

**XYLEM WATER HOLDINGS LIMITED**

**Annual Report and Consolidated Financial Statements**

**For the year ended 31 December 2020**



**Company number: 07618426**

**XYLEM WATER HOLDINGS LIMITED**  
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**XYLEM WATER HOLDINGS LIMITED**  
**COMPANY INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**DIRECTORS**

M A Turner  
I L Thompson  
P A Morris  
L J Bentley  
K A Knight

**SECRETARY**

N A Tancred

**REGISTERED OFFICE**

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Nottingham  
NG4 2AN  
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**AUDITOR**

Deloitte LLP  
Statutory Auditor  
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**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present their strategic report for the year ended 31 December 2020.

**PRINCIPAL ACTIVITIES**

The Group's principal activities are as follows:

**Xylem Water Solutions UK Limited:** the transport and treatment of water, including the design, supply, rental and service of fluid handling equipment and the supply and installation of clean water treatments using UV, Ozone, filtration and aeration products. The company distributes brands including Flygt waste-water pumps, Lowara clean water pumps, Jabsco products for the leisure marine market including water system, engine cooling pumps, searchlights and marine waste systems, and Sanitaire aeration, Leopold filtration and Wedeco UV and Ozone treatment products.

**Water Process Limited:** the provision of filtration and separation equipment to the water treatment industry and to the food and beverage processing industry.

**Xylem Dewatering Solutions UK Limited:** the design, manufacture and distribution of pumps on a worldwide basis. The majority of sales are made to another group company within Europe, Xylem Europe GmbH.

**Xylem Water Solutions Rugby Limited:** the provision of project management services to other Xylem companies under the Centre of Excellence (COE) Model, providing a supporting role to other Xylem entities in the tendering and execution of projects involving Xylem core products for which the local Xylem companies do not have the core skill base.

**Bellingham & Stanley Limited:** the design, development, manufacture and in-service support of opto-mechanical and digital Refractometers and Polarimeters.

**Xylem Water Services Limited:** the provision of support services, including debt collection, credit control services, quality control and administrative services, to the Xylem UK operating companies.

**REVIEW OF BUSINESS**

Group turnover decreased in the year by 8.4% from £219,628k to £201,226k. Group operating loss decreased by 10.5% to £4,480k compared to a loss of £5,003k in the prior year.

During the year, the Xylem UK Pension Plan (XUPP) plan entered into a 'buy-in' arrangement with an insurance company. With effect from 27 January 2020, when the risk was formally transferred, the bulk of the plan's assets were used to purchase annuities in the name of the Trustee to cover most of the plan's liabilities. As a result, the Group paid additional contributions over 2020. The Group made gross contributions of £6,972k (2019: £1,100k) to the scheme whilst receiving credits from another group company of £2,440k (2019: £283k). The contributions to be paid to the scheme for 2021 are expected to be £2,040k.

On 1 July 2020, due to the impact of COVID-19 pandemic, Brexit and the cyclical nature of our business, the directors announced that the site in Farnborough was to close in September 2020. The Group regrettably made a small number of redundancies. Redundancy costs of £292k have been included within these financial statements in relation to this closure.

In accordance with Xylem's strategy to develop manufacturing centres of excellence, optimize our footprint and remain competitive in the marketplace to better serve our customers, the directors announced on 15 September 2020 changes to our Speciality Flow (SFC) site in Hoddesdon. The SFC production will move to Hungary during 2021/22 but to maintain our SFC support in the UK. Redundancy costs of £1,582k have been included within these financial statements in relation to this decision. In addition to these costs, the lease of the building at Hoddesdon is due to be surrendered, resulting in an onerous lease provision amounting to £1,627k.

The resulting loss for the year after interest and taxation amounted to £6,658k compared to a loss of £10,451k in 2019. Defined benefit pension liabilities increased from £10,368k to £16,574k in the year, resulting in net liabilities of £14,349k compared to net assets of £2,165k in 2019.

**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**IMPACT OF COVID-19 PANDEMIC**

Throughout 2020 the business was impacted by reduced volume, the directors believe this to be caused by the uncertainty in the market place associated with the COVID-19 pandemic, many customers are delaying investment in new pumps, instead opting to repair existing fleets until the financial landscape and impacts of the Pandemic become clearer. In addition supply chains have been impacted where COVID-19 pandemic restrictions have meant some links in the supply chain have been required to temporarily close or there have been delays with shipping and border crossings, this has generated increased costs as alternate suppliers have needed to be sourced at short notice. Increased freight costs have been incurred as we have looked to over-come the impact from shipping delays. The business has also invested heavily in ensuring that our factories are COVID-19 pandemic safe for all our workers, this has enabled the factories to stay open and operational throughout the pandemic.

During the year, the group received £129k from HMRC in relation to employees who were placed on furlough during the Covid-19 pandemic. In addition, the Group deferred the payment of VAT during March to July 2020 amounting to £3,293k as part of UK government business initiative to help the cashflow of UK businesses. In April 2021, the Group enrolled on the HMRC direct debit instalment scheme to repay this balance before the end of 2021.

2021 to date has seen a significant rebound from where the business finished 2020. Volumes are significantly above 2021 forecasts. Backlog is strong for the remainder of the year indicating the business should deliver good growth in 2021. 2021 to date has seen a significant upside versus 2020 in the Building Services business. Municipal and Industry Business is facing some challenges due to tough market conditions. It is expected that the outlook for 2021 is to deliver some growth. The main challenges for 2nd half of 2021 include increased raw material charges, Increased freight charges and global component shortages.

**KEY PERFORMANCE INDICATORS**

The Directors utilise various KPIs in order to measure the performance of the business against competitors and previous periods:

	<b>2020</b>	<b>2019</b>
EBITDA % of Turnover <sup>(i)</sup>	3.0%	2.6%
EBITDA per employee (£'000) <sup>(i)</sup>	£7	£7
Turnover per employee (£'000)	£247	£257

<sup>(i)</sup> EBITDA is earnings before defined benefit pension credits, interest, tax, depreciation, amortisation impairments.

Turnover decreased in the year by 8.4% from £219,628k to £201,226k, with an increase in EBITDA of 5.0% from £5,746k to £6,033k, resulting in an increase in the EBITDA % of turnover by 0.4%. Turnover per employee decreased by £10k due to the reduction in turnover despite the number of employees decreasing in the year by 39. EBITDA per employee has remained consistent at £7k.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks of the Group are defined below. The directors of the Group have reviewed these risks and have outlined below the actions taken to mitigate the potential impact.

*Brexit*

The Group trades within the European Union and works closely with other group companies which are based within the European Union. As a result, the Brexit referendum has created potential risks and uncertainties, specifically around the economic landscape within Europe.

**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

*Brexit (continued)*

We continue to monitor the impacts of Brexit on our supply chain, operations and financial results. On 24 December 2020, the UK and the EU reached agreement on a Trade and Cooperation Agreement (the TCA) setting out their future relationship. The UK Parliament passed the European Union (Future Relationship) Act 2020 on 30 December 2020. The TCA has been provisionally applied by both parties from 1 January 2021. The TCA creates a number of risks and uncertainties for our business, including whether we are eligible for the application of a preferential treatment provision for no duties on goods that meet certain origin criteria. There is also uncertainty as to whether the EU Parliament will ratify the TCA, amend or reject it in its entirety. In addition, the new trading relationship between the UK and EU has increased, and will continue to increase, our costs, including for transportation and duties on products not otherwise eligible for preferential treatment under the TCA.

We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border, including with respect to requirements to mitigate the risks of COVID-19 pandemic. Volatility in foreign currencies and other markets may also arise as the UK and EU work through the TCA or other new trade arrangements. Additionally, once the TCA is formalised, there could be other short or long-term negative impacts. The UK will also need to negotiate its own trade treaties with countries around the world, which could take years to complete, and any disagreements on trade terms could result in supply chain delays or other disruptions. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. In order to remain competitive, we may not be able to recover all or a portion of these higher costs from our customers through product price increases.

*COVID-19 pandemic*

The COVID-19 pandemic and resulting measures taken by governments to contain the virus negatively impacted our business from the later part of the first quarter of 2020. In addition, the macroeconomic uncertainty causes disruption to economic activity and it is unknown what the longer-term impact on our business may be. The scale and duration of the pandemic remain uncertain and while we have seen returning stability, we do expect further impact to our business. The main risks that we see relate to the operations of the UK business and the impact of reduction in the sales for these businesses due to the level of economic uncertainty for our customers with the industrial, building services and beverage markets being most likely to be impacted. We also have the continued additional health and safety measures to protect our people. We will continue to monitor the impact of COVID-19 pandemic on our financial position and operations and will take steps to actively manage what can be controlled.

*Competition risk*

The majority of the Group's revenue is derived from its activities within three main end markets; municipal, commercial building services and sub sectors of industry. These end markets are served through both direct and indirect channels, the biggest activity being linked to the municipal market which is driven by securing three to five year framework agreements with the principal customers, which reduces short-term risk and potential loss of revenue to key competitors. The Group manages this risk by providing a full portfolio of products and a complete solutions package to our target market, delivering customer value added services, being proactive to the demands of and maintaining strong relationships with its customers.

The remainder of the Group operates in mature trading markets meaning that keeping in touch with customer requirements is of the utmost importance. There are a number of other well-established brands operating in a number of sectors where the Group (via Xylem group arrangements) are present and the key drivers of competitiveness vary significantly market to market based on customer expectations. The Group has a strong focus on customer service and responsiveness and has established a strong internal network for sharing this data.

*Technological risk*

The products produced by the Group are the result of significant efforts in engineering and research and development technology over a longer period of time. It is imperative that the Group's products remain competitive in terms of performance and cost (amongst other market drivers). Supported by another company within the Xylem Group, research and development activities are undertaken to ensure that the products remain correctly positioned for the markets operated in.

**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

*Environmental/health & safety risk*

The Group has a very strong culture of promoting the principals of having a safe working environment for all employees. This is a constantly ongoing process and covers all aspects of the business. When specific issues are identified they are addressed without delay and the appropriate actions are taken to remove or mitigate future risk.

The Group has a product offering that is compliant with the environmental requirements of all major markets. During 2020 our focus was on ensuring our pumps were fully compliant with changing emissions legislation. Investments were also made with continued improvements to the R&D facilities. We also invested in new machinery for the Fabrication process to bring improved efficiency and better working practices for our Fabricators.

*Cash flow risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency rates. The Group does not use foreign exchange forward contracts or interest rate swap contracts to hedge these exposures as the amounts involved are not material, but the risks are regularly reviewed to allow consideration of the introduction of appropriate measures.

*Credit risk*

The Group's principal financial assets are bank, trade and inter-company receivables. Policies and procedures exist to ensure that the trade debtors have an appropriate credit history. The amounts in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event, which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

*Price risk*

The Group is exposed to commodity price risk. The Group does not manage its exposure to commodity price risk due to cost benefit considerations.

*Currency risk*

The Group has minimal currency and commodity price risks because the majority of purchases are from suppliers and sales to customers are invoiced in Sterling.

**FUTURE DEVELOPMENTS**

**Water Process:** In accordance with Xylem's strategy to develop manufacturing centres of excellence, optimize our footprint and remain competitive in the marketplace to better serve our customers, the directors have confirmed changes to our Speciality Flow (SFC) site in Hoddesdon. The Group's proposal is to move SFC production to Hungary but to maintain our SFC support in the UK. Xylem continually looks at ways to streamline its company structure to operate more efficiently. This proposal enables the Group to leverage its existing footprint/resources more effectively to ensure the Xylem group remains competitive whilst continuing to provide high quality goods and services to all its much-valued customers. Redundancy costs of £1,582k have been included within these financial statements. In addition to these costs, the lease of the building at Hoddesdon is due to be surrendered, resulting in an onerous lease provision amounting to £1,627k.

For all other business units, it is not anticipated that there will be any fundamental changes to the business in the foreseeable future.

**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**SECTION 172(1) STATEMENT**

The directors are bound by their duties under the Companies Act 2006 and the manner in which these have been discharged, particularly their duty to promote the success of the Group for the benefit of its members as a whole, forms the core theme of this statement.

The following sets out how the directors, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006.

The Group sells the majority of its products and services to third parties, with the manufacturing divisions in both Hoddesdon and Quenington selling to another Xylem entity in Europe, services are also provided to other Xylem entities in Europe and the rest of the world. The Group purchases the majority of its products from other Xylem entities throughout Europe and the rest of the world. The Directors recognise that the Group's own performance is very dependent on the performance of the other Xylem entities. A priority for us is to contribute to society, the environment & the economy, being a socially responsible business shaped by our decision making considering all stakeholders.

The Group prepares monthly management accounts and rolling forecasts using prescribed financial and non-financial KPI's under the direction of Xylem Inc. The management accounts are reviewed and compared to forecasts and budgets. Directors and senior management meet on a quarterly basis to review group-wide activity and to discuss significant issues in more detail as required to ensure results are in line with expectations and the strategic plan of Xylem Inc.

Ensuring the customer is at the heart of decision making by the board is key to the success of the Group. Regular meetings are held with all levels of our management teams and customers to ensure extensive customer engagement shapes our business plan. Delivering to high standards for our customers is discussed at every Board meeting to ensure we continue to successfully serve them with the provision of the highest quality of goods and services.

Our fellow Xylem entities are our key suppliers who support us along with our employees in delivering for our customers. Strong relationships with these suppliers ensure sustainable, high quality delivery for the benefit of all stakeholders. Commercial performance is discussed at every Board meeting, including an update on performance within these entities.

Our employees are central to the Group's overall success, properly incorporating their view into our decision-making process is fundamental to what we do. Regular town hall meetings are held within the Group, in large meeting rooms with online sign in for those who are unable to attend or work at other sites, enabling formal updates, with question and answer sessions. This allows us to provide an inclusive and diverse place to work; amplifying the employee voice in many company decisions.

Stakeholder considerations are an integral part of the decisions made by the Directors. At times these decisions inevitably adversely affect one or more of the stakeholders, but the Directors ensure that any group that is impacted is treated fairly. Xylem's processes and procedures take into account all stakeholders when making long-term decisions which bear significant importance to the Group. We have a delegation of authority process for sign off for Group spend involving multiple stakeholders. For large scale projects, cross functional teams are established, and employee representatives are consulted in accordance with appropriate guidelines. The Business Continuity Planning team also ensures we have systems and processes in place for business continuity during times of change or unexpected business disruption.

With recent trading being particularly difficult, many decisions during the year have focused on cost rationalisation. These can be particularly difficult decisions when employment levels have to be reduced, but the Directors are well aware of the impact this can have on employees and the local community.



**XYLEM WATER HOLDINGS LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**SECTION 172(1) STATEMENT (CONTINUED)**

Due to the impact of COVID-19 pandemic, Brexit, the cyclical nature of our business and the closure of the site in Farnborough, the Group regrettably made a small number of redundancies amounting to £292k in 2020. In addition, the directors have confirmed changes to our Speciality Flow (SFC) site in Hoddesdon to move SFC production from Hoddesdon to Hungary but to maintain our SFC support in the UK, in accordance with Xylem's strategy to develop manufacturing centres of excellence, optimize our footprint and remain competitive in the market place to better serve our customers. This involved collective consultation with all affected employees to exchange views and collect feedback. Having collaboratively reached agreement on all aspects of the redundancy process, including ways to avoid or mitigate redundancies, individual consultations took place with those at risk at the end of the January 2021. As a result of these changes, redundancy costs of £1,582k have been included within these financial statements. In addition to these costs, the lease of the building at Hoddesdon is due to be surrendered, resulting in an onerous lease provision amounting to £1,627k.

This report was approved by the Board of directors on 23 December 2021 and signed on behalf of the Board by:



L J Bentley  
Director

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present their annual report, together with the audited consolidated financial statements and independent auditor's report of Xylem Water Holdings Limited (the 'Company') together with its subsidiaries (the 'Group') for the year ended 31 December 2020. The Company is registered as a limited company and domiciled in the United Kingdom.

**FUTURE DEVELOPMENTS**

The anticipated future developments of the Group have been discussed within the Strategic Report on page 5.

**POST BALANCE SHEET EVENTS**

**COVID-19 pandemic:** On 4 January 2021 the Prime Minister announced a third national lockdown and instructed people to stay at home to control the spread of the Covid-19 virus. On the 22 February 2021 the Prime Minister announced the roadmap out of lockdown, with the ending of restrictions on 21 June 2021.

We will continue to work with our customers, employees, suppliers and communities to address the impacts of COVID-19 pandemic. We also continue to assess the evolving nature of the pandemic and its possible implications to our business, supply chain and customers, and to take actions in an effort to mitigate adverse consequences. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic would have a material adverse effect on the financial position or liquidity of the Group.

**Other events since the balance sheet date:** Post year end, a small number of back office functions were transitioned from a 3rd party provider into the Xylem accounting team.

On 27 May 2021, the Group entered into an asset sale agreement with Jec Co., Ltd (the purchaser), a Korean joint stock company. In addition, the parties have entered into a Transitional Services Agreement pursuant to which the Group will provide certain services to the purchaser to assist the purchaser during a transition period of 5 months with the starting up of the business under the purchaser's ownership as well as with production and sales. Taking into account the required time for such a transfer, the Group has produced, or will during the transition period, produce certain products, enabling the purchaser to be able to continue supplying customers and distributors. The net consideration received was \$1,831k, realising a profit of £1,120k.

**RESEARCH AND DEVELOPMENT**

The R&D activity in 2020 and going into 2021 is focused on three main areas, bringing new innovative pump products to market such as the ultra-high head-pump and MVP, bringing the hydraulics of existing products to the latest pump performance standards and moving our diesel driven units to use the latest stage 5 emission compliant engines. Hydraulic design uses the latest CFD technology to optimise the pump performance, combined with extensive testing and product evaluation to validate performance predictions. Implementing Stage 5 compliant engines involves working closely with the engine manufacturers to ensure their after-treatment technology is applied correctly to optimize pollution control and engine efficiency solutions are validated by extensive site testing done in conjunction with the engine manufacturer. The controller software used with these engines has been heavily re-designed to communicate with the new technology employed by the engine manufacturer. The combination of high efficiency pumps and the latest diesel engine technology makes the Godwin products one of the leading pump manufacturers in the portable pumping market.

**FINANCIAL RISK MANAGEMENT**

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group focuses on efficient working capital management.

The directors consider the banking and group facilities available to the Group are adequate going forward. The Group participates in bank balance pooling at the end of each day, giving rise to an intercompany balance with Xylem Europe GmbH (a Group Treasury Facility). The credit risk on liquid funds is limited because the counterparties are banks with internationally recognised credit ratings. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group has minimal currency and commodity price risks in relation to purchases as the majority are made from Group suppliers who invoice in Sterling. In relation to sales, there is some exposure as some customers are invoiced in foreign currency. However, the directors consider the exposure to be minimal as the total amount invoiced in foreign currency is minimal compared to the total turnover.

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**GOING CONCERN**

While the COVID-19 pandemic has impacted the business across the UK, in terms of reduced revenues, we have taken a number of measures to ensure the health and safety of our people in line with government guidance. This includes working from home and the use of protective equipment for key workers. As a result of the dedication of our teams and the steps we have taken to adapt, the UK Group has continued to supply goods and services to customers.

The directors have also taken a number of actions to manage our costs, including a slowdown in recruitment, reducing discretionary expenditures and improving our inventory management. The actions have focused on preserving our financial resilience and strategically positioning the Group for new customer needs and market trends accelerated by the pandemic. The disruption to the supply chain has been limited through management actions at Xylem production facilities to enable manufacturing to continue and to support logistics and distribution operations.

The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic would have a material adverse effect on our financial position or liquidity.

The UK Group is supported by its ultimate parent company, Xylem Inc., via loans from Xylem Europe GmbH, the ultimate parent has confirmed that financial support will be continued in order to allow the group companies to meet liabilities as they become due and to carry on business without significant curtailment of operations for 12 months from the date of signing the financial statements. Xylem Inc. issued a \$1bn green bond at the end of June 2020 of which funds could be lent to Xylem Europe GmbH if required. Additionally, the directors have reviewed details of Xylem Europe GmbH access to credit and loan facilities and the cash flow position and have a reasonable expectation that the Xylem Inc. have sufficient financial resources available to provide support in the future. The Q3 2021 consolidated results of Xylem Inc. show a strong third quarter with continued growth across all regions and end markets. Exceptional order growth drove record backlog that sets us up for growth through 2022 and beyond. Maintaining growth momentum and staying disciplined on cost management are key to delivering on full-year financial commitments. Advancing our shared mission and purpose by delivering on strategy and sustainability goals.

We continue to monitor the impacts the UK's exit from the EU ("Brexit") on our supply chain, operations and financial results. The UK and the EU concluded a Trade and Cooperation Agreement ("TCA") that has been provisionally applied since January 1, 2021, pending ratification by the EU Parliament. The TCA creates a number of risks and uncertainties for our businesses. We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border, including with respect to requirements to mitigate the risks of COVID-19. Volatility in foreign currencies and other markets may also arise as the UK and EU work through the TCA or other new trade arrangements. Additionally, once the TCA is formalized, there could be other near-or long-term negative impacts. The UK will also need to negotiate its own trade treaties with countries around the world, which could take years to complete, and any disagreements on trade terms could result in supply chain delays or other disruptions. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. The directors are satisfied that the risks have been identified and that the plans in place will enable the UK Group to deal with the challenges and minimize the financial impact.

Overall, the directors have a reasonable expectation that the UK Group will continue to operate effectively and are confident in receiving continued access to financial resources from Xylem Inc. such that the Group has adequate resources to continue operating for the foreseeable future. Therefore, the financial statements have been prepared on the going concern basis.

**DIVIDENDS**

The directors are not proposing to pay a dividend in 2020 (2019: £nil). No dividends have been proposed since the year end.

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**DIRECTORS**

The directors who served during the year and to the date of the approval of the financial statements are shown below:

M A Turner	
I L Thompson	
P A Morris	
L J Bentley	(appointed 28 January 2021)
K A Knight	(appointed 15 July 2021)
C J Rhodes	(resigned 28 January 2021)
B A West	(resigned 30 July 2021)

**DIRECTORS' INDEMNITY AND INSURANCE**

The Group maintains directors' and officers' liability insurance. All the Group's directors have received an indemnity to the extent permitted by law from the Group. Neither the indemnity nor the insurance provides cover in situations where a director has acted fraudulently or dishonestly.

**CHARITABLE DONATIONS**

Charitable donations of £10k (2019: £2k) were made during the year.

**BUSINESS RELATIONSHIPS**

Throughout 2020 the Group continued to maintain its close working relationships with suppliers, customers and others which included a supplier management process, review meetings with key suppliers addressing concerns, regular touchpoints with key customers from field staff and management and ensuring that any disputes or disagreements were followed up in a timely manner.

As part of a change in leadership in late 2019, the Group's Business Continuity Plan and process was reviewed to ensure it was updated to reflect new structure and responsibilities and that our supply chain was robust enough to meet stakeholder's needs.

Given there was a change in the leadership in late 2019, some initiatives to get closer to our suppliers, customers and other partners commenced later in the year and are ongoing in 2021. This includes facilitating closer relationships with key customers/segments and also leveraging our full Xylem offering to meet their needs.

Our marketing team engaged stakeholders through targeted campaigns and webinars, resulting in leads and feedback.

**DISABLED EMPLOYEES**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of the members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that the appropriate level of training is arranged. It is the policy of the Group that training, career development and promotion of disabled persons should as far as possible, be identical to that of other employees.

**EMPLOYEE CONSULTATION**

The Group places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. Details of employees and various headcount related information is highlighted in note 6 to the financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**EMPLOYEE ENGAGEMENT**

The directors of the Group have engaged with employees across the year in a number of ways including but not limited to:

- Online town halls and communications meetings, communicating business results and employee recognitions.
- Watermark activities which encourage our staff to participate in activities which benefit our communities and link to the Group's mission, vision and values.
- Safety engagement initiatives such as safety walks, safety chats program and a specific safety game, which resulted in the business winning Xylem's CEO Safety Award.
- Regular meetings with our employee representatives, skip level meetings with different layers of staff across different geographies, and discussions with our Human Resources staff, discussing various topics such as change, training and development, engagement, communications and the work environment.

As a result of feedback, we have had a particular focus on communicating business results and employee wellbeing. This has resulted in:

- The rollout, promotion and use of our Mental Health First Aider program and associated initiatives to encourage peer to peer support.
- More use of XylemNow, our company communication web page to share business wins, local information and promote a sense of unity among the team particularly for remote employees.
- A specific engagement program with dedicated training on change management and peer support, for the rollout of ServiceMax, our Service Management system in 2020.
- Regular Site Communications meetings at key sites.
- The launch of a new employee reward and recognition program.
- Regular communication about our Employee Assistance Program to ensure that employees who are struggling in their home or work life are getting the support they need.
- Improved quality of exit interviews for leavers and tracking of employee attrition, to better identify actions impacting attrition and morale.

**ENVIRONMENT**

The Group recognises the importance of its environmental responsibilities and employs an Environment, Health and Safety Coordinator to ensure that the Group operates within Xylem policies and implements initiatives designed to minimise the Group's impact on the environment, including safe disposal of manufacturing waste, recycling and reducing energy consumption.

The Group is committed to controlling, so far as reasonably practicable, the impacts on the environment through the way we conduct our business and the supply of products to our customers. It is the intention of the management team to conduct business in a manner that meets the needs of today without compromising the needs of future generations, maintaining a sustainable future. To achieve this the Group will:

- Ensure compliance with all applicable laws and regulations and other standards to which the company subscribes and is required to meet.
- Prevent and/or reduce the risk of pollution through soil, air and water
- Enhance employee health, safety and welfare
- Participate in community projects and development
- Ensure the protection of the public
- Minimise the consumption of natural resources in the supply, maintenance and repair of our products
- Reduce energy consumption at all facilities
- Reduction of waste to landfill Provide documented operating policies and procedures
- Promote aims and objectives through the supply chain
- Maintaining our ISO 14001 certification

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**ENVIRONMENT (CONTINUED)**

The Directors, Heads of Departments and all Managers of the Group give their full support to our Environmental and Sustainability objectives, which are an integral part of its operational and management functions. Actively our sustainability groups are working on our key objectives for the Group, customers and the wider community. Challenging targets have been set and the Group is engaged on meeting the following goals on a year on year basis until 2025:

- 5% reduction in non & hazardous waste to landfill leading to elimination of waste to landfill by 2025.
- 4% reduction in water usage leading to 100% reuse of processed water at our major facilities.
- 5% reduction in Greenhouse Gas emissions.

**ENERGY AND CARBON REPORTING**

Xylem is committed to the protection of the environment and the reduction of its carbon footprint. Changes introduced by the 2018 Regulations of the Companies Act 2016 require the Directors to report on the energy and carbon information relating to the Group.

The related carbon footprint, measured by tCO<sub>2</sub>e tonnes, is calculated from the usage data submitted for energy usage from gas and electric, outbound product deliver, and business travel activity. Conversion factors are applied on the basis of business location. UK based data is converted using the UK Department for Environment Food & Rural Affairs (DEFRA) tCO<sub>2</sub>e factors. Conversion factors are updated annually to reflect the factors published by DEFRA that are in effect as of 31 December each reporting year.

The total annual energy consumption for the year ending 31 December 2020 was 14,678,872 kWh, which provides tCO<sub>2</sub>e emissions of 3,604 tonnes, as indicated below:

	GHG emissions tCO <sub>2</sub> e	Energy consumption used to calculate the emissions kWh
<b>Scope 1 (Direct) GHG emissions:</b>		
Combustion of gas in buildings	292.84	1,592,840
Combustion of fuel for transport purposes	2,046.26	8,365,538
Combustion of LPG in buildings and on-site transport	31.31	145,980
Combustion of gas oil in buildings	430.59	1,677,019
<b>Scope 1 total</b>	<b>2,801</b>	<b>11,781,377</b>
<b>Scope 2 (Indirect) GHG emissions:</b>		
Purchase of electricity for buildings (location-based grid average)	739.20	2,892,015
<b>Scope 2 total</b>	<b>739</b>	<b>2,892,015</b>
<b>Scope 3 (Other indirect) GHG emissions:</b>		
Business travel in employee-owned vehicles	1.40	5,480
UK electricity Transmission & Distribution	62.76	
<b>Scope 3 total</b>	<b>64</b>	<b>5,480</b>
<b>Totals</b>	<b>3,604</b>	<b>14,678,872</b>
<b>Revenue - £m</b>	<b>201.22</b>	
<b>Intensity ratio: tCO<sub>2</sub>e gross figure/£m revenue</b>	<b>17.91</b>	

**XYLEM WATER HOLDINGS LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**AUDITOR**

Pursuant to section 487(2) of the Companies Act 2006, the auditor will be deemed to be re-appointed and Deloitte LLP will therefore continue in office.


**DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who are a director of the Group at the date of approval of this report confirms that:

- So far as each of the directors is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- each of the directors have taken all the steps that they ought to have 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board of directors on 23 December 2021 and signed on behalf of the Board by:

  
L J Bentley  
Director

**XYLEM WATER HOLDINGS LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in the other jurisdictions.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Xylem Water Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the reconciliation of group net cash flow to movement in net debt;
- the related consolidated group notes 1 to 28;
- the parent company balance sheet;
- the parent company statement of changes in equity; and
- the related parent company notes 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, 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.

### **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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and pension and tax legislation and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED (CONTINUED)**

### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

### **Report on other legal and regulatory requirements**

#### **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 the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

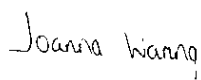
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

#### **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.



Joanna Waring FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

Date: 23 December 2021

**XYLEM WATER HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £'000	2019 £'000
<b>Turnover</b>	3	201,226	219,628
Cost of sales		(167,453)	(185,892)
<b>Gross profit</b>		33,773	33,736
Administrative expenses		(24,043)	(21,819)
Selling and distribution expenses		(16,779)	(17,203)
Other operating income	4	2,569	283
<b>Operating loss</b>		(4,480)	(5,003)
Dividends received		1,813	-
(Loss)/profit on disposal of fixed assets		(15)	12
<b>Loss before interest and taxation</b>		(2,682)	(4,991)
Interest receivable and similar income	8	90	403
Interest payable and similar charges	9	(4,025)	(4,677)
Other finance costs	10	(164)	(265)
<b>Loss before taxation</b>		(6,781)	(9,530)
Tax credit/(charge) on loss	11	123	(921)
<b>Loss for the financial year</b>		(6,658)	(10,451)

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £'000	2019 £'000
<b>Loss for the financial year</b>		<u>(6,658)</u>	<u>(10,451)</u>
Other comprehensive income/(expense):			
Deferred tax credit relating to other comprehensive income	18	1,386	254
Actuarial loss on defined benefit pension scheme	20	<u>(11,242)</u>	<u>(658)</u>
<b>Total comprehensive expense for the year</b>		<u><u>(16,514)</u></u>	<u><u>(10,855)</u></u>

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2020**

			Restated (see note 15 & 17)
	Notes	2020 £'000	2019 £'000
<b>Non-current assets</b>			
Intangible assets	12	4,875	14,488
Tangible assets	13	7,058	6,566
Deferred tax asset	18	4,393	-
		<u>16,326</u>	<u>21,054</u>
<b>Current assets</b>			
Stocks	14	15,975	18,816
Debtors	15	130,470	206,731
Cash at bank and in hand		2,987	2,812
		<u>149,432</u>	<u>228,359</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(42,493)</u>	<u>(117,382)</u>
<b>Net current assets</b>		<u>106,939</u>	<u>110,977</u>
<b>Total assets less current liabilities</b>		<u>123,265</u>	<u>132,031</u>
<b>Creditors: amounts falling due after more than one year</b>	17	<u>(119,227)</u>	<u>(119,207)</u>
<b>Provisions for liabilities and charges</b>	19	<u>(1,813)</u>	<u>(291)</u>
<b>Net assets before pension liability</b>		<u>2,225</u>	<u>12,533</u>
Defined benefit pension liability	20	<u>(16,574)</u>	<u>(10,368)</u>
<b>Net (liabilities)/assets</b>		<u><u>(14,349)</u></u>	<u><u>2,165</u></u>
<b>Capital and reserves</b>			
Called up share capital	21	2	2
Share premium account	21	271,999	271,999
Profit and loss account	21	<u>(286,350)</u>	<u>(269,836)</u>
<b>Total (deficit)/equity</b>		<u><u>(14,349)</u></u>	<u><u>2,165</u></u>

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 December 2021 and are signed on its behalf by:



L J Bentley  
**Director**

**XYLEM WATER HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>Called up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>At 1 January 2019</b>	2	271,999	(258,981)	13,020
Loss for the financial year	-	-	(10,451)	(10,451)
<b>Other comprehensive income:</b>				
Deferred tax credit relating to other comprehensive income (note 18)	-	-	254	254
Actuarial loss on defined benefit pension scheme (note 20)	-	-	(658)	(658)
<b>Balance at 31 December 2019</b>	<u>2</u>	<u>271,999</u>	<u>(269,836)</u>	<u>2,165</u>

	<b>Called up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>At 1 January 2020</b>	2	271,999	(269,836)	2,165
Loss for the financial year	-	-	(6,658)	(6,658)
<b>Other comprehensive income/(expense):</b>				
Deferred tax credit relating to other comprehensive income (note 18)	-	-	1,386	1,386
Actuarial loss on defined benefit pension scheme (note 20)	-	-	(11,242)	(11,242)
<b>Balance at 31 December 2020</b>	<u>2</u>	<u>271,999</u>	<u>(286,350)</u>	<u>(14,349)</u>

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>Notes</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Net cash inflow from operating activities</b>	22	1,085	3,649
<b>Returns from investments and servicing of finance:</b>			
Interest received		43	-
<b>Net cash inflow from returns on investments and servicing of finance</b>		43	-
<b>Income tax refunded/(paid)</b>		1,108	(581)
<b>Cash flows from financing activities</b>			
Purchase to acquire tangible assets		(2,121)	(1,484)
Purchase to acquire intangible assets		(55)	(12)
Receipts from sales of tangible assets		128	57
<b>Net cash outflows for capital expenditure and financial investment</b>		(2,048)	(1,439)
<b>Net cash inflow before financing</b>		188	1,629
<b>Financing:</b>			
Finance lease repayments		(12)	(6)
Interest paid on finance lease		(1)	(1)
<b>Net cash outflow from financing</b>		(13)	(7)
<b>Net increase in cash and cash equivalents</b>		175	1,622

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.



**XYLEM WATER HOLDINGS LIMITED**

**RECONCILIATION OF GROUP NET CASH FLOW TO MOVEMENT IN NET DEBT  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>Notes</b>	<b>2020 £'000</b>	<b>Restated 2019 £'000</b>
Increase in cash	22	175	1,622
Net repayment of finance leases	22	12	6
		<hr/>	<hr/>
Change in net debt resulting from cash flows		187	1,628
Other non-cash movements	22	-	17,000
		<hr/>	<hr/>
Movement in net debt		187	18,628
Opening net debt	22	(116,269)	(134,897)
		<hr/>	<hr/>
<b>Closing net debt</b>	22	<b>(116,082)</b>	<b>(116,269)</b>
		<hr/>	<hr/>

Notes 1 to 28 on pages 24 to 59 form an integral part of these financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1. Accounting policies**

**Company information**

Xylem Water Holdings Limited ("the company") is a private limited company, limited by shares, domiciled and incorporated in England and Wales. The registered office is at Private Road No 1, Colwick Industrial Estate, Nottingham, United Kingdom, NG4 2AN. The company's principal activity is to act as a holding company for a group of companies which are involved in the manufacture of products and provision of services within the water industry.

**Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2016, and under the historical cost convention, modified to include certain items at fair value.

The financial statements are presented in sterling which is the functional currency of the Group. Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company balances, transactions and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

No profit or loss account is present for the Company as permitted by section 408 of the Companies Act 2006. The loss for the financial year of the Company was £1,265k (2019: loss of £3,514k).

The financial statements of the Group are consolidated in the financial statements of Xylem Inc. The consolidated financial statements of Xylem Inc. are available from its registered office at 1 International Drive, Rye Brook, NY 10573, USA.

**Subsidiary audit exemptions**

Xylem Water Holdings Limited has issued guarantees over the liabilities of the following companies at 31 December 2020 under section 479C of the Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of their individual financial statements by virtue of section 479A of the Act:

- Xylem Water Solutions UK Holdings Limited (registered no. 04464243)
- Bellingham & Stanley Limited (registered no. 00140250)
- Xylem Water Services Limited (registered no. 02553725)
- Xylem Water Solutions UK Limited (registered no. 00479504)
- Water Process Limited (registered no. 04523662)
- Xylem Water Solutions Rugby Limited (registered no. 02755486)
- Xylem Dewatering Solutions UK Limited (registered no. 00254887)

**Going concern**

While the COVID-19 pandemic has impacted the business across the UK, in terms of reduced revenues, we have taken a number of measures to ensure the health and safety of our people in line with government guidance. This includes working from home and the use of protective equipment for key workers. As a result of the dedication of our teams and the steps we have taken steps to adapt, the UK Group has continued to supply goods and services to customers.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1. Accounting policies (continued)**

**Going concern (continued)**

The directors have also taken a number of actions to manage our costs, including a slowdown in recruitment, reducing discretionary expenditures and improving our inventory management. The actions have focused on preserving our financial resilience and strategically positioning the Group for new customer needs and market trends accelerated by the pandemic. The disruption to the supply chain has been limited through management actions at Xylem production facilities to enable manufacturing to continue and to support logistics and distribution operations.

The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic. Whilst uncertain, we do not believe, however, that the impact of COVID 19 pandemic would have a material adverse effect on our financial position or liquidity.

The UK Group is supported by its ultimate parent company, Xylem Inc., via loans from Xylem Europe GmbH, the ultimate parent has confirmed that financial support will be continued in order to allow the group companies to meet liabilities as they become due and to carry on business without significant curtailment of operations for 12 months from the date of signing the financial statements. Xylem Inc. issued a \$1bn green bond at the end of June 2020 of which funds could be lent to Xylem Europe GmbH if required. Additionally, the directors have reviewed details of Xylem Europe GmbH access to credit and loan facilities and the cash flow position and have a reasonable expectation that the Xylem Inc. have sufficient financial resources available to provide support in the future. The Q3 2021 consolidated results of Xylem Inc. show a strong third quarter with continued growth across all regions and end markets. Exceptional order growth drove record backlog that sets us up for growth through 2022 and beyond. Maintaining growth momentum and staying disciplined on cost management are key to delivering on full-year financial commitments. Advancing our shared mission and purpose by delivering on strategy and sustainability goals.

We continue to monitor the impacts the UK's exit from the EU ("Brexit") on our supply chain, operations and financial results. The UK and the EU concluded a Trade and Cooperation Agreement ("TCA") that has been provisionally applied since January 1, 2021, pending ratification by the EU Parliament. The TCA creates a number of risks and uncertainties for our businesses. We have experienced, and may continue to experience, shipping delays given the need for customs inspections and other procedures at the border, including with respect to requirements to mitigate the risks of COVID-19. Volatility in foreign currencies and other markets may also arise as the UK and EU work through the TCA or other new trade arrangements. Additionally, once the TCA is formalized, there could be other near-or long-term negative impacts. The UK will also need to negotiate its own trade treaties with countries around the world, which could take years to complete, and any disagreements on trade terms could result in supply chain delays or other disruptions. As a result, we face continued uncertainty and risks of disruptions in our supply chain and increased costs. The directors are satisfied that the risks have been identified and that the plans in place will enable the UK Group to deal with the challenges and minimize the financial impact.

Overall, the directors have a reasonable expectation that the UK Group will continue to operate effectively and are confident in receiving continued access to financial resources from Xylem Inc. such that the Group has adequate resources to continue operating for the foreseeable future. Therefore, the financial statements have been prepared on the going concern basis.

**Turnover**

Turnover is recognised at the fair value of the consideration received or receivable for sale of goods and services to external customers in the ordinary nature of the business. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates. Turnover is shown net of Value Added Tax.

## **XYLEM WATER HOLDINGS LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **1. Accounting policies (continued)**

###### **Turnover (continued)**

Turnover from contracts for the provision of services is recognised by reference to the stage of completion *when the stage of completion, costs incurred and costs to complete can be estimated reliably*. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, turnover is recognised only to the extent of the expenses recognised that are recoverable.

Turnover from the sale of goods is recognised when it and the associated costs can be measured reliably, future economic benefits are probable, and the risks and rewards of ownership have been transferred to the customer. Sales of goods are recognised when goods are delivered, and legal title has passed, and the Group *has no continuing managerial involvement associated with ownership or effective control of the goods sold*. This is generally when goods have been checked and accepted by the customer on delivery at the specified location.

###### **Long-term contracts**

When the outcome of a long-term contract can be reasonably estimated, and it is probable that the contract will be profitable, turnover and costs are recognised over the period of the contract.

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately.

When the outcome of a long-term contract cannot be estimated reliably, contract turnover is recognised only to the extent of contract costs that are recoverable and the contract costs are expensed as incurred.

The Group uses the “percentage of completion method” to determine the appropriate amount of turnover to recognize in a given period. The stage of completion is determined by assessing the physical proportion of completed contract work. Costs that have been incurred in relation to the stage of completion are recognized, whereas costs that have been invoiced but not yet incurred are presented as stocks, prepayments or other assets, depending on their nature and provided it is probable they will be recovered.

Bank interest accruing on capital borrowed to fund the production of long-term contracts is carried forward within long-term contract balances.

###### **Finance income**

Finance income relates to interest received and is recognised in the profit and loss account on an accruals basis.

###### **Borrowing costs**

The costs of borrowing on interest bearing loans are recognised in the profit and loss account on an accruals basis.

###### **Intangible assets - goodwill**

Goodwill is capitalised and written off evenly over 5-10 years as in the opinion of the directors, this represents the period over which the goodwill is expected to give rise to economic benefits.

###### **Intangible assets other than goodwill**

Intangible assets arising on a business combination are recognised, except where the asset arises from legal or contractual rights, and there is no history or evidence of exchange transactions for the same or similar assets and estimating the asset's fair value would depend on immeasurable variables.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Intangible assets other than goodwill (continued)**

Intangible assets are initially recognised at cost (which for intangible assets acquired in a business combination is the fair value at acquisition date) and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets relate to purchased software and acquired trademarks. Intangible assets are amortised to profit or loss on a straight-line basis over their useful lives, as follows:

Software	5 years
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Amortisation is revised prospectively for any significant change in useful life or residual value.

On disposal the difference between the net disposal proceeds and the carrying amount of the intangible asset is recognised in the profit and loss account.

**Tangible assets**

Tangible assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is provided on all tangible assets, other than assets under the course of construction, at rates calculated to write off the cost or valuation of each asset to its estimated residual value on a straight-line basis over its expected useful life, as follows:

Long leasehold land & building improvements	over life of lease
Freehold improvements	2% to 5%
Plant & machinery	10% to 33%
Motor vehicles	10% to 25%
Fixtures, fittings & computer equipment	10% to 33%

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal, for the asset as if it were at the age and in the condition expected at the end of its useful life. Freehold land and assets under the course of construction are not being depreciated.

**Impairment of tangible assets**

At each reporting end date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## **XYLEM WATER HOLDINGS LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

##### **1. Accounting policies (continued)**

###### **Impairment of tangible assets (continued)**

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

###### **Investments**

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

Interests in subsidiaries are assessed for impairment at each reporting date. Any impairments losses or reversals of impairment losses are recognised immediately in the profit and loss account.

###### **Stocks**

Stocks are valued at the lower of cost and estimated selling price less costs to complete and sell. Cost includes direct material and labour costs and an attributable proportion of manufacturing overheads based on normal levels of activity. Costs is calculated using the FIFO (first-in, first-out) method.

At each reporting date, the Group assesses whether stocks are impaired or if an impairment loss recognised in prior periods has reversed. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in the profit and loss account.

Reversals of impairment losses are also recognised in the profit and loss account.

###### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

###### **(i) Financial assets and liabilities**

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Financial instruments (continued)**

**(i) Financial assets and liabilities**

Debt instruments that comply with all of the condition of paragraph 11.9 of FRS 102 are classified as 'basic'. For debt instruments that do not meet the conditions of FRS 102.11.9, the Group considers whether the debt instrument is consistent with the principle in paragraph 11.9A of FRS 102 in order to determine whether it can be classified as basic. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method. Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting conditions of being 'basic' financial instruments are measured at fair value through the profit and loss account.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

**(ii) Investments**

Investments in non-derivative instruments that are equity of the issuer (where shares are publicly traded, or their fair value is reliably measurable) are measured at fair value through profit or loss. Where fair value cannot be measured reliably, investments are measured at cost less impairment.

In the Company balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

**(iii) Equity instruments**

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of transaction costs.

**(iv) Convertible loan notes**

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. On initial recognition the financial liability component is recorded at its fair value. At the date of issue, in the case of a convertible bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity and is not subsequently re-measured.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Financial instruments (continued)**

**(iv) Convertible loan notes (continued)**

Transaction costs are apportioned between the liability and equity components of the convertible instrument based on their relative fair values at the date of issue. The portion relating to the equity component is charged directly against equity. Where the financial liability component meets the criteria in (i) above, the finance costs of the financial liability are recognised over the term of the debt using the effective interest method. If those criteria are not met, the financial liability component is measured at fair value through the profit and loss account.

**(v) Derivative financial instruments**

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit and loss account immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**(vi) Fair value measurement**

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique

**Taxation**

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.



**XYLEM WATER HOLDINGS LIMITED**  
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**1. Accounting policies (continued)**

**Provisions**

Provisions are recognised when the Group has a legal or constructive present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in the profit and loss account in the period it arises.

**Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

**Retirement benefits**

The Group operates a defined contribution scheme and also contributes to three separate Group retirement benefit schemes.

**Defined contribution plan**

The amount charged to profit or loss in respect of pension costs and other post-retirement benefits represent the contributions payable in the year by the Group. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

**Defined benefit schemes**

The Group is a member of three Group defined benefit schemes. The assets of the schemes are managed separately from those of the Company. The costs recognised by the Group are determined, where applicable, by contractual agreements for charging the defined benefit costs between the Group and other group companies.

The defined benefit schemes are valued every three years by a professionally qualified independent actuary. These plans have now closed. The cost of providing benefits under each defined benefit scheme is determined separately for each plan using the projected unit credit method and is based on actuarial advice.

The change in the defined benefit asset/ (liability) arising from employee service during the year is recognised as an employee cost within operating profit or loss. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as incurred.

The net interest element is determined by multiplying the defined benefit liability by the discount rate, taking into account any changes in the defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the defined benefit liability excluding amounts included in net finance income/(cost). These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Accounting policies (continued)**

**Retirement benefits (continued)**

**Defined benefit schemes (continued)**

The defined benefit pension asset/(liability) in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

**Share-based payments – Xylem Group plans**

The Group participates in a share-based payment arrangement granted to its employees and employees of its subsidiaries. The Group has elected to recognise and measure its share-based payment expense on the basis of a reasonable allocation of the expense for the group. The directors consider the number of unvested options granted to the Group's employees compared to the total unvested options granted under the group plan to be a reasonable basis for allocating the expense.

**Leases**

Assets held under finance lease, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payment as determined at the inception of the lease) are depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations is recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

**Foreign exchange**

Transactions in currencies other than the functional currency are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

**2. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**XYLEM WATER HOLDINGS LIMITED**  
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**2. Critical accounting estimates and judgements (continued)**

***Pension scheme - estimate***

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

There are not considered to be any critical judgements.

**3. Turnover**

An analysis of the Group's revenue (including turnover) by category is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Sale of goods	163,217	170,794
Rendering of services	23,951	35,073
Income from long term contracts	8,376	8,007
Rental income	5,682	5,754
	<u>201,226</u>	<u>219,628</u>

An analysis of the geographical location of the Group's turnover is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	136,663	142,575
Rest of Europe	58,314	69,551
Rest of World	6,249	7,502
	<u>201,226</u>	<u>219,628</u>

**4. Other operating income**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Defined benefit pension credits (note 20)	2,440	283
Coronavirus Job Retention Scheme income	129	-
	<u>2,569</u>	<u>283</u>

The Group receives contributions to its defined benefit pension plan (XUPP) from Xylem Europe GmbH, a fellow group company.

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**5. Operating loss**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Operating loss is stated after charging/(crediting):		
Amortisation of intangible assets (note 12)	9,668	9,660
Depreciation of tangible fixed assets (note 13)	1,475	1,350
Depreciation of tangible fixed assets held under finance lease (note 13)	12	10
Loss/(profit) on disposal of tangible fixed assets	15	(12)
Fees payable to the Group's auditor for services in relation to:		
- audit of the Group financial statements	300	286
- audit of the Company financial statements	15	14
- taxation compliance services	16	16
Exchange (gains)/losses	(416)	385
Stock provision expense	1,000	925
Operating lease charges	4,249	4,002
R&D Expenditure	1,227	1,005

**6. Staff costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	35,900	35,546
Social security costs	3,946	3,823
Redundancy costs	1,874	-
Furlough payments	129	-
Pension costs – Defined contribution pension (note 20)	2,265	2,285
Share based payments (note 26)	65	21
	<b>44,179</b>	<b>41,675</b>

The average monthly number of persons (including directors) employed by the Group during the year was as follows:

	<b>2020</b>	<b>2019</b>
	<b>No.</b>	<b>No.</b>
Management	16	15
Production	366	394
Selling and marketing	218	215
Administration	197	210
R&D	17	19
	<b>814</b>	<b>853</b>

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**7. Directors remuneration**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Directors emoluments	578	186
Group contributions to money purchase pension schemes	34	13
	<u>612</u>	<u>199</u>

The number of directors to whom retirement benefits are accruing under:

	<b>2020</b> <b>No.</b>	<b>2019</b> <b>No.</b>
Defined contribution schemes	<u>5</u>	<u>4</u>

No share options were exercised or granted in the year (2019: none).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Directors emoluments	206	110
Group contributions to money purchase pension schemes	11	7
	<u>217</u>	<u>117</u>

The highest paid director did not exercise any share options in the year and had no shares receivable under long term incentive schemes.

**8. Interest receivable and similar income**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Interest receivable from group companies	47	403
Interest received from HMRC	43	-
	<u>90</u>	<u>403</u>

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**9. Interest payable and similar charges**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Interest payable on finance leases	1	1
Interest payable to group companies	4,024	4,676
	<u>4,025</u>	<u>4,677</u>

**10. Other finance costs**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Net finance costs on defined benefit plans (note 20)	164	265
	<u>164</u>	<u>265</u>

**11. Taxation**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
<b>Current tax</b>		
UK corporation tax	(171)	300
Adjustments in respect of prior periods	88	215
Total current tax	<u>(83)</u>	<u>515</u>
<b>Deferred tax</b>		
Adjustments in respect of prior periods	39	406
Tax rate change	(79)	-
Total deferred tax	<u>(40)</u>	<u>406</u>
<b>Total tax credit/(charge)</b>	<u><b>(123)</b></u>	<u><b>921</b></u>

**XYLEM WATER HOLDINGS LIMITED**  
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**11. Taxation (continued)**

**Factors affecting current tax credit/(charge)**

The tax charge for the year is higher (2019: charge is higher) than the average standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). These differences are reconciled below:

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Loss before taxation	(6,781)	(9,530)
Loss multiplied by the average standard rate of corporation tax in the UK for the year of 19% (2019: 19%)	(1,288)	(1,811)
Effects of:		
Expenses that are not deductible for tax purposes	1,117	2,111
Adjustments in respect of prior periods	127	621
Tax rate change	(79)	-
<b>Total tax credit/(charge) for the year</b>	<b>(123)</b>	<b>921</b>

**Factors that may affect future tax credit/(charge)**

Finance act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will now not occur and the UK corporation tax rate will instead remain at 19%. In the 2021 budget, Chancellor announced future changes to the amount of corporation tax in the UK, starting from the beginning of April 2023, the rate of corporation tax will be increasing from 19% to 25%. At balance sheet date, deferred tax balances continue to be measured at 19% (2019: 17%). The rate of change will affect the size of the Company's deferred tax assets and liabilities in the future.

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**12. Intangible assets**

	<b>Goodwill £'000</b>	<b>Software £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2020	237,312	1,491	238,803
Additions	-	55	55
At 31 December 2020	<u>237,312</u>	<u>1,546</u>	<u>238,858</u>
<b>Amortisation and impairment</b>			
At 1 January 2020	222,834	1,481	224,315
Amortisation charged in the year	9,652	16	9,668
At 31 December 2020	<u>232,486</u>	<u>1,497</u>	<u>233,983</u>
<b>Carrying amount</b>			
At 31 December 2020	<u>4,826</u>	<u>49</u>	<u>4,875</u>
At 31 December 2019	<u>14,478</u>	<u>10</u>	<u>14,488</u>



**XYLEM WATER HOLDINGS LIMITED**  
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**13. Tangible assets**

	Long leasehold land & building improvements £'000	Freehold land & buildings £'000	Assets under the course of construction £'000	Fixtures, fittings & computer equipment £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>							
At 1 January 2020	2,319	1,390	314	4,184	17,413	242	25,862
Additions	42	8	867	205	1,000	-	2,122
Disposals	(226)	(8)	-	(379)	(600)	(30)	(1,243)
Transfer between classes	-	-	(66)	-	66	-	-
At 31 December 2020	<u>2,135</u>	<u>1,390</u>	<u>1,115</u>	<u>4,010</u>	<u>17,879</u>	<u>212</u>	<u>26,741</u>
<b>Depreciation</b>							
At 1 January 2020	1,782	678	-	3,574	13,102	160	19,296
Charge for the year	186	21	-	178	1,084	18	1,487
Disposals	(184)	(5)	-	(370)	(530)	(11)	(1,100)
At 31 December 2020	<u>1,784</u>	<u>694</u>	<u>-</u>	<u>3,382</u>	<u>13,656</u>	<u>167</u>	<u>19,683</u>
<b>Carrying amount</b>							
At 31 December 2020	<u>351</u>	<u>696</u>	<u>1,115</u>	<u>628</u>	<u>4,223</u>	<u>45</u>	<u>7,058</u>
At 31 December 2019	<u>537</u>	<u>712</u>	<u>314</u>	<u>610</u>	<u>4,311</u>	<u>82</u>	<u>6,566</u>

The net book value of motor vehicles includes £20k (2019: £56k) in respect of assets held under hire purchase contracts.

Included in freehold land and buildings is land at a value of £438k (2019: £438k) which is not being depreciated. Assets under the course of construction are also not being depreciated.

**14. Stocks**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Finished goods and goods for resale	10,543	12,460
Work in progress	1,895	2,238
Raw materials	<u>3,537</u>	<u>4,118</u>
	<u>15,975</u>	<u>18,816</u>

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts.

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**15. Debtors: amounts due within one year**

	<b>2020</b>	<b>Restated</b>
	<b>£'000</b>	<b>2019</b>
		<b>£'000</b>
Trade debtors	27,577	33,082
Amounts due from parent company	1	1
Amounts due from other group companies:		
- Interest bearing	91,963	157,911
- Non-interest bearing	2,723	3,967
Deferred tax asset (note 18)	-	2,967
Corporation tax receivable	624	1,738
Prepayments and accrued income	5,085	4,350
Amounts recoverable on contracts	2,497	2,715
	<u>130,470</u>	<u>206,731</u>

Interest on loans to other group companies is accrued at 1.50% for EUR, 1.30% for GBP and 1.35% for USD in accordance with the terms agreed with Group & European treasury. Amounts due from the parent company and other group companies are unsecured and repayable on demand.

A loan of £30m due to another group company was previously netted off within Debtors: amounts falling due within one year. This loan has now been restated to Creditors: amounts falling due after more than one year as the loan is not due for repayment until 31 March 2022 and is not repayable on demand.

**16. Creditors: amounts falling due within one year**

	<b>2020</b>	<b>Restated</b>
	<b>£'000</b>	<b>2019</b>
		<b>£'000</b>
Obligations under finance leases (note 23)	12	12
Payments received on account	418	171
Trade creditors	7,181	9,329
Amounts due to other group companies		
- Interest bearing	-	750
- Non-interest bearing	14,765	93,151
Other taxation and social security	5,540	2,287
Other creditors	2,047	79
Accruals and deferred income	12,530	11,603
	<u>42,493</u>	<u>117,382</u>

Amounts owed to other group companies are non-interest bearing, unsecured and repayable on demand.

Amounts due to other group companies for 2019 have been restated to show interest and non-interest bearing loans since there was a loan from Xylem Europe GmbH of £750k of which interest is charged at a variable rate of £3m LIBOR + 1.20%, which matured in March 2020.

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**17. Creditors: amounts falling due after more than one year**

	<b>2020</b>	<b>Restated</b>
	<b>£'000</b>	<b>2019</b>
		<b>£'000</b>
Amounts due to other group companies	119,045	119,045
Obligations under finance leases (note 23)	12	24
Accruals and deferred income	170	138
	<u>119,227</u>	<u>119,207</u>

On 31 May 2019 loans with Xylem Industries S.à.r.l were transferred to Xylem Europe GmbH, another group company.

Interest is charged on loan 1 (£15m) at 6.15% and on loan 2 (£30m) at 5.97%. Both loans are repayable to Xylem Europe GmbH in 2031.

In addition there are further loans from Xylem Europe GmbH of £30m (2019: £30m), £30m (2019: £30m), £14m (2019: £14m) of which interest is charged at a variable rate of £3m LIBOR + 1.23%, with maturity scheduled for 31 March 2022.

A loan of £30m due to another group company was previously netted off within Debtors: amounts falling due within one year. This loan has now been restated to Creditors: amounts falling due after more than one year as the loan is not due for repayment until 31 March 2022 and is not repayable on demand.

**18. Deferred tax asset**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Retirement benefit obligation	3,149	1,763
Accelerated capital allowances	417	623
Losses carried forward	828	540
Other timing differences	(1)	41
	<u>4,393</u>	<u>2,967</u>

The movement on the deferred tax asset is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	2,967	3,118
Profit and loss account movement arising during the year	(39)	(406)
Profit and loss account movement arising due to tax rate change	79	-
Movement arising from pension scheme deficit	1,179	255
Movement arising from tax rate change on pension scheme deficit	207	-
	<u>4,393</u>	<u>2,967</u>
As at 31 December	<u>4,393</u>	<u>2,967</u>

A deferred tax asset is recognised to the extent that the asset is forecast to be utilised within the foreseeable future.

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**19. Provisions for liabilities and charges**

	<b>Dilapidations £'000</b>	<b>Onerous lease £'000</b>	<b>Total £'000</b>
At the beginning of the year	291	-	291
Charged to profit and loss account	-	1,627	1,627
Released	(105)	-	(105)
	<u>186</u>	<u>1,627</u>	<u>1,813</u>

A dilapidation provision is provided against the expiry of a property lease agreement and represents the costs to return the property to its pre-rental state as per the stipulations of the lease agreement. The dilapidations provision was settled during January 2021.

An onerous lease provision is provided against the site in Hoddesdon where the current lease is due to be surrendered as a result of the closure of the site in 2022.

**20. Retirement benefit schemes**

**a) Defined contribution schemes**

A defined contribution pension scheme was introduced to the Group in 2007 following the closure of Xylem UK Pension Plan (XUPP) to new entrants and to existing employees in 2012 following the closure of Xylem UK Pension Plan (XUPP) to accrual. It was extended on 1 July 2014, to replace the Godwin Pumps Limited pension scheme, a defined benefit scheme which closed. The pension cost charge for the year represents contributions paid by the Group into the defined contribution pension scheme and amounted to £2,265k (2019: £2,285k). A liability of £nil (2019: £nil) existed in respect of pension contributions at 31 December 2020.

**b) Defined benefit schemes**

**Xylem UK Pension Plan (XUPP)**

The Xylem UK Pension Plan (XUPP) (previously called the ITT Industries General Pension Plan) closed to new entrants in November 2007 and all future payments due in future years are to recover the deficit of the scheme. The XUPP is a defined benefit scheme in the UK that shares risks between entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost to individual group entities; therefore the net defined benefit cost of the whole defined benefit Plan is recognised in the financial statements of Xylem Water Solutions UK Limited, which is legally responsible for the plan. Xylem Water Services Limited recognises a cost equal to its contributions payable for the period in its individual financial statements.

The plan is a defined benefit plan providing benefits that are linked to salary at the date of the plan closure or an earlier date of leaving service. The Plan is now closed to future accrual with benefits for non-pensioners increasing broadly in line with inflation in the period to retirement. The Plan is governed by Trustee Directors, who are responsible for ensuring that there are sufficient funds to meet current and future obligations. The plan's assets are held in a separate fund from the Group's assets. The contributions payable into the plan are determined by the Trustee Directors and the plan's sponsoring Company, Xylem Water Solutions UK Limited, after obtaining the advice of the Scheme Actuary at each formal triennial actuarial valuation.

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan (XUPP) (continued)**

A full actuarial valuation of the defined benefit scheme was carried out at 1 January 2019 by a qualified independent actuary. During this valuation it was found that no further deficit reduction contributions would be required and therefore it was agreed to drop the annual payments from £5,800k to £1,100k with the aim of the new contributions just covering the administration cost of the scheme.

The most recent triennial funding valuation as at 1 January 2019 found that the Plan was in surplus at that date, so no deficit funding contributions were required. A new schedule of contributions was agreed on 9 March 2020, whereby the Company pays £100k per month with effect from 1 February 2020 to cover the cost of expenses payable by the Plan.

However, the plan has since entered into a 'buy-in' arrangement with an insurance company. With effect from 27 January 2020, when the risk was formally transferred, the bulk of the plan's assets were used to purchase annuities in the name of the Trustee to cover most of the Plan's liabilities. As a result, the Company paid additional contributions of £5,872k over 2020, as summarised in the disclosures, and continues to pay £170k per month to cover a higher level of expenses in the run-up to the Plan's expected buy-out.

The valuation used has been based on the most recent formal actuarial valuation at 1 January 2019, with allowance made for enhanced transfer values paid out of the Plan during 2019 (which were accounted for as a settlement within the 31 December 2019 year-end disclosures), and then adjusted in an approximate manner to calculate the defined benefit obligation as at 31 December 2020 for FRS102 purposes.

Plan assets are stated at their fair values at the respective balance sheet dates, and include invested assets (at 31 December 2019), monies held in the Trustee bank account and the value of insurance policies held in the name of the Plan Trustee measured using the FRS102 assumptions at the respective year-ends.

A further judgment in the Lloyds High Court case on GMP equalisation was issued in November 2020 and this will mean that some historic transfer payments will need to be revisited in light of GMP equalisation. This has given rise to a past service cost of £188k over the year to 31 December 2020. Aside from this past service cost, there have been no other plan amendments, curtailments or settlements over the year.

The contributions made by Xylem Europe GmbH, a fellow group company, amounted £2,440k (2019: £283k) and have been recorded in the profit and loss account within other operating income (note 5). Total contributions paid to the scheme by the Group amounted £6,972k (2019: £1,100k). A liability of £nil (2019: £nil) existed in respect of pension contributions at 31 December 2020. The total contributions to be paid to the scheme by the Group for 2021 are expected to be £2,040k.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2020. The major assumptions used by the actuary were:

	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Discount rate	1.30	2.00
- RPI price inflation, capped at 2.5%	2.10	2.15
- CPI price inflation, capped at 3%	2.15	2.00
- CPI price inflation, capped at 5%	2.40	2.15
RPI price inflation	3.00	3.15
CPI price inflation	2.40	2.15

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan (XUPP) (continued)**

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	<b>2020</b> <b>Years</b>	<b>2019</b> <b>Years</b>
Male	23.0	23.1
Female	25.0	25.0

The average life expectancy for an employee retiring at 65 that is aged 45 at the reporting date is:

	<b>2020</b> <b>Years</b>	<b>2019</b> <b>Years</b>
Male	24.7	24.8
Female	26.8	26.9

**Sensitivities of the scheme assets**

	<b>Change in</b> <b>DBO</b> <b>2020</b> <b>£'000</b>	<b>Change</b> <b>in DBO</b> <b>2019</b> <b>£'000</b>
Change of -1% in discount rate	47,692	39,854
Change of +1% in inflation rate	21,613	21,198
Change of +1 years in life expectancy	10,390	8,831

**Assets and liabilities of the scheme**

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Fair value of scheme assets	242,111	243,961
Present value of defined benefit obligation	(246,542)	(214,840)
(Deficit)/surplus in the scheme	(4,431)	29,121
Restriction on pension asset	-	(29,121)
Net pension liability	(4,431)	-

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan (XUPP) (continued)**

**Fair value of scheme assets**

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	<b>Scheme assets 2020 %</b>	<b>Value 2020 £'000</b>	<b>Scheme assets 2019 %</b>	<b>Value 2019 £'000</b>
Liability hedging	-	-	99.5	242,804
Cash	0.7	1,650	0.3	726
Insured pensions	99.3	240,461	0.2	431
	<u>100.0</u>	<u>242,111</u>	<u>100.0</u>	<u>243,961</u>

**Reconciliation of the fair value of the scheme assets**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Fair value of scheme assets at 1 January	243,961	247,187
Interest income on scheme assets	4,845	6,808
Actuarial (loss)/gain on scheme assets	(3,302)	15,031
Employer contributions	4,532	817
Contributions paid by other group companies (note 4)	2,440	283
Administration expenses	(2,175)	(2,324)
Benefits paid	(8,190)	(7,080)
Assets distributed on settlements	-	(16,761)
Fair value of scheme assets at 31 December	<u>242,111</u>	<u>243,961</u>

**Reconciliation of the present value of the scheme liabilities**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Present value of scheme liabilities at 1 January	214,840	205,621
Interest cost	4,215	5,619
Past service cost	188	-
Actuarial loss on scheme assets	35,489	27,489
Benefits paid	(8,190)	(7,080)
Liabilities curtailed on settlements	-	(16,809)
Present value of scheme liabilities at 31 December	<u>246,542</u>	<u>214,840</u>

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan (XUPP) (continued)**

**Analysis of amounts charged to operating profit**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Past service cost	188	-
Administration expenses	2,175	2,324
	<u>2,363</u>	<u>2,324</u>

**Analysis of amounts credited/(charged) to other finance income**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Expected return on pension scheme assets	4,845	6,808
Interest on pension scheme liabilities	(4,215)	(5,619)
Interest cost adjustment	(582)	(1,205)
	<u>48</u>	<u>(16)</u>
Net finance income/(costs) (note 10)		

**Amounts transferred to statement of other comprehensive income**

	<b>2020</b> <b>£'000</b>	<b>2019</b> <b>£'000</b>
Actuarial (loss)/gain on scheme assets	(3,302)	15,031
Actuarial loss on scheme liabilities	(35,489)	(27,489)
Interest cost adjustment	582	1,205
Movement in restriction on pension asset	29,121	12,445
	<u>(9,088)</u>	<u>1,192</u>
Net (loss)/gain		



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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan (XUPP) (continued)**

**Movement in asset/(deficit) during the year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Asset in scheme at 1 January	-	-
Employer contributions	4,532	817
Contributions paid by other group companies (note 4)	2,440	283
Past service cost	(188)	-
Administration expenses	(2,175)	(2,324)
Net finance income/(costs)	48	(16)
Actuarial gain	(9,088)	1,192
Gain on settlements	-	48
	<hr/>	<hr/>
Deficit in scheme at 31 December	<b>(4,431)</b>	<b>-</b>

**Godwin Pumps Limited Pension Scheme**

The Group participates in the Godwin Pumps Limited Pension Scheme, a fully funded defined benefit pension scheme. On 30 June 2014, the scheme was closed to new entrants and future accruals, with all participants transferred to the defined contribution scheme. Total contributions paid to the scheme amounted £729k (2019: £630k). The total contributions to be paid to the scheme by the Group for 2021 are expected to be £860k. A liability of £nil (2019: £nil) existed in respect of pension contributions at 31 December 2020.

The pension payable to an individual is based on their average earnings calculated over the period of pensionable service.

A full actuarial valuation of the Goodwin Pumps Limited Pension Scheme was undertaken at 1 May 2020.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2020. The major assumptions used by the actuary were:

	<b>2020</b>	<b>2019</b>
Discount rate	1.30%	2.10%
Inflation assumption (RPI)	2.90%	3.10%
Inflation assumption (CPI)	2.40%	2.10%
Rate of increase in deferred pensions	2.40%	2.10%
Salary increase	2.40%	3.00%

Employees are entitled to retirement benefits upon reaching the retirement age of 65.

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Godwin Pumps Limited Pension Scheme (continued)**

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	<b>2020 Years</b>	<b>2019 Years</b>
Male	21.9	22.1
Female	24.5	24.0

**Sensitivities of the scheme liabilities**

	<b>Change in DBO 2020 £'000</b>	<b>Change in DBO 2019 £'000</b>
Change of -0.10% in discount rate	698	639
Change of +0.10% in inflation rate	677	607
Change of 1.50% in long term mortality rate	439	356

**Assets and liabilities of the scheme**

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	<b>2020 £'000</b>	<b>2019 £'000</b>
Fair value of scheme assets	23,944	21,265
Present value of defined benefit obligation	(36,087)	(31,633)
<b>Net pension liability</b>	<b>(12,143)</b>	<b>(10,368)</b>

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Godwin Pumps Limited Pension Scheme (continued)**

**Fair value of scheme assets**

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	<b>Scheme assets 2020 %</b>	<b>Value 2020 £'000</b>	<b>Scheme assets 2019 %</b>	<b>Value 2019 £'000</b>
Equities	31.9	7,643	83.6	17,786
Diversified growth fund	55.2	13,223	15.1	3,213
Cash and other	12.9	3,078	1.3	266
	<u>100.0</u>	<u>23,944</u>	<u>100.0</u>	<u>21,265</u>

**Reconciliation of the fair value of the scheme assets**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Fair value of scheme assets at 1 January	21,265	19,360
Expected return on scheme assets	442	557
Actuarial gain	2,625	1,641
Group contributions	729	630
Benefits paid	(1,021)	(923)
Administration expenses	(96)	-
Fair value of scheme assets at 31 December	<u>23,944</u>	<u>21,265</u>

**Reconciliation of the present value of the scheme liabilities**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Present value of scheme liabilities at 1 January	31,633	28,234
Interest cost	654	806
Actuarial loss	4,821	3,516
Benefits paid	(1,021)	(923)
Present value of scheme liabilities at 31 December	<u>36,087</u>	<u>31,633</u>

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**20. Retirement benefit schemes (continued)**

**b) Defined benefit schemes (continued)**

**Godwin Pumps Limited Pension Scheme (continued)**

**Analysis of amounts charged to operating profit**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Administration expenses	96	-

**Analysis of amounts charged to other finance costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on pension scheme assets	(442)	(557)
Interest on pension scheme liabilities	654	806
Net finance costs (note 10)	212	249

**Amounts transferred to statement of other comprehensive income**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial gain on scheme assets	2,625	1,641
Actuarial loss on scheme liabilities	(4,821)	(3,516)
Net loss	(2,196)	(1,875)

**Movement in deficit during the year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Deficit in scheme at 1 January	(10,368)	(8,874)
Administration expenses	(96)	-
Group contributions	729	630
Net finance costs	(212)	(249)
Actuarial loss	(2,196)	(1,875)
Deficit in scheme at 31 December	(12,143)	(10,368)

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**20. Retirement benefit scheme (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan for UK Expatriates (XPPX)**

The Group participates in the Xylem Pension Plan for UK Expatriates (XPPX) (previously known as the ITT Industries Pension Plan for UK Expatriates). The pension cost charge for the year represents contributions paid by the Group of £50k (2019: £50k) into this defined benefit pension scheme. A liability of £nil (2019: £nil) existed in respect of pension contributions at 31 December 2020. The contributions to be paid to the scheme by the Group for 2021 are expected to be £50k.

The XPPX is a defined benefit scheme in the UK of which the assets and liabilities are held independently from the Group. The expected cost of providing pensions, as calculated periodically by a professionally qualified independent actuary, is charged to the profit and loss account so as to spread the cost over the service life of the employees in the scheme in such a way that the pension cost is a substantially level percentage of current expected future pensionable payrolls.

The plan provided benefits linked to salary at retirement or earlier date of leaving services. The plan is now closed to future accrual with benefits for non-pensioners increasing broadly in line with inflation in the period to retirement.

Under the rules of the scheme, the contributions payable into plan are set by the employer at each triennial valuation, after consulting with the Trustees and after obtaining the advice of the scheme Actuary. The most recent triennial funding valuation as at 1 January 2018 found that the Plan was in surplus at that date on the Group's funding basis, so no deficit funding contributions were required.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2020. The major assumptions used by the actuary were:

	<b>2020</b>	<b>2019</b>
Discount rate	1.10%	1.85%
Inflation assumption (RPI)	3.05%	3.30%
Inflation assumption (CPI)	2.40%	2.30%

Employees are entitled to retirement benefits upon reaching the retirement age of 65.

The average life expectancy for a pensioner retiring at 65 on the reporting date is:

	<b>2020 Years</b>	<b>2019 Years</b>
Male	23.0	23.1
Female	25.0	25.0

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**20. Retirement benefit scheme (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)**

**Sensitivities of the scheme assets**

	Change in DBO 2020 £'000	Change in DBO 2019 £'000
Change of -1% in discount rate	863	771
Change of +1% in inflation rate	158	113
Change of +1 years in life expectancy	360	299

**Assets and liabilities of the scheme**

The amounts included in the balance sheet arising from the Group's obligations in respect of defined benefit scheme are as follows:

	2020 £'000	2019 £'000
Fair value of scheme assets	8,174	8,127
Present value of defined benefit obligation	(7,923)	(7,766)
Surplus in the scheme	251	361
Restriction on pension asset	(251)	(361)
Net pension asset	-	-

The pension asset has been restricted following the closure of the scheme as the asset cannot be recovered through a reduction in future contributions.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**20. Retirement benefit scheme (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)**

**Fair value of scheme assets**

The fair value of the major categories of the scheme assets as a percentage of total scheme assets are as follows:

	<b>Scheme assets 2020 %</b>	<b>Value 2020 £'000</b>	<b>Scheme assets 2019 %</b>	<b>Value 2019 £'000</b>
UK equities	1.0	85	1.0	81
Overseas equities	4.3	351	4.3	348
Index linked gilts	14.6	1,190	14.7	1,192
Fixed interest	29.0	2,367	29.6	2,407
Corporate bonds	49.9	4,078	49.5	4,020
Cash and other	1.2	103	0.9	79
	<b>100.0</b>	<b>8,174</b>	<b>100.0</b>	<b>8,127</b>

**Reconciliation of the fair value of the scheme assets**

	<b>2020 £'000</b>	<b>2019 £000</b>
Fair value of scheme assets at 1 January	8,127	7,996
Expected return on scheme assets	145	201
Employer contributions	50	50
Actuarial gain	430	460
Administration costs	(91)	(74)
Benefits paid	(487)	(506)
Fair value of scheme assets at 31 December	<b>8,174</b>	<b>8,127</b>

**Reconciliation of the present value of the scheme liabilities**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Present value of scheme liabilities at 1 January	7,766	7,468
Interest cost	139	188
Actuarial loss	505	616
Benefits paid	(487)	(506)
Present value of scheme liabilities at 31 December	<b>7,923</b>	<b>7,766</b>

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**20. Retirement benefit scheme (continued)**

**b) Defined benefit schemes (continued)**

**Xylem UK Pension Plan for UK Expatriates (XPPX) (continued)**

**Analysis of amounts charged to operating profit**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Administration costs	91	74

**Analysis of amounts (credited)/charged to other finance costs**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Expected return on pension scheme assets	(145)	(201)
Interest on pension scheme liabilities	139	188
Interest cost adjustment	6	13
Net finance costs (note 10)	-	-

**Amounts transferred to statement of other comprehensive income**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial gain on scheme assets	430	460
Actuarial loss on scheme liabilities	(505)	(616)
Restriction on pension asset excluding interest cost adjustment	117	181
Net gain	42	25

**Movement in asset during the year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Asset in scheme at 1 January	-	-
Employer contributions	50	50
Administration expenses	(91)	(74)
Net finance income	6	13
Actuarial loss	(75)	(156)
Restriction on pension asset including interest cost adjustment	110	167
Asset in scheme at 31 December	-	-



**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**21. Share capital and reserves**

**Called up share capital**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<i>Allotted, called-up and fully paid</i>		
2,101 ordinary shares of £1 each	<u>2</u>	<u>2</u>

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

**Share premium account**

	<b>£'000</b>
At 1 January 2020 and at 31 December 2020	<u>271,999</u>

The share premium account represents the consideration received for shares issued above their nominal value net of transaction costs.

**Profit and loss account**

The cumulative profit and loss, net of distributions to the owners of the Group.

**22. Cash flow statement**

**Reconciliation of operating profit to cash generated by operations**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Operating loss	(4,480)	(5,003)
Adjustment for:		
Amortisation (note 12)	9,668	9,660
Depreciation (note 13)	1,487	1,360
Loss/(profit) on sale of tangible assets	<u>15</u>	<u>(12)</u>
Operating cash inflow before movement in working capital	6,690	6,005
Inventories (note 14)	2,841	(916)
Trade and other receivables	74,098	(64,506)
Trade and other payables	(78,867)	62,204
Pension contributions in excess of operating costs	(5,200)	571
Provisions and other financial liabilities (note 19)	<u>1,523</u>	<u>291</u>
Net cash inflows from operating activities	<u>1,085</u>	<u>3,649</u>

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**22. Cash flow statement (continued)**

**Net debt reconciliation**

	Restated At 1 January 2020 £'000	Cash flows £'000	Other non- cash changes £'000	At 31 December 2020 £'000
Cash and cash equivalents	2,812	175	-	2,987
	2,812	175	-	2,987
<b>Net debt due within one year</b>				
Obligations under finance leases (note 16)	(12)	12	(12)	(12)
<b>Net debt due after more than one year</b>				
Obligations under finance leases (note 17)	(24)	-	12	(12)
Amounts due to parent and other group Companies (note 17)	(119,045)	-	-	(119,045)
Net debt	(116,269)	187	-	(116,082)

A loan of £30m due to another group company was previously netted off within Debtors: amounts falling due within one year. This loan has now been restated to Creditors: amounts falling due after more than one year as the loan is not due for repayment until 31 March 2022 and is not repayable on demand.

**23. Financial commitments**

The group participates in a treasury arrangement, which calls for unlimited bank cross-guarantees between certain group companies. The net amount due to the bank at year-end was £nil (2019: £nil).

The Group had minimum lease payments under non-cancellable operating leases as set out below:

	Land & buildings		Other	
<i>Operating leases which expire:</i>	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Within one year	987	1,143	1,647	1,844
Between two and five years	1,430	2,784	2,213	1,995
After five years	308	2,329	-	-
	2,725	6,256	3,860	3,839

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**23. Financial commitments (continued)**

The Group had obligations under finance leases as set out below:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<i>Net obligation payable:</i>		
Within one year (note 16)	12	12
Between two and five years (note 17)	12	24
	<hr/>	<hr/>
	<b>24</b>	<b>36</b>
	<hr/>	<hr/>

**24. Post balance sheet events**

***COVID-19 pandemic***

On 4 January 2021 the Prime Minister announced a third national lockdown and instructed people to stay at home to control the spread of the Covid-19 virus. On the 22 February 2021 the Prime Minister announced the roadmap out of lockdown, with the ending of restrictions on 21 June 2021

We will continue to work with our customers, employees, suppliers and communities to address the impacts of COVID-19 pandemic. We also continue to assess the evolving nature of the pandemic and its possible implications to our business, supply chain and customers, and to take actions in an effort to mitigate adverse consequences. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic would have a material adverse effect on the financial position or liquidity of the Group.

***Other events since the balance sheet date***

Post year end, a small number of back office functions were transitioned from a 3rd party provider into the Xylem accounting team.

On 27 May 2021, the Group entered into an asset sale agreement with Jec Co., Ltd (the purchaser), a Korean joint stock company. In addition, the parties have entered into a Transitional Services Agreement pursuant to which the Group will provide certain services to the purchaser to assist the purchaser during a transition period of 5 months with the starting up of the business under the purchaser's ownership as well as with production and sales. Taking into account the required time for such a transfer, the Group has produced, or will during the transition period, produce certain products, enabling the purchaser to be able to continue supplying customers and distributors. The net consideration received was \$1,831k, realising a profit of £1,120k.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**25. Financial Instruments**

The carrying values of the Group financial assets and liabilities are summarised by category below:

	<b>2020</b>	<b>Restated 2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial assets measured at amortised cost</b>		
Cash	2,987	2,812
Trade debtors (note 15)	27,577	33,082
Amounts due from parent company (note 15)	1	1
Amounts due from other group companies:		
- Interest bearing (note 15)	91,963	157,911
- Non-interest bearing (note 15)	2,723	3,967
	<u>125,251</u>	<u>197,773</u>
 <b>Financial liabilities measured at amortised cost</b>	 <b>2020</b>	 <b>Restated 2019</b>
	<b>£'000</b>	<b>£'000</b>
Obligations under finance leases (note 16)	12	12
Trade creditors (note 16)	7,181	9,329
Amounts due to other group companies (note 16)	14,765	93,901
Amounts due to other group companies (note 17)	119,045	119,045
Obligations under finance leases (note 17)	12	24
	<u>141,015</u>	<u>222,311</u>

Amounts due to other group companies for 2019 have been restated to Creditors: amounts falling due after more than one year by £30,000,000 as the loans are not due for repayment until 31 March 2022 and are not repayable on demand.

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest income/(expense)</b>		
Total interest income for financial assets at amortised cost (note 8)	90	403
Total interest expense for financial liabilities at amortised cost (note 9)	<u>(4,025)</u>	<u>(4,677)</u>

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**26. Share-based payments**

**Stock Option Grants**

The options are awarded with a contractual term of ten years and generally vest over a three-year period and are exercisable within the contractual term, except in certain instances of death, retirement or disability. The exercise price per share is the fair market value of the underlying common stock on the date each option is granted.

**Restricted Stock Unit Grants**

Restricted shares granted to employees in 2020 vest over a three-year period. Restricted shares granted to employees prior to 2020 generally become fully vested upon the third anniversary of the date of grant. Prior to the time a restricted share becomes fully vested, the awardees cannot transfer, pledge, hypothecate or encumber such shares. Prior to the time a restricted share is fully vested, the awardees do not have certain rights of a stockholder, such as the right to vote and receive dividends; however, dividends accrue during the vesting period and are paid upon vesting. If an employee leaves prior to vesting, whether through resignation or termination, the restricted stock unit and related accrued dividends are forfeited. If an employee retires, a pro rata portion of the restricted stock unit may vest in accordance with the terms of the grant agreements.

**Performance Share Units**

Performance share units granted under the long-term incentive plan vest based upon performance by the Group over a three-year period against targets approved by the compensation committee. For the performance periods, the performance share units were granted at a target of 100% with actual pay out contingent upon the achievement of a pre-set, three-year adjusted Return on Invested Capital (ROIC) and cumulative adjusted net income performance target for ROIC performance share units and a relative total shareholder return (TSR) performance for TSR performance share units.

**27. Related party transactions**

In accordance with the exemption in FRS 102 section 33, related party transactions with other group companies which are owned 100% by Xylem Water Holdings Limited have not been disclosed.

**Other related party transactions**

There are no key management personnel other than the directors.

**28. Ultimate controlling party**

As at 31 December 2020 the Company and its subsidiaries are wholly owned subsidiaries of Xylem Industries S.à.r.l., a company incorporated in Luxembourg. Xylem Industries S.à.r.l. is the immediate parent company.

The ultimate holding company and controlling party is Xylem Inc., a company incorporated in the United States of America.

The largest and smallest group in which these financial statements are consolidated is that of the ultimate holding company, Xylem Inc. The financial statements of that company are available from its registered office at 1 International Drive, Rye Brook, NY 10573, USA.

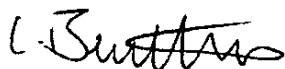
**XYLEM WATER HOLDINGS LIMITED**  
**COMPANY BALANCE SHEET**  
**AS AT 31 DECEMBER 2020**

	Notes	2020 £'000	2019 £'000
<b>Fixed assets</b>			
Investments	5	53,779	53,779
<b>Current assets</b>			
Debtors	6	3,514	3,980
Creditors: amounts falling due within one year	7	(16,213)	(15,414)
Net current liabilities		(12,699)	(11,434)
<b>Total assets less current liabilities</b>		41,080	42,345
<b>Creditors: amounts falling due after more than one year</b>	8	(75,045)	(75,045)
<b>Net liabilities</b>		(33,965)	(32,700)
<b>Capital and reserves</b>			
Called up share capital	9	2	2
Share premium account	9	271,999	271,999
Profit and loss account	9	(305,966)	(304,701)
<b>Shareholders' deficit</b>		(33,965)	(32,700)

For the financial year ended 31 December 2020 the Company reported a loss of £1,265k (2019: loss of £3,514k).

Notes 1 to 11 on pages 62 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 December 2021 and are signed on its behalf by:



**L J Bentley**  
Director

**XYLEM WATER HOLDINGS LIMITED**  
**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>Called up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 January 2019</b>	2	271,999	(301,187)	(29,186)
Loss for the financial year	-	-	(3,514)	(3,514)
<b>Balance at 31 December 2019</b>	<u>2</u>	<u>271,999</u>	<u>(304,701)</u>	<u>(32,700)</u>

	<b>Called up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 January 2020</b>	2	271,999	(304,701)	(32,700)
Loss for the financial year	-	-	(1,265)	(1,265)
<b>Balance at 31 December 2020</b>	<u>2</u>	<u>271,999</u>	<u>(305,966)</u>	<u>(33,965)</u>

Notes 1 to 11 on pages 63 to 70 form an integral part of these financial statements.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1. Significant accounting policies**

**Company information**

Xylem Water Holdings Limited ("the Company") is a private company limited by shares domiciled and incorporated in England and Wales. The registered office is at Private Road No 1, Colwick Industrial Estate, Nottingham, United Kingdom, NG4 2AN. The Company's principal activity is to act as a holding company for a group of companies which are involved in the water industry.

**Basis of preparation**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 under the historical cost convention.

The financial statements are presented in sterling which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest whole £1,000 except where otherwise indicated.

**Consolidated financial statements**

The financial statements of the Company are included in the financial statements of Xylem Inc. The consolidated financial statements of Xylem Inc. are available from its registered office at 1 International Drive, Rye Brook, NY 10573, USA.

**Reduced disclosures**

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares
- Section 7 'Statement of Cash Flows' – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 12 'Other Financial Instruments' – Disclosure exemptions relating to financial instruments
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

**Going concern**

The directors are aware that there will always be an element of economic uncertainty around making a going concern assessment of the Company. However, on 27 August 2021, the directors received a letter of support from Xylem Inc., the ultimate parent company that it will continue to provide financial support in order for the Company to meet its financial obligations for a minimum of twelve months from the date these financial statements are approved. The directors are satisfied that the letter of support is sufficient to determine that the loan and accrued interest the Company owes to Xylem Europe GmbH. will not be recalled in the next 12 months from the date of signing the accounts. As a result, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

**Borrowing costs**

The costs of borrowing on interest bearing loans are recognised in the profit and loss account on an accruals basis.

**Investments**

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in the profit and loss account.

A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.



**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1. Significant accounting policies (continued)**

**Impairment of investments**

At each reporting end date, the company reviews the carrying amounts of its investments to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to dispose and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

**Financial assets**

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

***Basic financial assets***

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

***Other financial assets***

Financial assets classified as other financial assets are stated at fair value with any gains or losses arising on re-measurement recognised in the profit and loss account. The net gain or loss recognised in the profit and loss account includes any dividend or interest earned on the financial asset

***Impairment of financial assets***

Financial assets, other than those held at fair value through the profit and loss account, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the profit and loss account.

***De-recognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

**Financial liabilities**

Financial liabilities are classified as either basic or other financial liabilities.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**1. Significant accounting policies (continued)**

***Basic financial liabilities***

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

***Other financial liabilities***

Financial liabilities classified as other financial liabilities are stated at fair value with any gains or losses arising on re-measurement recognised in the profit and loss account.

***De-recognition of financial liabilities***

Financial liabilities are derecognised when, and only when, the Company's obligations are discharged, cancelled, or they expire.

***Taxation***

The tax expense represents the sum of the current tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

***Foreign exchange***

Transactions in currencies other than the functional currency (foreign currency) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

## **XYLEM WATER HOLDINGS LIMITED**

### **NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **2. Critical accounting estimates and judgements**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

There are not considered to be any critical accounting estimates or judgements.

#### **3. Loss for the year**

As permitted by s408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company. The loss attributable to the Company is disclosed in the footnote of the company's balance sheet.

#### **4. Employees and directors' remuneration**

There were no employees of the Company in the year (2019: nil).

During the year and preceding year, the directors' received remuneration from Xylem Water Services Limited, a fellow group company within the UK. No remuneration has been charged to the profit and loss account in respect of their services to the Company in either years being reported, since it is not practical to allocate.

#### **5. Investments in subsidiaries**

	<b>£'000</b>
<b>Cost</b>	
At 1 January 2020 and at 31 December 2020	312,327
<b>Provision for Impairment</b>	
At 1 January 2020 and at 31 December 2020	258,548
<b>Net book value</b>	
At 31 December 2020	53,779
At 31 December 2019	53,779

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**5. Investments in subsidiaries (continued)**

**a) Directly owned by the Company:**

<i>Name of company</i>	<i>Class of Share-holding</i>	<i>Proportion of nominal value held directly</i>	<i>Nature of business</i>	<i>Country of incorporation</i>	<i>Registered office</i>
Xylem Water Solutions UK Holdings Ltd*	Ordinary	100%	Holding company	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Pension Trustee Management Ltd**	Ordinary	100%	Dormant	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Bellingham & Stanley Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Lowara UK Ltd**	Ordinary	100%	Dormant	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Godwin Holdings Ltd**	Ordinary	100%	Dormant	England & Wales	Quenington Fairford Cirencester Gloucestershire GL7 5BX
Xylem Water Services Ltd*	Ordinary	100%	Head Office	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem IP UK S.à.r.l.	Ordinary	50%	Holding company	Luxembourg	11 Breedewues L-1259 Senningerberg Luxembourg

\* Exempt from audit by virtue of s479A of Companies Act 2006 as Xylem Water Holdings Limited provided the required guarantee.

\*\* Exempt from preparing accounts for a dormant subsidiary by virtue of s394A-C and exempt from filing accounts for a dormant subsidiary by virtue of s448A-C.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**5. Investments in subsidiaries (continued)**

**b) Indirectly owned by the Company:**

<i><b>Name of Company</b></i>	<i><b>Class of Share-holding</b></i>	<i><b>Proportion of nominal value held directly</b></i>	<i><b>Nature of business</b></i>	<i><b>Country of incorporation</b></i>	<i><b>Registered office</b></i>
Xylem Water Solutions UK Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Water Process Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem Water Solutions Rugby Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Xylem Dewatering Solutions UK Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Quenington Fairford Cirencester Gloucestershire GL7 5BX
BS Pumps Ltd**	Ordinary	100%	Dormant	Northern Ireland	Hydepark Commercial Centre Newtownabbey County Antrim BT36 4PY
Arrow Rentals Ltd	Ordinary	100%	Dormant	Ireland	50 Broomhill Close Airton Road Tallaght Dublin 24
Xylem Water Solutions Ireland Ltd***	Ordinary	26%	Fluid Tech	Ireland	50 Broomhill Close Airton Road Tallaght Dublin 24

\* Exempt from audit by virtue of s479A of Companies Act 2006 as Xylem Water Holdings Limited provided the required guarantee.

\*\* Exempt from preparing accounts for a dormant subsidiary by virtue of s394A-C and exempt from filing accounts for a dormant subsidiary by virtue of s448A-C.

\*\*\* The value of the investment is valued at £nil since it has been fully impaired.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**6. Debtors: amounts due within one year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by parent company	1	1
Amounts owed by subsidiaries	3,513	3,979
	<u>3,514</u>	<u>3,980</u>

In the current year group relief has been allocated to the relevant group company, and now included in Amounts owed by direct subsidiaries. Amounts due from the parent company and subsidiaries are unsecured, non-interest bearing and receivable on demand.

**7. Creditors: amounts falling due within one year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to subsidiaries	10,257	10,031
Amounts owed to other group companies:		
- Interest bearing	5,922	5,345
Other creditors	34	38
	<u>16,213</u>	<u>15,414</u>

Loan interest charged on any short-term cash pool balances is calculated at European Central Bank rate plus 0.5%, equating to an average of 1.10% for EUR and 1.59% for GBP. Amounts owed to subsidiaries and other group companies are unsecured and repayable on demand.

**8. Creditors: amounts falling due after more than one year**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed to other group companies	<u>75,045</u>	<u>75,045</u>

On 31 May 2019 loans with Xylem Industries S.à.r.l were transferred to Xylem Europe GmbH, another group company.

Interest is charged on loan 1 (£15m) at 6.15% and on loan 2 (£30m) at 5.97%. Both loans are repayable to Xylem Europe GmbH in 2031.

In addition, there is a further loan from Xylem Europe GmbH of £30m (2019: £30m) in which interest is charged at a variable rate of £3m LIBOR + 1.20%, with maturity scheduled for 31 March 2022.

**XYLEM WATER HOLDINGS LIMITED**  
**NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**9. Capital and reserves**

**Called up share capital**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
<i>Allotted, called-up and fully paid</i>		
2,101 ordinary shares of £1 each	2	2

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

**Share premium account**

	<b>£'000</b>
At 1 January 2020 and at 31 December 2020	271,999

The share premium account represents the consideration received for shares issued above their nominal value net of transaction costs.

**Profit and loss account**

The cumulative profit and loss, net of distributions to the owners of the Company.

**10. Related party transactions**

In accordance with the exemption in FRS 102 section 33, related party transactions with other group companies which are 100% owned by the Company have not been disclosed.

**11. Ultimate controlling party**

As at 31 December 2020 the Company is a wholly owned subsidiary of Xylem Industries S.à.r.l., a company incorporated in Luxembourg. Xylem Industries S.à.r.l. is the immediate parent company.

The ultimate holding company and controlling party is Xylem Inc., a company incorporated in the United States of America.

The smallest group in which these financial statements are consolidated is this Company and its subsidiaries.

The largest group in which these financial statements are consolidated is that of the ultimate holding company, Xylem Inc. The financial statements of that company are available from its registered office at 1 International Drive, Rye Brook, NY 10573, USA.