	(103.6)
Net financing expense		**(99.2)**	(103.5)
Profit before tax		**97.3**	129.4
Taxation	9	**(51.7)**	(25.3)
Profit for the year		**45.6**	104.1
Attributable to:			
Equity holders of the parent		**43.5**	103.4
Non-controlling interest	25	**2.1**	0.7
Profit for the year		**45.6**	104.1

Consolidated statement of comprehensive income
for the year ended 30 June 2020

	2020	2019
	£m	£m
Profit for the year	**45.6**	104.1
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Remeasurements of defined benefit liability	**(43.3)**	(9.8)
Income tax on items that will not be reclassified to profit or loss	**(5.3)**	1.7
	(48.6)	(8.1)
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	**0.1**	(0.1)
	0.1	(0.1)
Other comprehensive income for the year, net of income tax	**(48.5)**	(8.2)
Total comprehensive (loss)/profit for the year	**(2.9)**	95.9
Profit attributable to:		
Equity holders of the parent	**43.5**	103.4
Non-controlling interest	**2.1**	0.7
Profit for the year	**45.6**	104.1
Total comprehensive income attributable to:		
Equity holders of the parent	**(5.0)**	95.2
Non-controlling interest	**2.1**	0.7
(Loss)/profit for the year	**(2.9)**	95.9

Statements of financial position

At 30 June 2020

	Note	Group	Group (Restated note 2.2)	Group (Restated note 2.2)	Company	Company
		2020	2019	2018	**2020**	2019
		£m	£m	£m	**£m**	£m
Non-current assets						
Property, plant and equipment	*12*	**3,889.6**	3,768.5	3,651.2	-	-
Intangible assets	*13*	**65.5**	44.6	30.8	-	-
Investment properties	*15*	**88.7**	91.0	85.4	-	-
Investments in subsidiaries	*14*	-	-	-	**351.3**	351.3
		4,043.8	3,904.1	3,767.4	**351.3**	351.3
Current assets						
Inventories	*16*	**20.0**	8.7	3.2	-	-
Trade and other receivables	*17*	**205.0**	212.1	209.7	**123.1**	121.1
Corporation tax receivable	*17*	**3.0**	-	-	-	-
Other financial assets	*18*	**98.0**	-	-	-	-
Cash and cash equivalents	*18*	**37.2**	5.4	17.5	**0.5**	1.1
		363.2	226.2	230.4	**123.6**	122.2
Total assets		**4,407.0**	4,130.3	3,997.8	**474.9**	473.5
Current liabilities						
Bank overdraft	*18*	**(8.6)**	(3.8)	(6.2)	-	-
Other interest-bearing loans and borrowings	*19*	**(8.6)**	(92.2)	(151.3)	-	-
Corporation tax payable	*20*	-	(10.6)	(13.8)	-	-
Trade and other payables	*20*	**(273.3)**	(299.9)	(290.3)	**(212.9)**	(220.0)
Provisions	*23*	**(0.1)**	(1.2)	(0.4)	-	-
		(290.6)	(407.7)	(462.0)	**(212.9)**	(220.0)
Non-current liabilities						
Other interest-bearing loans and borrowings	*19*	**(2,599.3)**	(2,313.1)	(2,164.1)	**(175.4)**	(247.0)
Contract liabilities	*20*	**(5.0)**	(5.0)	(0.4)	-	-
Employee benefits	*21*	**(165.1)**	(131.1)	(126.8)	-	-
Deferred grants & contributions	*22*	**(307.3)**	(284.3)	(271.7)	-	-
Deferred tax liabilities	*24*	**(420.7)**	(375.6)	(368.4)	-	-
		(3,497.4)	(3,109.1)	(2,931.4)	**(175.4)**	(247.0)
Total liabilities		**(3,788.0)**	(3,516.8)	(3,393.4)	**(388.3)**	(467.0)
Net assets	*3*	**619.0**	613.5	604.4	**86.6**	6.5
Equity						
Share capital	*25*	-	-	-	-	-
Retained earnings		**615.6**	612.2	603.8	**86.6**	6.5
Non-controlling interests	*25*	**3.4**	1.3	0.6	-	-
Total equity		**619.0**	613.5	604.4	**86.6**	6.5

During the year YTL Utilities (UK) Ltd (the Company) made a profit after tax of £71.6m (2019 - £81.4m).

These financial statements were approved by the Board of Directors on 23 September 2020 and were signed on its behalf by:

Mark Watts - Director

Consolidated statement of changes in equity

For the year ended 30 June 2020

Group

	Note	Share capital £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
Balance at 1 July 2018		-	603.8	0.6	604.4
Adoption of new accounting standards	*2.2*	-	(0.5)	-	(0.5)
Balance at 1 July 2018		**-**	**603.3**	**0.6**	**603.9**
Total comprehensive income for the year					
Profit for the year		-	103.4	0.7	104.1
Other comprehensive income		-	(8.2)	-	(8.2)
Total comprehensive income for the year		-	95.2	0.7	95.9
Transactions with owners, recorded directly in equity					
Dividends	*11*	-	(86.3)	-	(86.3)
Total contributions by and distributions to owners		-	(86.3)	-	(86.3)
Balance at 30 June 2019		**-**	**612.2**	**1.3**	**613.5**
Adoption of new accounting standards		-	(0.1)	-	(0.1)
Balance at 1 July 2019		-	612.1	1.3	613.4
Total comprehensive income for the year					
Profit for the year		-	43.5	2.1	45.6
Other comprehensive income		-	(48.5)	-	(48.5)
Total comprehensive income for the year		-	(5.0)	2.1	(2.9)
Transactions with owners, recorded directly in equity					
Holding company loan interest waiver		-	78.7	-	78.7
Dividends	*11*	-	(70.2)	-	(70.2)
Total contributions by and distributions to owners		-	8.5	-	8.5
Balance at 30 June 2020		**-**	**615.6**	**3.4**	**619.0**

Statement of Changes in Equity
for the year ended 30 June 2020

Company

	Note	**Share capital**	**Retained earnings**	**Non-controlling interests**	**Total equity**
		£m	**£m**	**£m**	**£m**
Balance at 1 July 2018		-	11.4	-	11.4
Total comprehensive income for the year					
Profit for the year		-	81.4	-	81.4
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	81.4	-	81.4
Transactions with owners, recorded directly in equity					
Dividends	*10*	-	(86.3)	-	(86.3)
Total contributions by and distributions to owners		-	(86.3)	-	(86.3)
Balance at 30 June 2019		**-**	**6.5**	**-**	**6.5**
Balance at 1 July 2019		-	6.5	-	6.5
Total comprehensive income for the year					
Profit for the year		-	71.6	-	71.6
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	71.6	-	71.6
Transactions with owners, recorded directly in equity					
Holding company loan interest waiver		-	78.7		78.7
Dividends	*10*	-	(70.2)	-	(70.2)
Total contributions by and distributions to owners		-	8.5	-	8.5
Balance at 30 June 2020		**-**	**86.6**	**-**	**86.6**

Consolidated statement of cash flows
for year ended 30 June 2020

	Note	**Group 2020 £m**	Group 2019 £m (restated)	**Company 2020 £m**	Company 2019 £m
Cash flows from operating activities					
Profit for the year		**45.6**	104.1	**71.6**	81.4
Adjustments for:					
Depreciation, amortisation and impairment		**119.5**	110.4	-	-
Increase in Fair Value of investment properties		**1.1**	(9.9)	-	-
Financial income		**(0.6)**	(0.1)	**(87.0)**	(99.0)
Financial expense		**99.8**	103.6	**9.6**	12.5
Taxation		**51.7**	25.3	-	-
		317.1	333.4	**(5.8)**	(5.1)
Decrease/(increase) in trade and other receivables		**4.1**	(2.6)	**(10.5)**	(8.5)
(Increase) in inventories		**(1.9)**	(1.2)	-	-
(Decrease)/increase in trade and other payables		**(13.6)**	24.3	**3.5**	1.8
(Decrease) in provisions and employee benefits		**(10.4)**	(7.4)	-	-
		(21.8)	13.1	**(7.0)**	(6.7)
Tax paid		**(25.6)**	(18.8)	-	-
Net cash from operating activities		**269.7**	327.7	**(12.8)**	(11.8)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1.6**	1.8	-	-
Interest received		**0.6**	0.1	-	-
Dividends received		-	-	**95.5**	99.0
Acquisition of subsidiary, net of cash acquired		-	-	-	-
Acquisition of property, plant and equipment (restated)		**(217.0)**	(220.9)	-	-
Proceeds from infrastructure charges and capital contributions		**8.8**	4.8	-	-
Acquisition of investment property		**(9.3)**	(2.9)	-	-
Purchase of financial instruments		**(98.0)**	-	-	-
Acquisition of other intangible assets (restated)		**(29.3)**	(19.0)	-	-
Net cash from investing activities		**(342.6)**	(236.1)	**95.5**	99.0
Cash flows from financing activities					
Proceeds from new loans		**316.1**	203.3	**5.5**	-
Interest paid		**(74.5)**	(67.0)	**(8.0)**	(1.5)
Repayment of borrowings		**(60.0)**	(150.4)	-	-
Repayment of lease liabilities		**(0.9)**	(1.4)	-	-
Dividends paid		**(80.8)**	(85.8)	**(80.8)**	(85.7)
Net cash from financing activities		**99.9**	(101.3)	**(83.3)**	(87.2)
Increase/(decrease) in cash and cash equivalents		**27.0**	(9.7)	**(0.6)**	-
Cash and cash equivalents at 1 July		**1.6**	11.3	**1.1**	1.1
Cash and cash equivalents at 30 June	*18*	**28.6**	1.6	**0.5**	1.1

Notes to the financial statements

1. Accounting policies

1.1 Basis of preparation

YTL Utilities (UK) Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 04341837 and the registered address is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and joint ventures. The parent company financial statements present information about the Company as a separate entity and not about its group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated 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 34.

1.2 Measurement convention

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties that have been measured at fair value.

1.3 Going concern

The Directors have considered the financial position of the Group 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 Group 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 Group has begun to run a number of pre-market roadshows with investors from which positive feedback was received around the Group's consistently strong operating performance and the supportive and stable ownership. The Group also has access to £225m of undrawn bank facilities if required.

For the main subsidiary of the Group, 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 September 2021. The remaining companies within the group do not have sufficient capacity to materially impact the conclusion for the Group as a whole.

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

1.4 Foreign currency

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.5 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 Group'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 Group's business model for managing them. The Group 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 Group'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 Group. The Group 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 expected credit loss. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group'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 Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or;
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.5 Financial instruments (continued)

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 Group'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 Group. 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 19.

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.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Under IFRS 15 sewers adopted at nil cost to the Group are included in fixed assets at a fair value, which is the estimated cost of construction and depreciated at the same rate as infrastructure assets.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Land and buildings — 15 to 80 years
- Infrastructure assets — 60 to 150 years
- Plant, equipment and vehicles — 3 to 30 years
- Office & IT equipment — 3 to 10 years

Infrastructure assets comprise 8 components:

Impounding reservoirs 150 years, raw water mains 100 years, treated water mains 100 years, communication pipes 60 years, sewers 125 years, sewage pumping stations 60 years, combined sewer overflows 80 years and sea outfalls 60 years.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.7 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- External customer lists 10 years
- Specialised computer software 10 years
- In-house computer software development 5 years

Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of those assets. The value in use calculation requires the Group to estimate the future cash flows expected to arise from those assets and apply a suitable discount rate in order to calculate the present value.

1.8 Investment property

Investment properties include those portions of buildings that are held for long term rental yields and/or for capital appreciation and freehold land and/or land under operating leases that is held for long-term capital appreciation or for a currently indeterminate use. Investment properties include properties that are being constructed or developed for future use as investment properties.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

Cost included expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the fair value is recognised in profit or loss in the period in which the item is derecognised. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from investment property to inventories, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.10 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

For trade receivables and contract assets that are expected to have a maturity of one year or less, the Group has applied the practical expedient and followed the simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. customer type, payment method, rating and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., average earnings) are expected to deteriorate over the next year which can lead to an increased number of defaults in the sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 26.

The Group considers a financial asset in default when contractual payments are 80 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1.11 Employee benefits

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans and other post-employment benefits are calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The Group determines the net interest on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

1. Accounting policies *(continued)*

1.11 Employee benefits (continued)

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and the return on plan assets. The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The assets of the scheme are held separately from those of the Group. The scheme has been closed to new members since 2009.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

YTL Power International Berhad operates an equity settled share-based payment scheme for the employees of the group. The fair value of the share-based payment awards is recognised as an expense over the period of the award. The amount recognised is adjusted to reflect the actual number of awards for which service and performance conditions are met at the vesting date. Where YTL Power International Berhad grants rights to its equity instruments to the Group's employees, they are accounted for as equity settled in the consolidated accounts. In the Groups accounts they are accounted for as a charge to the profit and loss account and an inter-company liability in each accounting period up to the vesting date.

1.12 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.13 Revenue

Supply of water and sewerage services

The nature of the water industry in the UK is such that revenue recognition is subject to a degree of estimation. The assessment of water sales to customers is based on internal data where final settlement data is not yet available. At the end of each period, amounts of water delivered to customers are estimated and the corresponding billed and unbilled revenue is assessed and recorded in Revenue. For the purpose of the judgement various factors are considered such as seasonality, historic billing profiles, leakage data and general economic conditions.

The company, under the license granted by the Government, has the right to supply water and sewerage services to customers, together with an obligation to maintain and develop the network and ensure its continued availability. Revenue from contracts with customers is recognised when control of these goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

For metered customers this amount is determined by the meter reading. For unmetered customers, the amount to which the Company has a right to receive is determined by the passage of time during which the customer occupies a property within the Company's licensed region. Revenue represents income receivable in the ordinary course of business, excluding VAT, for services provided. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company.

Variable Consideration

Unbilled receivables is considered to be a variable consideration which is not constrained as the Company considers it to be highly probable that a significant amount will not be reversed after year end. Unbilled receivables and the variable consideration is estimated using the most likely outcome approach.

Developer Services

These are services related to the obligation under statute to allow property developers to establish an authorised connection to the water and/or sewerage network. In obtaining the connection the developer may require the Company to undertake one or more of the of the following:

(i) Connections and meter installation in exchange for payment;

(ii) Requisitions of water mains in exchange for payment; and

(iii) Adoptions of water and wastewater mains.

The developer is also required to pay infrastructure charges being a contribution to network reinforcement.

Period over which performance obligations are satisfied

From the perspective of the Company these activities are not separable nor distinct and instead form a bundle of activities necessary to establish an authorised connection from which the network access can be obtained. Also, the Company has an additional obligation under statute to keep the connection in place for all current and future occupiers and facilitate ongoing access to the network for as long as the property requires service provision. Consequently, revenue from Developer Services will be deferred over the shorter of expected period of service provision or the need to replace the assets at the end of their useful life (typically in the range 60 to 125 years).

Financing Component

Under IFRS 15 the transaction price needs to be adjusted if the timing of payments provides the customer or supplier with a significant benefit of financing the transfer of goods or services. In relation to this the Group has adopted the practical expedient available where the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.13 Revenue (continued)

Renewable Obligation Certificates (ROC) and Renewable Heat Incentives (RHI)

A subsidiary of the group generates green electricity and gas from combined heat and power plants along with the Biomethane plants which are accredited with government incentive schemes. The schemes run for twenty years from application and are based on fixed tariffs plus inflation each year. ROCs are issued monthly relating to the supply of green electricity to the grid with meter readings and submissions subsequently checked by OFGEM. Revenue is therefore recognised in the period to which it relates.

Liquid Waste Treatment

Customers waste is categorised as domestic or controlled. The agreements for treatment of controlled waste are short term and acceptance of all waste is determined by available treatment capacity at Wessex Water Services Ltd sewage treatment works.

Domestic waste has an annual fixed tariff which has three tiers for strength of waste based on suspended solids and chemical oxygen demand. Waste is either measured using sludge loggers or from samples taken from the tanker sent to Wessex Water laboratory for analysis. Controlled waste is organic waste coming from industrial processes such as food processing and landfill leachate. Each individual waste stream is sampled with the suspended solids and chemical oxygen demand determining a treatment charge which is agreed with the customer.

Revenue is recognised in the period the waste was treated, the acceptance of waste from the customer being the fulfilment of the performance obligation.

Property Searches

The group trades under the brand 'Wessex Searches' delivering the CON29DW product, a drainage and water search. Solicitors, search agencies and individuals are supplied with mapping information of water supply and sewage pipes relating to an individual residential or commercial property. Associated products are also procured from third parties such as local councils, mining authority and environmental search providers and sold as a package within the COND29DW product.

The fee charged for these services covers a specific product supplied at a particular point with the revenue being recognised at this point.

1.14 Contract Balances

Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

1.15 Deferred Grants and Contributions

Grants and contributions in respect of specific expenditure on non-infrastructure fixed assets are treated as contract liability and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Grants and contributions relating to infrastructure assets are amortised over an average of 108 years (see 1.6).

Under IFRS 15 sewers adopted at nil cost to the Group are shown in contract liability at a fair value, which is the estimated cost of construction, and amortised at the same rate as infrastructure assets are depreciated.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.16 Expenses

Operating lease payments

Policy applicable to prior years under IAS 17: Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Policy applicable to current year under IFRS 16: Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

Finance lease payments

Policy applicable to prior years under IAS 17: Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Policy applicable to current year under IFRS 16:

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable lease payments that do not depend on an index or a rate are recognised as expenses. In addition, depreciation is charged on a straight-line basis on a right-of-use asset recognised at the inception of the lease (or the date of adoption of IFRS 16 if later).

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.17 Taxation

Tax on the profit 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.

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 following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.18 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.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

1.19 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated financial statements account for joint ventures using the equity method, initially recognising the investment at cost. Subsequently the carrying amount is adjusted to recognise changes in the Group's share of net assets, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

1.20 Fair value measurement

The Group measures investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset takes place either:

• In the principal market for the asset or;

• In the absence of a principal market, in the most advantageous market for the asset

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

A fair value measurement of investment properties takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group has determined that the fair value measurement of its investment properties would be categorised as Level 3.

1. Accounting policies *(continued)*

1.20 Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period

1.21 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Land and property	15 to 80 years
• Plant and machinery	3 to 30 years
• Motor vehicles and other equipment	3 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (1.9) Impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 19).

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the financial statements (continued)

1. Accounting policies *(continued)*

***1.21 Leases** (continued)*

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Where the lease terms require, we maintain adequate insurance to cover all risks retained by the Group as a lessor.

As a lessor, the Group does not have any items of property, plant or equipment that are subject to operating leases.

1.22 Adopted IFRS not yet applied

The following Adopted IFRS's have been issued but have not been applied in these financial statements:

- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Annual Improvements to IFRSs – 2015-2017 Cycle

The Group does not currently expect that adoption of these standards will have a significant effect on the results or financial position of the Group but may affect disclosure requirements.

2. Changes in accounting policies and disclosures

2.1 New and amended standards and interpretations

The Group applied IFRS 16 for Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019/20, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Notes to the financial statements (continued)

2. Changes in accounting policies and disclosures *(continued)*

2.1 New and amended standards and interpretations (continued)

The effect of adoption IFRS 16 as at 1 July 2019 (increase/(decrease)) is, as follows:

	£m
Assets	
Right-of-use assets	2.7
Property, plant and equipment	-
Total assets	2.7
Liabilities	
Interest bearing loans and borrowings	2.8
Deferred tax liabilities	-
Total liabilities	2.8
Total adjustment on equity	
Retained earnings	(0.1)

The Group has lease contracts for a variety of land and buildings and items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 1.16 Expenses for the accounting policy prior to 1 July 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 1.21 Leases for the accounting policy beginning 1 July 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

i) Leases previously classified as finance leases
The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 July 2019.

ii) Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Notes to the financial statements (continued)

2. Changes in accounting policies and disclosures *(continued)*

2.1 New and amended standards and interpretations (continued)

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 July 2019:

- Right-of-use assets of £2.7m were recognised and presented in the statement of financial position.
- Additional lease liabilities of £2.8m (included in Interest bearing loans and borrowings) were recognised.
- The net effect of these adjustments had been adjusted to retained earnings (£0.1m).

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

Liabilities		£m
Operating lease commitments as at 30 June 2019		1.2
Leases previously not included		2.9
The effect of discounting using the incremental borrowing rate at 1 July 2019		(1.3)
Lease liability as at 1 July 2019		2.8
These liabilities are further classified as:	short term	0.8
	long term	2.0

Notes to the financial statements (continued)

2. Changes in accounting policies and disclosures *(continued)*

2.2 Prior Year Restatement – Intangible Assets

During the year the Group decided to refine its analysis of non-current assets, in so doing it identified elements of its asset stock that should be reclassified as intangible. Following this exercise, assets with an original historic cost of £34.6m at 1 July 2018 were transferred from tangible to intangible assets. In addition, a further £18.4m was transferred for the year 2018-19. All the assets transferred were previously within the category for plant, equipment and vehicles within tangible assets. These transfers and the respective amounts of depreciation are shown on the following table:

	Tangible assets £m	Intangible assets £m
1 July 2018		
Cost brought-forward	(33.4)	33.4
Accumulated depreciation	8.8	(8.8)
Book value at 1 July 2018	(24.6)	24.6
Year to 30 June 2019		
Additions in year	(18.4)	18.4
Accumulated depreciation	4.7	(4.7)
Book value for the year to 30 June 2019	(13.7)	13.7
1 July 2019		
Cost brought-forward	(51.8)	51.8
Accumulated depreciation	13.5	(13.5)
Book value at 1 July 2019	(38.3)	38.3

As shown, the depreciation charges brought-forward at 2018 and in 2019 are the same both before and after the transfer. The useful economic lives of the various asset classes were unchanged. There was no effect on the income statement or the retained earnings in either year.

2.3 Income statement presentation

In previous years, operating costs had been presented under four headings on the income statement. For the year ended 30 June 2019 these four headings totalled £421.8m. The Group decided this did not offer the end user sufficient detail of the cost base under which it operates and therefore in the current year has combined the headings on the income statement (and represented comparatives accordingly) and increased the level of disclosure in the notes to the accounts. This also results in a consistency with the presentational format with which performance of its subsidiary is reported to the water industry Regulator.

Further details for the current year can be found in note 5 together with the relevant comparatives.

Notes to the financial statements *(continued)*

3. Segmental Analysis

	2020	2019
	£m	£m
Turnover		
Regulated	**588.0**	590.4
Unregulated	**70.6**	54.4
	658.6	644.8
Operating profit/(loss)		
Regulated	**197.5**	224.4
Unregulated	**(1.0)**	8.5
	196.5	232.9
Net assets		
Regulated	**534.7**	603.4
Unregulated	**84.3**	10.1
	619.0	613.5

For management purposes, the group is organised into units based on the business environment it operates in and has two reportable segments, Regulated and Unregulated.

The board monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on a combination of Turnover, Operating profit and Net Asset value and is measured consistently with the consolidated financial statements.

Notes to the financial statements *(continued)*

4. Revenue from contracts with customers

Current year	**House-hold £m**	**Non-house-hold £m**	**Total £m**
Wholesale revenue - Water Supply			
Unmeasured	**50.0**	**17.8**	**67.8**
Measured	**73.6**	**69.6**	**143.2**
	123.6	**87.4**	**211.0**
Wholesale revenue - Waste Water			
Unmeasured	**103.3**	**8.5**	**111.8**
Measured	**145.3**	**69.0**	**214.3**
	248.6	**77.5**	**326.1**
Retail revenue			
Unmeasured	**10.2**	**1.3**	**11.5**
Measured	**26.8**	**1.6**	**28.4**
	37.0	**2.9**	**39.9**
Other revenue			
Regulated			**11.0**
Unregulated			**70.6**
Total revenue			**658.6**

Prior year	House-hold £m	Non-house-hold £m	Total £m
Wholesale revenue - Water Supply			
Unmeasured	53.6	5.4	59.0
Measured	74.1	77.9	152.0
	127.7	83.3	211.0
Wholesale revenue - Waste Water			
Unmeasured	108.6	4.9	113.5
Measured	143.4	75.9	219.3
	252.0	80.8	332.8
Retail revenue			
Unmeasured	11.1	-	11.1
Measured	26.4	-	26.4
	37.5	-	37.5
Other revenue			
Regulated			9.1
Unregulated			54.4
Total revenue			644.8

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time. Residential retail charges relate solely to the margin applied to the wholesale amounts charged to residential customers. The wholesale charges and retail margin are combined in arriving at the total revenues relating to water and wastewater services provided to household customers.

Notes to the financial statements *(continued)*

4. Revenue from contracts with customers (continued)

Other revenues comprise a number of smaller non-core income streams including those relating to activities, typically performed opposite property developers, which impact the Group's capital network assets including activities that facilitate the creation of an authorised connection through which properties can obtain water and wastewater services.

Contract balances

Contract cost assets of £4.7m (£5.9m in 2019) are included in the statement of financial position under trade and other receivables. At the year-end there were liabilities for receipts in advance relating to contracts of £6.0m (£2.7m in 2019).

5. Operating costs and auditor's remuneration

Included in the income statement are the following:

	2020	2019
	£m	£m
Employee costs (note 6)	**135.2**	133.3
Power	**38.6**	35.7
Raw Materials and consumables	**20.1**	17.7
Rates	**25.2**	26.5
Charge for bad and doubtful debts (note 26)	**21.5**	13.1
Service charges	**5.9**	6.1
Depreciation of property, plant and equipment (note 11)	**112.0**	113.9
Depreciation of right-of-use assets (note 13)	**0.8**	-
Amortisation of intangible assets (note 12)	**9.8**	5.0
(Gain)/loss on disposal of tangible fixed assets	**0.3**	(5.1)
Short term lease expense (note 13)	**6.6**	-
Operating lease expense (note 13)	-	4.6
Hire of plant and machinery	**0.3**	0.5
Research and development expensed as incurred	**1.7**	0.1
Infrastructure maintenance expenditure	**20.9**	22.9
Ofwat licence fee	**1.7**	1.8
Other operating costs	**164.6**	142.9
	564.8	519.0
Release from deferred credits (note 22)	**(3.1)**	(2.8)
Own work capitalised	**(100.7)**	(94.4)
	461.0	421.8

	2020	2019
	£000	£000
Auditor's remuneration:		
Audit of these financial statements	**36**	30
Audit of subsidiary companies	**367**	205
Other services pursuant to legislation	**144**	216
	547	451

Notes to the financial statements *(continued)*

6. Staff numbers and costs

The average number of employees (including directors) during the year was as follows:

	Number of employees	
	2020	2019
Average number of employees	**3,082**	2,973

The aggregate payroll costs of these employees was:

	2020	2019
	£m	£m
Wages and salaries	**106.5**	110.9
Social security costs	**11.4**	11.0
Pension costs – defined contribution	**6.0**	4.7
Pension costs – defined benefit	**11.3**	11.4
	135.2	133.3

7. Directors' remuneration

	2020	2019
	£'000	£'000
Total Directors' remuneration including benefits in kind	**908**	1,719
Remuneration of highest paid Director	**493**	908

Details of Directors' remuneration can be found in the Directors' Report. Directors' remuneration is in respect of two Executive Directors and four YTL appointed Directors (2019 - two Executive Directors and four YTL appointed Directors).

Notes to the financial statements *(continued)*

8. Finance income and expense

	2020	2019
	£m	£m
Finance income		
Interest receivable on short-term bank deposits	**0.6**	0.1
Total finance income	**0.6**	0.1
Finance expense		
Net interest on net defined benefit pension plan liability	**(3.0)**	(3.5)
On loans and leases	**(96.8)**	(100.1)
	(99.8)	(103.6)
Net interest payable	**(99.2)**	(103.5)

In accordance with IAS 23 borrowing costs of £3.5m (2019 - £1.6m) associated with the funding of eligible capital projects have been capitalised at an interest rate of 4.3% (2019 – 4.4%).

Notes to the financial statements *(continued)*

9. Taxation

Recognised in the income statement

	2020 £m	2019 £m
Current tax expense		
Current year	**14.0**	16.5
Overseas taxation	**-**	0.1
Adjustments for prior years	**(2.1)**	(0.2)
Current tax expense	**11.9**	16.4
Deferred tax expense		
Origination and reversal of temporary differences	**6.3**	8.4
Increase in tax rate	**30.6**	-
Adjustments for prior years	**2.9**	0.5
Deferred tax expense / (credit)	**39.8**	8.9
Tax expense in income statement	**51.7**	25.3

Recognised in other comprehensive income

	2020 £m	2019 £m
Remeasurements of defined benefit liability	**8.2**	1.7
Change in tax rate	**(13.5)**	-
Tax (debit) / credit	**(5.3)**	1.7

Reconciliation of effective tax rate

	2020 £m	2019 £m
Profit for the year	**45.6**	**104.1**
Total tax expense / (credit)	**51.7**	**25.3**
Profit excluding taxation:	**97.3**	129.4
Tax using the UK corporation tax rate of 19% (2019 – 19%)	**18.5**	24.7
Impact of change in rate	**30.6**	(1.0)
Non-deductible expenses	**1.8**	2.3
(Over) / under provided in prior years	**0.8**	0.2
Other	**-**	(0.9)
Total tax expense	**51.7**	25.3

The statutory rate of corporation tax was 19% for the current and prior year. Following the March 2020 Budget, the statutory rate of corporation tax effective 1 April 2020 was increased from 17% to 19%. As a result, deferred tax balances have been remeasured at 19%. This has resulted in a deferred tax charge of £30.6m in the income statement and £13.5m charge in the statement of other comprehensive income.

Notes to the financial statements *(continued)*

10. Dividends

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

	2020	2019
	£m	£m
Interim dividends for the current year	**57.4**	62.9
Final dividend for the current year	**12.8**	23.4
	70.2	86.3

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

- the group'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 group is delivering the required quality and environmental outputs and making sufficient Investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the group's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the group has met any unexpected additional expenditure needs that may have arisen during the year 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.

Notes to the financial statements *(continued)*

11. Tangible assets – Group

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m (restated)	Motor vehicles £m	Office & IT equipment £m	Total tangible assets £m (restated)
Cost						
Balance at 1 July 2018 (as previously stated)	878.0	2,209.7	1,906.3	-	36.6	5,030.6
Assets restated as intangibles	-	-	(33.4)		-	(33.4)
Balance at 1 July 2018 (restated)	878.0	2,209.7	1,872.9	-	36.6	4,997.2
Transfer to intangible assets	-	-	-	-	(0.1)	(0.1)
Transfer to inventories	(0.5)	-	(1.2)	-	-	(1.7)
Additions (as previously stated)	12.5	76.0	154.9	-	3.8	247.2
Additions restated as intangibles	-	-	(18.4)	-	-	(18.4)
Disposals	(2.2)	5.6	(10.9)	-	-	(7.5)
Foreign exchange movements	-	-	-	-	-	-
Balance at 30 June 2019 (restated)	887.8	2,291.3	1,997.3	-	40.3	5,216.7
Balance at 1 July 2019 (restated)	887.8	2,291.3	1,997.3	-	40.3	5,216.7
Cost of ROU assets on adoption of IFRS 16	1.8	-	1.5	-	-	3.3
Transfer between categories	-	-	(46.1)	46.1	-	-
Additions	64.7	85.1	68.7	2.9	11.1	232.5
Disposals	(1.7)	(0.1)	(28.5)	(4.6)	(5.1)	(40.0)
Balance at 30 June 2020	952.6	2,376.3	1,992.9	44.4	46.3	5,412.5

Notes to the financial statements *(continued)*

11. Tangible assets – Group *(continued)*

	Land & buildings £m	Infra-structure assets £m	Plant, equipment & vehicles £m (restated)	Motor vehicles £m	Office & IT equipment £m	Total tangible assets £m (restated)
Depreciation and impairment						
Balance at 1 July 2018 (as previously stated)	(299.7)	(89.8)	(944.5)	-	(20.8)	(1,354.8)
Depreciation restated as intangibles	-	-	8.8	-	-	8.8
Balance at 1 July 2018 (restated)	(299.7)	(89.8)	(935.7)	-	(20.8)	(1,346.0)
						-
Depreciation charge for the year (as previously stated)	(14.3)	(20.2)	(80.1)	-	(3.3)	(117.9)
Depreciation restated as intangibles	-	-	4.7	-	-	4.7
Disposals	1.3	-	9.7	-	-	11.0
Foreign exchange movements	-	-	-	-	-	-
Balance at 30 June 2019 (restated)	(312.7)	(110.0)	(1,001.4)	-	(24.1)	(1,448.2)
Balance at 1 July 2019 (restated)	(312.7)	(110.0)	(1,001.4)	-	(24.1)	(1,448.2)
Depreciation on ROU assets	(0.1)	-	(0.7)	-	-	(0.8)
Transfer between categories	-	-	25.5	(25.5)	-	-
Depreciation charge for the year	(14.6)	(21.0)	(68.2)	(4.6)	(3.6)	(112.0)
Disposals	0.9	-	28.1	4.0	5.1	38.1
Balance at 30 June 2020	(326.5)	(131.0)	(1,016.7)	(26.1)	(22.6)	(1,522.9)
Net Book Value						
At 30 June 2018 (restated)	578.3	2,119.9	937.2	-	15.8	3,651.2
At 30 June 2019 (restated)	575.1	2,181.3	995.9	-	16.2	3,768.5
At 30 June 2020	**626.1**	**2,245.3**	**976.2**	**18.3**	**23.7**	**3,889.6**

Infrastructure assets comprise a network of systems of mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines, sea outfalls and infrastructure investigations and studies.

There are no impairment losses recognised in these financial statements.

Details of the restatements due to prior period adjustments are shown note 2.2.

Assets under construction included in the values above were £280.7m (2019 - £478.4m).

Cumulative borrowing costs capitalised and included above were £14.3m (2019 - £10.8m).

Included in freehold land and buildings above is an amount of £15.7m (2019 - £14.0m) in respect of land which is not depreciated.

In prior year plant, equipment and motor vehicles where presented as one category. In the current year management has decided to separate motor vehicles as a separate category as it is believed this will aid users of the accounts.

Notes to the financial statements *(continued)*

12. Intangible assets – Group

	Goodwill	External customer lists	Contractual trading rights	Software development	Other intangible assets	Total intangible assets
	£m	£m	£m	£m (restated)	£m	£m
Cost						
Balance at 30 June 2018	0.4	2.1	4.4	-	0.8	7.7
Restatements (see Note 2.2)	-	-	-	33.4	-	33.4
Balance at 1 July 2018	0.4	2.1	4.4	33.4	0.8	41.1
Reclassified from tangible assets (restated)	-	-	-	18.4	0.1	18.5
Other acquisitions – externally purchased	-	-	-	-	0.6	0.6
Balance at 30 June 2019	0.4	2.1	4.4	51.8	1.5	60.2
Balance at 1 July 2019	0.4	2.1	4.4	51.8	1.5	60.2
Other acquisitions – externally purchased	-	-	-	30.1	0.6	30.7
Balance at 30 June 2020	0.4	2.1	4.4	81.9	2.1	90.9
Amortisation and impairment						
Balance at 30 June 2018	(0.2)	-	(1.2)	-	(0.1)	(1.5)
Restatements (see Note 2.2)	-	-	-	(8.8)	-	(8.8)
Balance at 1 July 2018	(0.2)	-	(1.2)	(8.8)	(0.1)	(10.3)
Reclassified from tangible assets (restated)	-	-	-	(4.7)	-	(4.7)
Amortisation for the year (restated)	-	-	(0.3)	-	(0.3)	(0.6)
Balance at 30 June 2019	(0.2)	-	(1.5)	(13.5)	(0.4)	(15.6)
Balance at 1 July 2019	(0.2)	-	(1.5)	(13.5)	(0.4)	(15.6)
Amortisation for the year	-	(0.2)	(0.3)	(9.0)	(0.3)	(9.8)
Balance at 30 June 2020	(0.2)	(0.2)	(1.8)	(22.5)	(0.7)	(25.4)
Net Book Value						
At 30 June 2018	0.2	2.1	3.2	24.6	0.7	30.8
At 30 June 2019	0.2	2.1	2.9	38.3	1.1	44.6
At 30 June 2020	**0.2**	**1.9**	**2.6**	**59.4**	**1.4**	**65.5**

12. Intangible assets – Group *(continued)*

During the year assets costing £33.4 up to 2018 and £18.4m in 2019 (with £8.8m and £4.4m accumulated depreciation, respectively) were restated and transferred from tangible assets in the accounts. See notes 2.2 and 11.

Amortisation and impairment charge

The Group has considered the impact of the current open water market on the assumptions used and has conducted sensitivity analysis on the amortisation of the customer lists' carrying value. This has resulted in the adoption of an estimated useful life of 10 years for this type of asset, effective from the current year.

13. Leases

Group as a lessee

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases. Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings	Plant & machinery	Total
	£m	£m	£m
As at 1 July 2019	1.2	1.5	2.7
Additions	0.6	-	0.6
Depreciation expense	(0.1)	(0.7)	(0.8)
As at 30 June 2020	1.7	0.8	2.5

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the year:

			£m
As at 1 July 2019			2.8
Additions			0.6
Accretion of interest			0.1
Payments			(1.0)
As at 30 June 2020			2.5
Current	Note	19	0.7
Non-current	Note	19	1.8

The maturity analysis of lease liabilities is also disclosed in Note 19.

Notes to the financial statements *(continued)*

13. Leases *(continued)*

The following are the amounts recognised in profit or loss:

	2020	2019
	£m	£m
Depreciation expense of right-of use assets	**0.8**	-
Interest expense on lease liabilities	**0.1**	-
Expenses relating to short-term leases under IFRS 16	**6.6**	-
Expenses relating to operating leases under IAS 17	**-**	4.6
	7.5	4.6

The Group had total cash outflows for long-term leases of £1.0m in 2020. Cash outflows for short-term and low-value leases were £6.6m. The Group also had non-cash additions to right-of-use assets and lease liabilities of £0.6m in 2020.

Group as a lessor

The Group has entered into operating leases consisting of certain land and buildings. Rental income recognised by the Group during the year is £2.5m (2019: £2.2m).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2020 are as follows:

	2020	2019
	£m	£m
Within one year	**0.4**	0.6
After one year but not more than five years	**1.2**	1.4
More than five years	**1.9**	1.6
	3.5	3.6

Notes to the financial statements *(continued)*

14. Investments in subsidiaries and joint ventures

The Group and Company have the following investments in subsidiaries and joint ventures:

	Country	Number	Principal activity	Shares held	2020 %	2019 %
Company - subsidiary						
Wessex Water Ltd	England & Wales	02366633	Investment holding	£1 ordinary	**100**	100
YTL Events Ltd	England & Wales	04776317	Concert promotion	£1 ordinary	**100**	100
YTL Land and Property (UK) Ltd	England & Wales	10015163	Investment holding	£1 ordinary	**100**	100
Group - subsidiary						
Albion Water Ltd	England & Wales	03102176	Water supply and waste water services	£1 ordinary	**51**	51
Enterprise Laundry Services Ltd	England & Wales	08488681	Laundry services	£1 ordinary	**100**	100
GENeco Ltd	England & Wales	06842738	Food waste treatment	£1 ordinary	**100**	100
GENeco South West Ltd	England & Wales	09326393	Food waste treatment	£1 ordinary	**100**	100
SC Technology GmbH	Switzerland	-	Investment holding	CHF ordinary	**100**	100
SC Technology Nederlands BV	Netherlands	-	Waste treatment	Euro ordinary	**100**	100
SC Technology Deutschand GmbH	Germany	-	Waste treatment	Euro ordinary	**100**	100
Water 2 Business Ltd	England & Wales	08518831	Non-household water retailer	£1 ordinary	**70**	70
Wessex Concierge Ltd	England & Wales	10826537	Investment holding	£1 ordinary	**100**	100
Flipper Ltd	England & Wales	10826922	Utility switching services	£1 ordinary	**65**	65
Wessex Electricity Utilities Ltd*	England & Wales	06718971	Dormant	£1 ordinary	-	100
Wessex Engineering & Construction Services Ltd	England & Wales	03652435	Engineering services	£1 ordinary	**100**	100
Wessex Logistics Ltd*	England & Wales	02306465	Dormant	£1 ordinary	-	100
Wessex Promotions Ltd*	England & Wales	05421311	Dormant	£1 ordinary	-	1
Wessex Property Services Ltd*	England & Wales	02277590	Dormant	£1 ordinary	-	100
Wessex Spring Water Ltd*	England & Wales	02281033	Dormant	£1 ordinary	-	100
Wessex Water Commercial Ltd*	England & Wales	02372795	Dormant	£1 ordinary	-	100
Wessex Utility Solutions Ltd	England & Wales	06718997	Engineering services	£1 ordinary	**100**	100
Wessex Water Engineering Services Ltd	England & Wales	02286860	Dormant	£1 ordinary	**100**	100
Wessex Water Enterprises Ltd	England & Wales	02279151	Power generation and waste treatment	£1 ordinary	**100**	100

Notes to the financial statements *(continued)*

14. Investments in subsidiaries and joint ventures (continued)

	Country	Number	Principal activity	Shares held	2020 %	2019 %
Wessex Water Pension Scheme Trustee Ltd	England & Wales	03913589	Dormant	£1 ordinary	**100**	100
Wessex Water Services Ltd	England & Wales	02366648	Water supply and waste water services	£1 ordinary	**100**	100
Wessex Water Services Finance PLC	England & Wales	03704265	Issue of bonds	£1 ordinary	**100**	100
Wessex Water Trustee Company Ltd	England & Wales	02278257	Dormant	£1 ordinary	**100**	100
YTL Developments (UK) Ltd	England & Wales	10495341	Housing development	£1 ordinary	**100**	100
YTL Engineering Ltd	England & Wales	03696600	Dormant	£1 ordinary	**100**	100
YTL Homes Ltd	England & Wales	10017065	Housing development	£1 ordinary	**100**	100
YTL Places Ltd	England & Wales	10539227	Dormant	£1 ordinary	**100**	100
YTL Property Holdings (UK) Ltd	England & Wales	09676296	Housing development	£1 ordinary	**100**	100
Brabazon Estates Ltd	England & Wales	12374097	Dormant	-	**100**	-
YTL Services Ltd	England & Wales	02277608	Dormant	£1 ordinary	**100**	100
Group – joint venture						
Bristol Wessex Billing Services Ltd	England & Wales	04143955	Billing services	£1 A ordinary	**50**	50
Searchlight Collections Ltd	England & Wales	07940022	Billing services	£1 ordinary	**50**	50

The registered address of the England & Wales subsidiary companies is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW apart from Water 2 Business Ltd which is 21e Somerset Square, Nailsea, Bristol BS48 1RQ.

Bristol Wessex Billing Services Ltd is considered a Joint Venture because Wessex Water Ltd and Bristol Water Holdings Ltd each hold 50% of the equity share capital and voting rights of the company and as a result, it has no single controlling party. The registered address is 1 Clevedon Walk, Nailsea, Bristol BS48 1WA.

Searchlight Collections Ltd is considered a Joint Venture because it is a 100% owned subsidiary of Bristol Wessex Billing Services Ltd. The registered address is PO Box 930, Galmington Trading Estate, Cornishway West, Taunton, Somerset TA1 9LQ.

The dormant subsidiaries marked * were dissolved on 30 July 2019.

14. Investments in subsidiaries and joint ventures (continued)

Summary aggregated financial information on jointly controlled entity

	2020	2019
	£000	£000
Bristol Wessex Billing Services Ltd		
Assets	**3.7**	1.7
Liabilities	**(3.7)**	(1.7)
Profit/(loss)	**-**	-

Investment in Subsidiaries - Company

	2020	2019
	£m	£m
Carrying value at 1 July and 30 June	**351.3**	351.3

15. Investment properties

a) Measurement gains and losses

	2020	2019
	£m	£m
Balance at 1 July	**91.0**	85.4
Transfer to inventories	**(9.4)**	(4.4)
Transfer to infrastructure assets	**(1.1)**	(2.8)
Acquisitions	**9.3**	2.9
Net (loss)/gain from fair value measurement	**(1.1)**	9.9
Balance at 30 June	**88.7**	91.0

The Group's investment properties consist of land at Filton Airfield, Bristol and the Brabazon Hangars.

As at 30 June 2020, the fair values of the properties are based on valuations performed by Savills (UK) Limited, an accredited independent valuer. Savills (UK) Limited is a specialist in valuing these types of investment properties.

b) Operating gains and losses

	2020	2019
	£m	£m
Rental derived from investment properties	**1.1**	0.8
Direct operating expenses	**(3.2)**	(4.6)
	(2.1)	(3.8)

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties.

15. Investment properties *(continued)*

c) Description of valuation techniques used and key inputs to valuation of investment properties

	Valuation technique	Significant unobservable inputs	Range
Hangars	Capitalised Income	Estimated rental value per sq-ft per annum Net yield percentage Void periods	£1.50 - £3.00 9.1% 12 -24 Mths
Airfield	Transaction prices	Unit density per acre	18-28

In determining the fair value, the valuers have used valuation techniques which involve certain estimates. In relying on the valuation reports, the Group has exercised its judgement and is satisfied that the valuation methods and estimates are reflective of current market conditions. The valuation reports are prepared in accordance with recognised appraisal and International Valuation Standards. The estimates underlying the valuation techniques in the next financial year may differ from current estimates, which may result in valuations that may be materially different from the valuations as at reporting date.

In arriving at their valuation, the valuers have acknowledged the impact of Brexit but believe at a local level sentiment amongst developers and demand for both residential and commercial development land appears to be very strong.

Management have noted the valuation prepared by Savills (UK) Limited includes a material uncertainty clause relating to the market uncertainties created by the Covid19 pandemic. The inclusion of the 'material valuation uncertainty' declaration does not however mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Taking into consideration the existing and anticipated effects of the outbreak on the UK property market, and using all information at its disposal, management are satisfied that the valuation reflected in these statements is reasonable.

In making this assessment, management have reviewed the estimated cash flows for the development and the future rent roll which continue to support the valuation presented within the financial statements. Management are constantly monitoring market data which shows conditions have been strong since the Covid19 lockdown has been loosened, further justifying the valuation included in these statements.

d) *Fair value measurement*

The following table provides the fair value measurement hierarchy of the Group's investment properties.

	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value			
Filton Airfield/Brabazon Hangars	-	-	88.7

Notes to the financial statements *(continued)*

16. Inventories

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Land held for development	**14.1**	-	-	-
Raw materials and consumables	**4.4**	3.6	-	-
Work in progress	**1.5**	5.1	-	-
	20.0	8.7	-	-

There was no write-down of inventories to net realisable value in either year.

17. Trade and other receivables

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Amounts receivable from customers	**176.1**	186.3	-	-
Owed by subsidiary companies	-	-	**123.2**	121.1
Owed by other group companies	**4.0**	2.5	-	-
Owed by associate company	**1.9**	0.7	-	-
Contract cost assets	**4.7**	5.9	-	-
Prepayments	**11.0**	7.7	-	-
VAT debtors	**5.8**	9.0	-	-
Corporation Tax	**3.0**	-	-	-
Other debtors	**1.5**	-	-	-
	208.0	212.1	**123.2**	121.1

Amounts receivable from customers are expected to be recovered in no more than 12 months (see note 26b).

All outstanding related party receivable balances are owed on commercial terms and arise through normal business operations. The Group has considered the present value of the contractual cash flows and compared this to a prudent assessment of the present value of the cash flows that are expected to be received. Having performed this assessment, the Group has determined that no material expected credit loss provisions are required as at year-end for related party balances owed.

Contract cost assets

	2020 £m	2019 £m
Balance at 1 July	**5.9**	6.1
Incurred during the year	**4.4**	4.8
Recognised as costs during the year	**(5.6)**	(5.0)
Balance at 30 June	**4.7**	5.9

Notes to the financial statements *(continued)*

18. Cash and cash equivalents

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Current Assets				
Short-term bank deposits	**29.0**	-	-	-
Cash at bank	**8.2**	5.4	**0.5**	1.1
	37.2	5.4	**0.5**	1.1
Current liabilities				
Bank overdrafts	**(8.6)**	(3.8)	-	-

Other financial assets

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Current assets				
Term deposits	**98.0**	-	-	-

The Group and the Company seek to invest cash and cash equivalents safely and profitably with creditworthy local and offshore licensed banks. The local and offshore licensed banks have a credit rating of A1/P1 as rated by Moody's Investors Service, Inc., respectively. Term Deposits have an average maturity of 240 days.

Notes to the financial statements *(continued)*

19. Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and foreign currency risk, see note 26

	Group		**Company**	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Non-current liabilities				
Bank loans	**517.4**	434.1	**5.5**	-
Other loans	**10.5**	0.6	-	-
Lease liabilities	**1.8**	-	-	-
Loan from parent company	-	77.2	-	77.2
Loan from other group company	**169.9**	169.9	**169.9**	169.9
Bonds	**1,899.7**	1,631.3	-	-
	2,599.3	2,313.1	**175.4**	247.1
Current liabilities				
Short term bank borrowing	**7.9**	82.4	-	-
Other loans	-	9.8	-	-
Current portion of lease liabilities	**0.7**	-	-	-
	8.6	92.2	-	-

Terms and debt repayment schedule

	Currency	**Nominal interest rate**	**Year of maturity**	**Face value 2020**	**Carrying amount 2020**	Face value 2019	Carrying amount 2019
Long-term borrowing				**£m**	**£m**	£m	£m
Bank loans - EIB	Sterling	0.94%-2.16%	2021-25	**275.0**	**275.0**	275.0	275.0
Bank loans - KFW	Sterling	1.82%	2026	**192.0**	**190.4**	140.0	138.7
Bank loans - Other	Sterling	1.62%-1.82%	2021-23	**52.0**	**52.0**	20.4	20.4
Related party loans							
Loan from parent	Sterling	5.94%	2022	-	-	77.2	77.2
Loan from group	Sterling	3.94%	2022	**169.9**	**169.9**	169.9	169.9
Bonds							
Bond	Sterling	5.38%	2028	**200.0**	**198.8**	200.0	198.7
Bond	Sterling	5.75%	2033	**350.0**	**346.5**	350.0	346.3
Bond	Sterling	4.00%	2021	**200.0**	**199.7**	200.0	199.4
Bond	Sterling	4.00%	2021	**100.0**	**101.1**	100.0	102.0
Bond	Sterling	1.50%	2029	**250.0**	**247.7**	-	-
Index Linked Bond	Sterling	5.90%	2023	**50.0**	**82.7**	50.0	80.5
Index Linked Bond	Sterling	3.00%	2039	**50.0**	**68.4**	50.0	66.6
Index Linked Bond	Sterling	2.63%	2046	**75.0**	**111.3**	75.0	108.3
Index Linked Bond	Sterling	2.63%	2051	**75.0**	**111.3**	75.0	108.3
Index Linked Bond	Sterling	2.06%	2057	**75.0**	**111.3**	75.0	108.3
Index Linked Bond	Sterling	2.07%	2057	**75.0**	**111.2**	75.0	108.3
Index Linked Bond	Sterling	2.08%	2058	**50.0**	**69.9**	50.0	68.2
Index Linked Bond	Sterling	2.09%	2058	**50.0**	**69.9**	50.0	68.2
Index Linked Bond	Sterling	2.09%	2058	**50.0**	**69.9**	50.0	68.2
Other loans	Sterling	5.77%	2026	**10.5**	**10.5**	0.6	0.6
Short-term borrowing							
Bank loans	Sterling	1.62%-1.82%	2020-21	**8.0**	**7.9**	82.4	82.4
Other loans	Sterling	2.52%	2020-21	-	-	9.8	9.8
				2,357.4	**2,605.4**	2,175.3	2,405.3

Notes to the financial statements (continued)

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

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

Lease liabilities

	Minimum lease payments 2020 £m	Interest 2020 £m	Principal 2020 £m
Less than one year	**0.7**	**-**	**0.7**
Between one and five years	**0.9**	**(0.1)**	**0.8**
More than five years	**1.5**	**(0.5)**	**1.0**
	3.1	**(0.6)**	**2.5**

Changes in liabilities arising from financing activities:

Group	**1st July 2019**	**Cash flows**	**Loan interest waiver**	**Transition to IFRS 16 Leases**	**New leases**	**Other**	**30th June 2020**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Current interest-bearing loans and borrowings (excluding items listed below)	92.2	(60.0)	-	-	-	(24.3)	7.9
Current obligations under leases and hire purchase contracts	-	(0.9)	-	1.6	-	-	0.7
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,313.1	316.1	(78.7)	-	-	47.0	2,597.5
Non-current obligations under leases and hire purchase contracts	-	-	-	1.2	0.6	-	1.8
Total liabilities from financing activities	**2,405.3**	**255.2**	**(78.7)**	**2.8**	**0.6**	**22.7**	**2,607.9**

Group	1st July 2018	Cash flows	Reclassi-fied on disposal	Transition To IFRS 16 Leases	New leases	Other	30th June 2019
	£m	£m	£m	£m	£m	£m	£m
Current interest-bearing loans and borrowings (excluding items listed below)	149.9	(81.3)	-	-	-	23.6	92.2
Current obligations under leases and hire purchase contracts	1.4	(1.4)	-	-	-	-	-
Non-current interest-bearing loans and borrowings (excluding items listed below)	2,164.1	144.6	-	-	-	4.4	2,313.1
Non-current obligations under leases and hire purchase contracts	-	-	-	-	-	-	-
Total liabilities from financing activities	2,315.4	61.9	-	-	-	28.0	2,405.3

The 'Other' column includes the effect of reclassification of the non-current portion of interest-bearing loans and borrowings, including obligations under leases and hire purchase contracts to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The group classifies interest paid as cash flows from financing activities.

Notes to the financial statements *(continued)*

20. Trade and other payables

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Current				
Trade payables	**12.3**	26.3	-	-
Owed to immediate holding company	**12.8**	23.4	**12.8**	23.4
Owed to subsidiary companies	-	-	**99.4**	100.9
Owed to other group companies	**98.6**	95.4	**98.5**	95.0
Owed to associate company	**1.5**	0.2	**1.5**	-
Dividend	-	-	-	-
Other creditors	**1.6**	3.3	-	-
Corporation tax	-	10.6	-	-
Taxation and social security	**4.5**	3.3	-	-
Accrued expenses	**85.8**	94.2	**0.7**	0.7
Contract liabilities	**56.2**	53.8	-	-
	273.3	310.5	**212.9**	220.0
Non-current				
Contract liabilities	**5.0**	5.0	-	-
	278.3	315.5	**212.9**	220.0

Our standard payment terms for trade payables is end of month plus 30 days. Corporation tax is paid quarterly, other taxation is normally payable within one month.

Analysis of contract liabilities

	2020 £m	2019 £m
At 1 July	**58.8**	54.3
Deferred during the year	**142.0**	153.8
Recognised as revenue during the year	**(139.6)**	(149.3)
At 30 June	**61.2**	58.8

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months. Non-current contract liabilities relate to performance obligations due to be settled over a 15-year period.

21. Employee benefits

Pension Plans

Defined Benefit Plans

	2020 £m	2019 £m
Fair value of scheme assets	**675.0**	646.3
Present value of defined benefit obligations	**(839.1)**	(776.3)
Net (liability) for defined benefit obligations	**(164.1)**	(130.0)
Unfunded and compensatory added years pension	**(1.0)**	(1.1)
Total employee benefits	**(165.1)**	(131.1)

The Group sponsors a funded defined benefit pension plan for qualifying UK employees. The plan is administered by a separate board of Trustees which is legally separate from the Group. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

Under the plan, employees are entitled to annual pensions on retirement using an accrual rate, final pensionable salary and service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Liabilities for an unfunded arrangement and a compensatory payment for added years' service are held outside the defined benefit scheme. The Group also operates a defined contribution section within the main pension scheme.

a. Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 27% of the liabilities are attributable to current employees, 16% to former employees and 57% to current pensioners. The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 17-18 years reflecting the approximate split of the defined benefit obligation between current employees (duration of c24 years), deferred members (duration of c24 years) and current pensioners (duration of c13 years).

b. Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme was carried out by a qualified actuary as at 30 September 2019 and showed a deficit of £157.0 million. The Group is paying deficit contributions of:

- £13.04m by 1 August 2020; £14.80m by 1 July 2021; £16.60m by 1 July 2022
- £18.40m by 1 July 2023; £20.20m by 1 July 2024; £22.00m by 1 July 2025
- £23.80m by 1 April 2026;

which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 1 April 2026.

The next funding valuation is due no later than 30 September 2022 at which progress towards full funding will be reviewed.

The Group also pays contributions of 21.7%, increasing to 24.6% from 1 April 2021, of pensionable salaries in respect of current accrual and non-investment related expenses, with active members paying a further 7.4% of pensionable salaries on average. A contribution of £13.04m is expected to be paid by the Group during the year ending on 30 June 2021.

21. Employee benefits *(continued)*

c. Risks associated with the Scheme

Asset volatility - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities including a diversified growth fund and a global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long-term objectives.

Changes in bond yields - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk - The majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The Trustees insure certain benefits payable on death before retirement.

d. Reporting at 30 June 2020

The results of the latest funding valuation at 30 September 2019 have been adjusted to the balance sheet date taking account of experience over the period since 30 September 2019, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service cost, were measured using the Projected Unit Cost Method.

The principal assumptions used to calculate the liabilities under IAS 19 are set out below. The major assumptions used by the actuary were:

	30.06.20	30.06.19
Rate of increase in salaries – year 1	**1.8%**	1.7%
Rate of increase in salaries – year 2	**n/a**	n/a
Rate of increase in salaries – long term	**1.8%**	1.7%
Rate of increase in pensions		
- WWPS and 1/80ths members	**2.6%**	3.0%
- MIS members	**2.2%**	2.1%
- Reduced level members	**2.0%**	2.2%
- Post 88 GMP	**1.9%**	1.9%
Discount rate	**1.6%**	2.3%
Inflation assumption – RPI	**2.7%**	3.1%
Inflation assumption – CPI	**2.2%**	2.1%

Notes to the financial statements *(continued)*

21. Employee benefits *(continued)*

Mortality assumptions:
The mortality assumptions are based upon the recent actual mortality experience of Scheme members and allow for expected future improvements in mortality rates.

	2020 Male years	**2020 Female years**	2019 Male years	2019 Female years
Life expectancy - current age 60	**25.9**	**28.3**	26.2	28.3
Life expectancy - current age 40	**47.0**	**49.5**	47.4	49.5

The mortality table adopted is based upon 105% of standard tables S3P(M/F)A adjusted to allow for individual years of birth. Future improvements are assumed to be in line with the CMI 2018 core projection, with a long-term improvement rate of 1.0% p.a. for all members.

Sensitivity analysis:

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions are used, this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions are set out below. For the purposes of these sensitivities it has been assumed that the change in the discount rate and inflation has no impact on the value of Scheme assets.

- A reduction in the discount rate of 0.1% from 1.6% to 1.5% would increase the scheme liabilities by £15.2m from £839.1m to £854.3m, increasing the scheme deficit to £179.3m.

- An increase in the inflation assumption of 0.1% (from 2.2% to 2.3% for CPI and 2.7% to 2.8% for RPI) would increase the scheme liabilities by £13.4m from £839.1m to £852.5m, increasing the scheme deficit to £177.5m.

- An increase in life expectancy of 1 year would increase the scheme liabilities by £34.7m from £839.1m to £873.8m, increasing the scheme deficit to £198.8m.

e. The value of the assets as follows:

	2020 £m	2019 £m
Equities	**216.9**	254.5
Property	**36.8**	36.5
Government Bonds	**225.7**	199.6
Corporate Bonds	**144.3**	143.8
Other	**51.3**	11.9
	675.0	646.3

All assets are quoted in an active market expect those classed as "Property" and "Other".

Notes to the financial statements *(continued)*

21. Employee benefits *(continued)*

f. The amounts recognised in comprehensive income are set out below:

	2020 £m	2019 £m
Operating cost – service cost		
Current service cost	**10.7**	10.4
Administration expenses	**0.7**	0.5
Past service cost / (credit)	**-**	0.5
Financing cost		
Interest on net benefit liability	**3.0**	3.5
Pension expense / (credit) recognised in profit and loss	**14.4**	14.9
Re-measurements in Other Comprehensive Income (OCI)		
Return on plan assets (in excess of) that recognised in net interest	**(17.7)**	(22.8)
Actuarial losses due to changes in financial assumptions	**60.7**	61.4
Actuarial (gains) due to changes in demographic assumptions	**(13.9)**	(27.4)
Actuarial losses/(gains) due to liability experience	**14.2**	(1.4)
Losses recognised in OCI	**43.3**	9.8
Losses recognised in profit and loss and OCI	**57.7**	24.7

g. Changes to the present value of the defined benefit obligations during the year:

	2020 £m	2019 £m
Opening defined benefit obligation	**776.3**	739.5
Current service cost	**10.7**	10.4
Interest expense on defined benefit obligation	**18.0**	20.8
Contributions by scheme participants	**0.1**	0.2
Actuarial (gains) due to changes in demographic assumptions	**(13.9)**	(27.4)
Actuarial losses due to changes in financial assumptions	**60.7**	61.4
Actuarial losses/(gains) losses due to liability experience	**14.2**	(1.4)
Net benefits paid out	**(27.0)**	(27.7)
Past service cost / (credit)	**-**	0.5
Closing defined benefit obligation	**839.1**	776.3

21. Employee benefits *(continued)*

h. Changes to the fair value of scheme assets during the year:

	2020 £m	2019 £m
Opening fair value of scheme assets	**646.3**	613.8
Interest income on scheme assets	**15.0**	17.3
Re-measurement gains on scheme assets	**17.7**	22.8
Contributions by employer	**23.6**	20.4
Contributions by scheme participants	**0.1**	0.2
Net benefits paid out	**(27.0)**	(27.7)
Administration costs incurred	**(0.7)**	(0.5)
Closing fair value of scheme assets	**675.0**	646.3

i. Additional analysis:

	2020 £m	2019 £m
Actual return on scheme assets		
Interest income on scheme assets	**15.0**	17.3
Re-measurement gains on scheme assets	**17.7**	22.8
Actual return on scheme assets	**32.7**	40.1
Analysis of amounts recognised in Other Comprehensive Income		
Total re-measurement (losses) / gains	**(43.3)**	(9.8)
Total (loss) / gain	**(43.3)**	(9.8)

Defined contribution plans

The Group also operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £6.0m (2019 - £4.7m).

21. Employee benefits *(continued)*

Share-based payments

YTL Power International Berhad (a subsidiary of the ultimate parent company YTL Corporation Berhad) operates share option schemes under which options are granted to employees of the Group. The current scheme the "YTL Power International Berhad Employees Share Option Scheme 2011" first issued share options to employees on 1 June 2012. The terms of the 2011 scheme are specified under the YTL Power International Berhad Employees Share Option Scheme 2011 (2011 UK part) known as the "2011 UK Plan".

The majority of options have been issued under terms approved by the Inland Revenue, the "Approved" scheme, but some have been issued to senior employees under an "Unapproved" scheme. The options are for ordinary shares of YTL Power International Berhad of Malaysian Ringgit RM0.50 each.

2011 UK Plan

The exercise price and fair value of the share options are as follows:

Granted – Ordinary shares of RM0.50 each	Vesting date	Expiry date	Exercise price RM	Fair value RM
01/06/2012 Unapproved	01/06/2015	31/03/2021	1.38	0.22
01/06/2012 Approved	01/06/2015	31/03/2021	1.65	0.16

Under IFRS 2 equity settled share-based payments are measured at the fair value at the date of the grant, and the fair value is expensed on a straight-line basis over the vesting period. There was no charge recognised in the profit and loss account for IFRS 2 as the share options have passed their vesting date. The key assumptions were as follows:

Scheme	Weighted avg. share price at grant RM	Expected volatility %	Expected option life years	Risk free rate %	Dividend yield %
01/06/2012 Unapproved	1.63	21.2	3	3.14	5.6
01/06/2012 Approved	1.63	21.2	3	3.14	5.6

The following options were outstanding at 30 June 2019 and 30 June 2020:

Granted – Ordinary shares of RM0.50 each	Outstanding at 30 June 2019	Granted	Forfeited	Exercised	Outstanding at 30 June 2020
01/06/2012 Unapproved	7,396,000	-	(1,417,000)	-	5,879,000
01/06/2012 Approved	35,991,000	-	(627,000)	-	35,364,000
Total	43,387,000	-	(2,044,000)	-	41,343,000

The share price at 30 June 2020 was RM0.67 or £0.13

22. Deferred grants & contributions

	Requisitions £m	Other contributions £m	Sewer adoptions £m	Infrastructure charges £m	Total £m
Balance at 1 July 2018	29.7	31.9	85.0	125.1	271.7
Received during the year	1.0	(0.7)	10.6	4.5	15.4
Amortisation	(0.2)	(0.5)	(0.9)	(1.2)	(2.8)
Balance at 30 June 2019	**30.5**	**30.7**	**94.7**	**128.4**	**284.3**
Balance at 1 July 2019	30.5	30.7	94.7	128.4	284.3
Received during the year	2.9	1.4	17.3	4.5	26.1
Amortisation	(0.3)	(0.6)	(1.0)	(1.2)	(3.1)
Balance at 30 June 2020	**33.1**	**31.5**	**111.0**	**131.7**	**307.3**

23. Provisions

Group

	Restructuring £m
Balance at 1 July 2019	1.2
Provisions made during the year	0.3
Provisions used during the year	(1.4)
Balance at 30 June 2020	**0.1**
Non-current	-
Current	0.1
Balance at 30 June 2020	**0.1**

The restructuring provision is in respect of a reorganisation announced during the prior year, delivering efficiencies in the last year of the AMP 6 price review period and beyond.

In the ordinary course of business, the Group is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Group being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

Notes to the financial statements *(continued)*

24. Deferred tax assets and liabilities - Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Liabilities		Assets		Net	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Property, plant and equipment	**483.3**	422.4	**(31.4)**	(24.4)	**451.9**	398.0
Employee benefits	-	-	**(31.2)**	(22.4)	**(31.2)**	(22.4)
Tax (assets) / liabilities	**483.3**	422.4	**(62.6)**	(46.8)	**420.7**	375.6
Net of tax liabilities/(assets)	**(62.6)**	(46.8)	**62.6**	46.8	-	-
Net tax (assets) / liabilities	**420.7**	375.6	-	-	**420.7**	375.6

Movement in deferred tax during the year

	1 July 2019 £m	**Recognised in income £m**	**Recognised in other comprehen -sive income £m**	**30 June 2020 £m**
Property, plant and equipment	398.0	40.4	14.5	**452.9**
Employee benefits	(22.4)	(0.6)	(9.2)	**(32.2)**
Provisions	-	-	-	-
	375.6	39.8	5.3	**420.7**

Movement in deferred tax during the prior year

	1 July 2018 £m	**Recognised in income £m**	**Recognised in other comprehen -sive income £m**	**30 June 2019 £m**
Property, plant and equipment	390.1	7.9	-	**398.0**
Employee benefits	(21.7)	1.0	(1.7)	**(22.4)**
Provisions	-	-	-	-
	368.4	8.9	(1.7)	**375.6**

25. Capital and Reserves

Share capital
Ordinary shares

	2020	2019
	£	£
Authorised		
100 Ordinary shares of £1 each	**100**	100
	100	100

	2020	2019
	£	£
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2
Shares classified in shareholders' funds	**2**	2

Non-controlling interests
Non-controlling interests in the equity of subsidiary companies are as follows:

Company	**Share of gains or (losses)**	
	2020	2019
	£m	£m
Balance at 1 July	**(1.3)**	(0.6)
Water 2 Business Ltd	**(1.1)**	0.3
Albion Water Limited	**(0.6)**	(0.5)
Flipper Limited	**(0.4)**	(0.5)
Balance at 30 June	**(3.4)**	(1.3)

26. 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 or discounted cash flow techniques.

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 value of long term bonds is classified as level 1 in the IFRS 13 fair value hierarchy and have a carrying value of £1,899.7m and a fair value of £2,473.3m. Bank loans and overdrafts are classified as level 2 and have a carrying value of £525.3m and fair value of £526.1mm. Parent and other group company loans are classified as level 2 and have a carrying and fair value of £169.9m. All other loans are classified as level 2 and have a carrying and fair value of £10.5m.

It is the Group's policy to recognise all the transfers into the levels and transfers out of the levels at the date of the event or change in circumstances that caused the transfer. No liabilities are classified as level 3.

Notes to the financial statements *(continued)*

26. Financial instruments *(continued)*

(a) Fair values of financial instruments

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

	Carrying amount 2020	**Fair value 2020**	**Level 1 2020**	**Level 2 2020**	Carrying amount 2019	Fair value 2019	Level 1 2019	Level 2 2019
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial liabilities								
Interest-bearing loans and borrowings:								
Fixed rate borrowings	**1,193.8**	**1,448.4**	**1,346.8**	**101.6**	946.4	1,180.0	1,080.0	100.0
Floating rate borrowings	**605.7**	**605.7**	**-**	**605.7**	674.0	674.0	-	674.0
Indexed-linked borrowings	**805.9**	**1,126.4**	**1,126.4**	**-**	784.9	1,128.5	1,128.5	-
Total financial liabilities	**2,605.4**	**3,180.6**	**2,473.3**	**707.3**	2,405.3	2,982.5	2,208.5	774.0

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.

(b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities.

Other financial assets are short term deposits with terms of more than three months. The counterparties have a credit rating of A1+/P1 or A1/P1, and hence there is no exposure to credit risk for these values.

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
	£m	£m
Other financial assets	**98.0**	-
Cash and cash equivalents	**37.2**	5.4
	135.2	5.4

The concentration of credit risk for amounts receivable from customers at the balance sheet date by geographic region was:

South West England	**175.4**	185.1
South East England	**0.2**	0.2
Netherlands	**0.5**	0.8
	176.1	186.1

Notes to the financial statements *(continued)*

26. Financial instruments *(continued)*

Billed and unbilled receivables are from domestic and business customers. No individual customer or industrial sector has a material balance outstanding at either year end.

Set out below is the information about the credit risk exposure on the Group's receivables from customers using a provision matrix:

Amounts receivable from customers

	2020	2019
	£m	£m
Billed receivables	**131.7**	127.4
Unbilled receivables	**92.3**	101.3
Expected credit losses	**(47.9)**	(42.6)
	176.1	186.1

	Gross 2020 £m	ECL rate 2020 %	ECL 2020 £m
Less than 1 year	**158.6**	**6.6%**	**(10.4)**
1 to 2 years	**20.8**	**34.6%**	**(7.2)**
2 to 3 years	**16.0**	**44.4%**	**(7.1)**
3 to 4 years	**14.0**	**61.4%**	**(8.6)**
More than 4 years	**14.6**	**100.0%**	**(14.6)**
	224.0	**21.4%**	**(47.9)**

	Gross 2019 £m	ECL rate 2019 %	ECL 2019 £m
Less than 1 year	164.5	4.6%	(7.5)
1 to 2 years	21.6	31.5%	(6.8)
2 to 3 years	15.5	41.9%	(6.5)
3 to 4 years	13.1	59.5%	(7.8)
More than 4 years	14.0	100.0%	(14.0)
	228.7	18.6%	(42.6)

	Measured Billing			**Unmeasured Billing**		
Payment Method	**Direct Debit %**	**Normal %**	**Other %**	**Direct Debit %**	**Normal %**	**Other %**
Less than 1 year	3.3%	9.9%	16.9%	6.7%	14.9%	28.1%
1 to 2 years	5.8%	27.6%	24.7%	2.5%	26.9%	51.2%
2 to 3 years	0.8%	37.7%	36.3%	0.0%	35.2%	67.0%
3 to 4 years	9.7%	51.5%	50.3%	0.0%	52.9%	68.2%
More than 4 years	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The expected credit loss policy is shown in the accounting policies (note 1).

26. Financial instruments *(continued)*

The movement in the provision for bad debts in respect of trade receivables during the year was as follows:

	2020 £m	2019 £m
Balance at 1 July	**(42.6)**	(39.6)
Written off	**15.0**	11.0
Non-payers subsequently becoming payers	**1.2**	(0.9)
Charge to profit and loss	**(21.5)**	(13.1)
Balance at 30 June	**(47.9)**	(42.6)

(c) Cash flow hedges

The Group does not have any cash flow hedges (2019 – none).

(d) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The main subsidiary of the Group 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. The Group has also secured long-term funding through bonds issued by its subsidiary company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one regulatory period.

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

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2020 £m	2020 £m	2020 £m	2020 £m	2020 £m
Non derivative financial instruments					
Bank overdraft	**8.6**	**8.6**	**8.6**	**-**	**-**
Lease liabilities	**2.5**	**3.1**	**0.7**	**0.9**	**1.5**
Secured bank loans	**535.8**	**569.5**	**16.7**	**424.1**	**128.7**
Parent company loans	**169.9**	**182.5**	**6.3**	**176.2**	**-**
Listed Bonds	**1,899.7**	**3,855.5**	**61.6**	**598.2**	**3,195.7**
Total financial instruments	**2,616.5**	**4,619.2**	**93.9**	**1,199.4**	**3,325.9**

Notes to the financial statements *(continued)*

26. Financial instruments *(continued)*

	Carrying amount	Contractual cash flows	Year 1	Years 2 to 5	Over 5 years
	2019	2019	2019	2019	2019
	£m	£m	£m	£m	£m
Non derivative financial instruments					
Bank overdraft	3.8	3.8	3.8	-	-
Lease liabilities	-	-	-	-	-
Secured bank loans	526.9	566.9	101.2	309.8	155.9
Parent company loans	247.1	280.5	12.0	268.5	-
Listed Bonds	1,631.3	3,973.4	57.7	602.2	3,313.5
Total financial instruments	2,409.1	4,824.6	174.7	1,180.5	3,469.4

(e) Market risk

There is minimal exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

At the year end the interest rate profile of the Group's interest-bearing financial instruments was:

	2020	2019
	£m	£m
Fixed rate instruments	**1,193.8**	946.4
Floating rate instruments	**616.8**	677.8
Index linked instruments	**805.9**	784.9
	2,616.5	2,409.1

The Group policy is to keep a significant proportion of total financial instruments in each of the three categories.

Sensitivity

Interest rate sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £6.2m.

Inflation sensitivity

Index linked bonds are sensitive to movements in the inflation rate. A 1% increase in the inflation rate at the balance sheet date would result in an additional interest charge to the income statement of £8.1m.

Notes to the financial statements *(continued)*

27. Capital Management

For the purpose of the Group'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 Group's capital management is to maximise the shareholder value.

The Group 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 Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio for the principle subsidiary Wessex Water Services Ltd (WWSL), which is net debt divided by Regulatory Capital Value (RCV). The Group's policy is to keep the gearing ratio of WWSL below 70%. The Group includes within net debt, interest bearing loans and borrowings, less cash and short-term deposits, excluding discontinued operations.

	2020	2019
	£m	£m
	WWSL	WWSL
Cash at bank	**(3.3)**	2.1
Short term deposits	**(127.0)**	-
Bank Loans	**473.4**	473.7
Leases	**1.5**	-
Bonds	**1,899.7**	1,631.3
Total Net Debt	**2,244.3**	2,107.1
RCV at 30 June	**3,344.0**	3,263.0
Gearing	**67%**	65%

The RCV for each Regulated Water and Sewerage Company is publish by Ofwat here:
https://www.ofwat.gov.uk/publication/regulatory-capital-values-2020/

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2020 and 2019.

Notes to the financial statements *(continued)*

28. Commitments

Capital commitments

Group

Capital expenditure contracted but not provided at 30 June 2020 was £73.9m (2019 - £100.6m).

The Group has guaranteed Bonds of £1,899.7m (2019 - £1,631.3m) issued by its wholly owned subsidiary company Wessex Water Services Finance Plc.

Wessex Water Ltd has provided performance guarantees on behalf of subsidiary companies of £1.3m (2019 - £1.4m).

Made by	Beneficiary	Amount (£m)	Expiry date
SCT Ned BV	Ministry of Housing	0.3	N/A
GENeco (SW) Ltd	Bristol City Council	0.5	N/A
Wessex Water Ltd	NNB Generation Co.	0.3	N/A
Wessex Water Services Ltd	Somerset County Council	0.1	N/A
Wessex Water Services Ltd	Highways England Co Ltd	0.2	31/03/2025

29. Contingencies

Claims under the Environmental Information Regulations 2001 (EIR)

The Group has been notified of potential claims under the EIR relating to charges levied for drainage and water searches carried out since 2004, by a subsidiary company Wessex Water Enterprises Ltd, which it is argued should have been provided free of charge. The potential value of the claims is unclear, as very little detail has been provided, however we intend to defend all of the claims.

30. Significant transactions with related parties

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Sales of goods and services:				
Other group companies	**0.8**	1.1	-	-
Dividend income:				
Subsidiaries	-	-	**87.0**	99.0
Interest income:				
Subsidiaries	-	-	**0.2**	-
Interest expense:				
Subsidiaries	-	-	**1.5**	1.5
Other group companies	**8.1**	11.0	**8.1**	11.0
Purchase of goods and services from subsidiaries:				
Management services	-	-	**0.6**	-
Purchase of goods and services from other group companies:				
Hotel and accommodation	-	-	-	-
Telecommunications related charges	**0.3**	0.4	-	-
Purchase of goods and services from associate company				
Billing and debt collection	**10.2**	10.5	-	-
Purchase of goods and services from joint venture companies:				
Information technology consultancy	**1.9**	2.0	-	-
Year-end balances owing by:				
Subsidiaries	-	-	**123.2**	121.1
Other group companies	**4.0**	2.5	-	-
Associated company	**1.9**	0.7	-	-
Year-end balances owing to:				
Immediate holding company	**12.8**	23.4	**12.8**	23.4
Subsidiaries	-	-	**99.4**	100.9
Other group companies	**268.4**	342.5	**268.4**	342.1
Associated company	**1.7**	0.2	**1.5**	-

There were no transactions with key management personnel.

Directors' emoluments have been disclosed in the Directors' Report.

There have been no transactions with pre-penultimate, penultimate and ultimate holding companies described in note 32.

All other transactions with related parties and balances at the year-end are summarised in the table above.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

31. Ultimate parent company and parent company of larger group

The Company is controlled by YTL Utilities Holdings Ltd, the immediate holding company, registered in the Cayman Islands.

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 Yeoh Tiong Lay Plaza, 55 Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia.

32. Subsequent events

The final dividend for the year of £12.8m was declared in June 2020 and paid in July 2020.

33. Accounting estimates and judgements

In preparing the financial statements and applying the accounting policies, the Group is required to make reasonable estimates and judgements based on the available information, the most significant of which are;

Significant estimates

a) Defined benefit pension scheme deficit

In recognising the deficit on the balance sheet there are a number of assumptions concerning inflation, rate of increase of salaries and pensions, mortality rates and interest rates that can have a significant effect on the deficit recorded. These assumptions are discussed with independent qualified actuaries and disclosed in note 21 to the financial statements.

b) Expected credit loss provision

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved. In particular for the year ended 30 June 2020 this has included additional considerations of the possible impact of the COVID-19 pandemic on the expected collection rates of outstanding receivables at the balance sheet date. These assumptions are discussed in note 26.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated based on previous customer volume usage adjusted for seasonality and regulatory price changes.

d) Asset lives

Assets recorded in the Group's fixed asset register are depreciated systematically using asset lives assigned to the classification of the asset into a number of standard asset types. These asset lives are subject to review based on historical performance, new technologies or new areas of capital investment.

e) Investment properties

The group carries its investment properties at fair value, with changes in fair value being recognised in the income statement. For investment properties, a valuation methodology is adopted which involves comparison to developments of a similar nature, location and condition. The Group engaged an independent valuation specialist to assess fair values as at 30 June 2020.

33. Accounting estimates and judgements *(continued)*

Other estimates

f) Leases – Incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs (such as market interest rates) when available.

Significant judgements

g) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. These judgements are based on engineering experience of differentiating between treatment as a 'repair' or a 'replacement' of an infrastructure asset. The Group follows both accounting standards and guidelines issued by Ofwat in making these judgements.