

XYLEM WATER HOLDINGS LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2019



XYLEM WATER HOLDINGS LIMITED

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XYLEM WATER HOLDINGS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS

C J Rhodes
B A West
M A Turner
I L Thompson
P A Morris

SECRETARY

N A Tancred

REGISTERED OFFICE

Private Road No 1
Colwick Industrial Estate
Nottingham
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AUDITOR

Deloitte LLP
Statutory Auditor
1 Woodborough Road
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XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

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 increased in the year by 1.3% from £216,906k to £219,628k. Group operating loss before exceptional items increased by 42.4% to £5,003k compared to £8,693k in 2018 due to a reduction in operating costs of £3,011k. Subsequent to a ruling of the high court in October 2018, with respect to Employers with Defined Benefit Pension Schemes there is a requirement to adopt a method to equalise benefits for men and women in relation to the Guaranteed Minimum Pension (GMP), the Group incurred costs of £2,381k in 2018. The Group received contributions to its defined benefit pension plan (XUPP) from Xylem Europe GmbH, a fellow group company, amounting to £283k in the year (2018: £283k). The loss for the year after interest and taxation amounted to £10,451k compared to a loss of £15,702k in 2018, resulting in net assets of £2,165k (2018: £13,020k).

FUTURE DEVELOPMENTS

Xylem Water Solutions UK Limited: the company continues to improve its business processes and customer services. The new AMP cycle for UK water companies began in 2020 and the traditional slow capital spend in the first year has been exacerbated by the COVID-19 pandemic, this has been partially offset by operational spend as the Utilities ensure continuity of water and waste water services. The second year of the AMP cycle traditionally yields better Capital expenditure but Utility budgets are unclear, despite strong activity. Our building services and industrial verticals have begun a slow ramp up after the lock down period of quarter 2 2020, but the speed of this ramp up is dependent on the highly volatile market. As such we are adopting a cautious approach to discretionary spend.

Water Process: 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, 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. At this stage the financial impact on the Group is not yet known.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

FUTURE DEVELOPMENTS (CONTINUED)

Xylem Dewatering Solutions UK Limited: the Outlook for the financial year 2020 has been impacted by the uncertainty in the market caused by the COVID-19 pandemic, Brexit and the cyclical nature of our business. The Directors have good visibility of opportunities within Emerging Markets and Europe to help grow the Godwin Brand in these regions. Together with sustained growth predicted in established markets, the company should see a benefit in volume throughout 2020 and beyond. The business is constantly working with our Intercompany Partners to realize opportunities to enhance the growth potential already in the business.

The R&D activity in 2019 and going into 2020 is focused on three main areas, bringing new innovative pump products to market such as the ultra-high head-pump, 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.

Bellingham & Stanley Limited: during 2019 the Research and Development department engaged in a full program of activities covering new product development, technical support and research. New products – building on our research from last year we focused on software enhancements to our products to meet the stringent data security and compliance requirements of the pharmaceutical and other industries. We also embarked on changing our handheld refractometers to improve world-wide marketability by compressing the full product range into one versatile unit. Technical support – release of our re-engineering from last year resulted in a significant fall in support demand. Our centre of attention moved toward supporting our internal and external customers with regard to compliance and legacy products. Research – we started researching polarimetry with a view to provide customer benefits through technology. Our patent applications were extended to world-wide cover.

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

KEY PERFORMANCE INDICATORS

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

	Audited	Unaudited
	2019	2018
EBITDA % of Turnover ⁽ⁱ⁾	2.7%	1.1%
EBITDA per employee (£'000) ⁽ⁱ⁾	£7	£3
Turnover per employee (£'000)	£257	£257

⁽ⁱ⁾ EBITDA is earnings before defined benefit pension credits, interest, tax, depreciation, amortisation and impairment.

Turnover has increased in the year by 1.3% from £216,906k to £219,628k and EBITDA has increased by 150% from £2,408k to £6,029k, resulting in the increase in EBITDA % of turnover by 1.6% and EBITDA per employee by £4k. Turnover per employee has remained consistent at £257k despite the increase in turnover, since the number of employees has increased by 9 in the year.

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.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

COVID-19

The COVID-19 pandemic and resulting measures taken by governments to contain the virus have already negatively impacted our business in the first half of 2020. In addition to the already known effects, 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 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.

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 2019 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.

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. The impact of Brexit on the Group is currently unknown as the negotiations have yet to be finalised. Management are closely monitoring the negotiations and the potential implication upon the Group.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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.

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.

XYLEM WATER HOLDINGS LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172(1) STATEMENT (CONTINUED)

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.

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 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 potentially 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 will take place with those at risk before the end of the January 2021. As a result of these potential changes the level of redundancies are as yet unknown.*

This report was approved by the Board of directors on 29 December 2020 and signed on behalf of the Board by:



C J Rhodes
Director

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019. The Company is registered as a limited company and domiciled in the United Kingdom.

DIVIDENDS

The directors are not proposing to pay a dividend in 2019 (2018: £nil).

FUTURE DEVELOPMENTS

The anticipated future developments of the Group have been discussed within the Strategic Report on page 2.

CHARITABLE DONATIONS

Charitable donations of £2k (2018: £nil) were made during the year.

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.

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.

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. Overall global operating capacity was close to 90% at the start of June 2020.

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. has recently 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.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

GOING CONCERN (CONTINUED)

The directors along with our colleagues in other Xylem companies have assessed the risks for the UK group business in the event of a 'no deal' Brexit and preparations have been made to ensure the risks have been mitigated. This includes new processes and changes in the IT environment necessary to reflect the UK's status as a country outside the EU. 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.

DIRECTORS

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

C J Rhodes

B A West

M A Turner (appointed 11 December 2019)

I L Thompson (appointed 11 December 2019)

P A Morris (appointed 11 December 2019)

DIRECTORS' INDEMNITY AND INSURANCE

The Group maintains directors' and officers' liability insurance. All of 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.

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 ENGAGEMENT

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

- Site 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.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

EMPLOYEE ENGAGEMENT (CONTINUED)

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.

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 7 to the financial statements.

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.

BUSINESS RELATIONSHIPS

During 2019 the Group maintained 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 2020. 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.

POST BALANCE SHEET EVENTS

Whilst the COVID-19 pandemic has impacted the Group, in terms of reduced revenues, management have taken a number of steps to manage our costs. The actions have focused on preserving our financial resilience and strategic positioning. The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic has adversely affected the financial position or liquidity of the Group, or given rise to any material post balance sheet adjusting event. This is considered a non-adjusting post balance sheet event.

XYLEM WATER HOLDINGS LIMITED
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

POST BALANCE SHEET EVENTS (CONTINUED)

In the second half of 2020, we are undertaking a group-wide program of cost actions and strategic initiatives to optimally position Xylem to succeed in a post-COVID-19 pandemic environment. Our focus is on preserving our financial resilience, strategically positioning the Group for new customer needs and market trends accelerated by the pandemic, and simplifying our operations to increase our ability to act as a one group and speed up decision-making. As part of these actions, we have closed the Farnborough office since the lease expired, activities have been relocated to other sites along with increased home-working, with a small number of redundancies associated with this site closure. The financial impact of closing Farnborough is not currently quantifiable due to the level of uncertainty around the specific arrangements and the related liabilities for exiting the facility.

While the COVID-19 pandemic has impacted the business, 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, we have taken steps to adapt and have continued to supply goods and services to customers.

In response to the COVID-19 pandemic, management have taken a number of steps to manage our costs, including a slowdown in recruitment, reducing discretionary expenditures and improving our inventory management. 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. Overall global operating capacity was close to 90% by the start of June 2020.

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.

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 29 December 2020 and signed on behalf of the Board by:



C J Rhodes
Director

XYLEM WATER HOLDINGS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2019

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XYLEM WATER HOLDINGS LIMITED

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 2019 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 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, 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

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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

Other information (continued)

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

We have nothing to report in respect of these matters.

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. This description forms part of our auditor's report.

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:

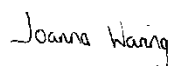
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' 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.

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

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
Nottingham, United Kingdom
Date: 29 December 2020

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Audited 2019 £'000	Unaudited 2018 £'000
Turnover	3	219,628	216,906
Cost of sales		(185,892)	(183,849)
Gross profit		33,736	33,057
Administrative expenses		(21,819)	(25,215)
Selling and distribution expenses		(17,203)	(16,818)
Other operating income	4	283	283
Operating loss before exceptional items		(5,003)	(6,312)
Exceptional items	5	-	(2,381)
Operating loss	6	(5,003)	(8,693)
Profit on disposal of fixed assets		12	82
Loss interest and taxation		(4,991)	(8,611)
Interest receivable and similar income	9	403	274
Interest payable and similar charges	10	(4,677)	(7,236)
Other finance costs	11	(265)	(190)
Loss before taxation		(9,530)	(15,763)
Tax on loss	12	(921)	61
Loss for the financial year		(10,451)	(15,702)

All operations of the Group are continuing.

Notes 1 to 28 on pages 21 to 58 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Audited 2019 £'000	Unaudited 2018 £'000
Loss for the financial year		<u>(10,451)</u>	<u>(15,702)</u>
Other comprehensive income/(expense):			
Deferred tax credit relating to other comprehensive income	19	254	147
Actuarial (loss)/gain on defined benefit pension scheme	21	<u>(658)</u>	<u>123</u>
Total comprehensive expense for the year		<u><u>(10,855)</u></u>	<u><u>(15,432)</u></u>

Notes 1 to 28 on pages 21 to 58 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Audited 2019 £'000	Unaudited 2018 £'000
Fixed assets			
Intangible assets	13	14,488	24,136
Tangible assets	14	6,566	6,485
		<u>21,054</u>	<u>30,621</u>
Current assets			
Stocks	15	18,816	17,900
Debtors	16	176,731	128,909
Cash at bank and in hand		2,812	1,190
		<u>198,359</u>	<u>147,999</u>
Creditors: amounts falling due within one year	17	<u>(117,382)</u>	<u>(50,484)</u>
Net current assets		<u>80,977</u>	<u>97,515</u>
Total assets less current liabilities		102,031	128,136
Creditors: amounts falling due after more than one year	18	<u>(89,207)</u>	<u>(106,242)</u>
Provisions for liabilities and charges	20	<u>(291)</u>	<u>-</u>
Net assets before pension liability		12,533	21,894
Defined benefit pension liability	21	<u>(10,368)</u>	<u>(8,874)</u>
Net assets		<u>2,165</u>	<u>13,020</u>
Capital and reserves			
Called up share capital	22	2	2
Share premium account	22	271,999	271,999
Profit and loss account	22	<u>(269,836)</u>	<u>(258,981)</u>
Total equity		<u>2,165</u>	<u>13,020</u>

Notes 1 to 28 on pages 21 to 58 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 December 2020 and are signed on its behalf by:



C J Rhodes
Director

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Unaudited	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	2	226,999	(243,549)	(16,548)
Loss for the financial year	-	-	(15,702)	(15,702)
Other comprehensive income:				
Deferred tax credit relating to other comprehensive income	-	-	147	147
Actuarial gain on defined benefit pension scheme (note 21)	-	-	123	123
Proceeds from shares issued (note 22)	-	45,000	-	45,000
Balance at 31 December 2018	<u>2</u>	<u>271,999</u>	<u>(258,981)</u>	<u>13,020</u>
Audited	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2019	2	271,999	(258,981)	13,020
Loss for the financial year	-	-	(10,451)	(10,451)
Other comprehensive income/(expense):				
Deferred tax credit relating to other comprehensive income	-	-	254	254
Actuarial loss on defined benefit pension scheme (note 21)	-	-	(658)	(658)
Balance at 31 December 2019	<u>2</u>	<u>271,999</u>	<u>(269,836)</u>	<u>2,165</u>

Notes 1 to 28 on pages 21 to 58 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Audited 2019 £'000	Unaudited 2018 £'000
Net cash inflow from operating activities	23	3,649	2,961
Returns from investments and servicing of finance:			
Interest received		-	3
Net cash outflow from returns on investments and servicing of finance		-	3
Income tax paid		(581)	(1,100)
Cash flows from financing activities			
Purchase to acquire tangible assets		(1,484)	(1,604)
Purchase to acquire intangible assets		(12)	-
Receipts from sales of tangible assets		57	268
Net Cash outflows for capital expenditure and financial investment		(1,439)	(1,336)
Net cash inflow before financing		1,629	528
Financing:			
Finance lease repayments		(6)	(6)
Interest paid on finance lease		(1)	(1)
Net cash outflow from financing		(7)	(7)
Net increase in cash and cash equivalents		1,622	521

Notes 1 to 28 on pages 21 to 58 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 2019

	Notes	Audited 2019 £'000	Unaudited 2018 £'000
Increase in cash	23	1,622	521
Net repayment of finance leases	23	6	6
Change in net debt resulting from cash flows		1,628	527
Other non-cash movements	23	17,000	44,952
Movement in net debt		18,628	45,479
Opening net debt	23	(104,897)	(150,376)
Closing net debt	23	(86,269)	(104,897)

Notes 1 to 28 on pages 21 to 58 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 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

This is the first year that consolidated group accounts have been prepared, as the Board had made the decision to obtain statutory audit exemption for Xylem Water Holding's subsidiaries as described below. Therefore the prior year 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 and the related consolidated group notes for that year are unaudited.

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 £3,514k (2018: loss of £6,111k).

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, 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 2019 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)

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

Going Concern

Whilst the COVID-19 pandemic has impacted the Group, in terms of reduced revenues, management have taken a number of steps to manage our costs. The actions have focused on preserving our financial resilience and strategically positioning within the Group. The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic has adversely affected the financial position or liquidity of the Group, or given rise to any material post balance sheet adjusting event.

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.

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. Overall global operating capacity was close to 90% at the start of June 2020.

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. has recently 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 directors along with our colleagues in other Xylem companies have assessed the risks for the UK group business in the event of a 'no deal' Brexit and preparations have been made to ensure the risks have been mitigated. This includes new processes and changes in the IT environment necessary to reflect the UK's status as a third country to the EU. 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 2019

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 estimated reliably 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.

Exceptional items

Exceptional items are those which, by their size or nature, are separately disclosed in order to give a full understanding of the Group's financial performance and to aid comparability of the Group's results between periods.

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.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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.

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 profit or loss.

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 & buildings 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.

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

Impairment of tangible assets (continued)

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

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 profit or loss.

Stocks

Stocks are valued at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the weighted average cost basis and for finished goods and work in progress, includes direct material and labour costs and overheads appropriate to the stage of manufacture.

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 profit or loss.

Reversals of impairment losses are also recognised in profit or loss.

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.

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 profit or loss.

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.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 profit or loss.

(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 profit or loss 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 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 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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 profit or loss 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

FOR THE YEAR ENDED 31 DECEMBER 2019

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 are 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 turnover by class of business is as follows:

	Audited 2019 £'000	Unaudited 2018 £'000
Sale of products	178,801	162,896
Provision of services	35,073	48,115
Rental income	5,754	5,895
	219,628	216,906

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

	Audited 2019 £'000	Unaudited 2018 £'000
United Kingdom	142,575	136,075
Rest of Europe	69,551	73,374
Rest of World	7,502	7,457
	219,628	216,906

4. Other operating income

	Audited 2019 £'000	Unaudited 2018 £'000
Defined benefit pension credits	283	283

The Group receives contributions to its defined benefit pension plan (XUPP) from other Xylem entities (see note 21).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Exceptional Items

	Audited 2019 £'000	Unaudited 2018 £'000
Guaranteed minimum pension costs (note 21)		2,381

Subsequent to a ruling of the high court in October 2018, with respect to Employers with Defined Benefit Pension Schemes there is a requirement to adopt a method to equalise benefits for men and women in relation to the Guaranteed Minimum Pension (GMP).

The Lloyds Banking Group Pension Trustees Limited v Lloyds Bank PLC (and others) court judgement on 26 October 2018 provided some clarity in respect of the GMP equalisation and, in particular, the obligations that this places on defined benefit pension schemes. The actuary's derivation of this allowance is 0.1% of the value of the liabilities of the scheme. As a result, an amount of £2,381k has been charged to the profit and loss account during the year ended 31 December 2018.

Throughout 2019 further guidance from bodies such as the Department for Work and Pensions had been made available to schemes, however the Trustees of the scheme did not implement the GMP equalisation and it is understood that it will take some time until they do so.

6. Operating loss

	Audited 2019 £'000	Unaudited 2018 £'000
Operating loss is stated after charging/(crediting):		
Amortisation of intangible assets (note 13)	9,660	9,679
Depreciation of tangible fixed assets (note 14)	1,350	1,337
Depreciation of tangible fixed assets held under finance lease (note 14)	10	3
Profit on disposal of tangible fixed assets	(12)	(82)
Fees payable to the Group's auditor for services in relation to:		
- audit of the Group financial statements	286	270
- audit of the Company financial statements	14	15
- taxation compliance services	16	16
Exchange losses/(gains)	385	(217)
Revaluation of stock recognised as an expense/(credit)	925	(115)
Operating lease charges	4,002	3,562
R&D Expenditure	1,005	1,667

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7. Staff costs

	Audited 2019 £'000	Unaudited 2018 £'000
Wages and salaries	35,546	36,133
Social security costs	3,823	3,812
Pension costs – Defined contribution pension (note 21)	2,285	2,250
Pension costs – Defined benefit pension (note 21)	2,398	2,711
Share based payments (note 27)	21	18
	<u>44,073</u>	<u>44,924</u>

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

	Audited 2019 No.	Unaudited 2018 No.
Management	15	13
Production	394	427
Selling and marketing	215	173
Administration	210	215
R&D	19	16
	<u>853</u>	<u>844</u>

8. Directors remuneration

	Audited 2019 £'000	Unaudited 2018 £'000
Directors emoluments	186	184
Group contributions to money purchase pension schemes	13	12
	<u>199</u>	<u>196</u>

	Audited 2019 No.	Unaudited 2018 No.
The number of directors to whom retirement benefits are accruing under:		
Defined contribution schemes	<u>4</u>	<u>3</u>

No share options were exercised or granted in the year (2018: none).

I L Thompson is also a director of and was remunerated by Xylem Analytics UK Limited, a fellow group company registered in the UK. It is not possible to make an accurate apportionment of his time spent in respect of this entity. His emoluments are disclosed within the aggregate of directors' emoluments in the financial statements of Xylem Analytics UK Limited.

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8. Directors remuneration (continued)

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

	Audited 2019 £'000	Unaudited 2018 £'000
Directors emoluments	110	93
Group contributions to money purchase pension schemes	7	6
	<u>117</u>	<u>99</u>

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

Other related party transactions

There are no key management personnel other than the directors.

9. Interest receivable and similar income

	Audited 2019 £'000	Unaudited 2018 £'000
Interest receivable from group companies	403	271
Bank interest	-	3
	<u>403</u>	<u>274</u>

10. Interest payable and similar charges

	Audited 2019 £'000	Unaudited 2018 £'000
Interest payable on finance leases	1	1
Interest payable to group companies	4,676	7,235
	<u>4,677</u>	<u>7,236</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. Other finance costs

	Audited 2019 £'000	Unaudited 2018 £'000
Xylem UK Pension Plan (XUPP) finance costs/(income) (note 21)	16	(10)
Godwin Pumps Limited Pension Scheme finance costs (note 21)	249	200
Xylem UK Pension Plan for UK Expatriates (XPPX) (note 21)	-	-
	<u>265</u>	<u>190</u>

12. Taxation

	Audited 2019 £'000	Unaudited 2018 £'000
Current tax		
UK corporation tax	300	(137)
Adjustments in respect of prior periods	215	1,000
Total current tax	<u>515</u>	<u>863</u>
Deferred tax		
Adjustments in respect of prior periods	406	(924)
Total deferred tax	<u>406</u>	<u>(924)</u>
Total tax charge/(credit)	<u>921</u>	<u>(61)</u>

Factors affecting current tax charge/(credit)

The tax charge for the year is higher (2018: credit is lower) than the average standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). These differences are reconciled below:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12. Taxation (continued)

	Audited 2019 £'000	Unaudited 2018 £'000
Loss before taxation	<u>(9,530)</u>	<u>(15,763)</u>
Loss multiplied by the average standard rate of corporation tax in the UK for the year of 19% (2018: 19%)	(1,811)	(2,995)
Effects of:		
Expenses that are not deductible for tax purposes	2,111	2,858
Adjustments in respect of prior periods	<u>621</u>	<u>76</u>
Total tax charge/(credit) for the year	<u>921</u>	<u>(61)</u>

Factors that may affect future tax charge/(credit)

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%. As this was not substantively enacted by the balance sheet date, deferred tax balances at 31 December 2019 continue to be measured at 17%. The rate of change will affect the size of the Group's deferred tax assets and liabilities in the future.

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13. Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2019	237,312	1,479	238,791
Additions	-	12	12
At 31 December 2019	<u>237,312</u>	<u>1,491</u>	<u>238,803</u>
Amortisation and impairment			
At 1 January 2019	213,182	1,473	214,655
Amortisation charged in the year	<u>9,652</u>	<u>8</u>	<u>9,660</u>
At 31 December 2019	<u>222,834</u>	<u>1,481</u>	<u>224,315</u>
Carrying amount			
At 31 December 2019 - Audited	<u>14,478</u>	<u>10</u>	<u>14,488</u>
At 31 December 2018 - Unaudited	<u>24,130</u>	<u>6</u>	<u>24,136</u>

XYLEM WATER HOLDINGS LIMITED

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14. 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
Cost							
At 1 January 2019	2,286	1,390	813	3,955	16,056	218	24,718
Additions	33	-	87	200	1,142	24	1,486
Disposals	-	-	-	(43)	(299)	-	(342)
Transfer between classes	-	-	(586)	72	514	-	-
At 31 December 2019	<u>2,319</u>	<u>1,390</u>	<u>314</u>	<u>4,184</u>	<u>17,413</u>	<u>242</u>	<u>25,862</u>
Depreciation							
At 1 January 2019	1,566	649	-	3,442	12,432	144	18,233
Charge for the year	216	29	-	174	925	16	1,360
Disposals	-	-	-	(42)	(255)	-	(297)
At 31 December 2019	<u>1,782</u>	<u>678</u>	<u>-</u>	<u>3,574</u>	<u>13,102</u>	<u>160</u>	<u>19,296</u>
Carrying amount							
At 31 December 2019 - Audited	<u>537</u>	<u>712</u>	<u>314</u>	<u>610</u>	<u>4,311</u>	<u>82</u>	<u>6,566</u>
At 31 December 2018 - Unaudited	<u>720</u>	<u>741</u>	<u>813</u>	<u>513</u>	<u>3,624</u>	<u>74</u>	<u>6,485</u>

The net book value of motor vehicles includes £74k (2018: £63k) in respect of assets held under hire purchase contracts.

Included in freehold land and buildings is land at a value of £438k (2018: £438k) which is not being depreciated. Assets under the course of construction are also not being depreciated.

15. Stocks

	Audited 2019 £'000	Unaudited 2018 £'000
Finished goods and goods for resale	12,460	11,827
Work in progress	2,238	2,119
Raw materials	4,118	3,954
	<u>18,816</u>	<u>17,900</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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16. Debtors: amounts due within one year

	Audited 2019 £'000	Unaudited 2018 £'000
Trade debtors	33,082	34,157
Amounts due from parent company	1	1
Amounts due from other group companies:		
- Interest bearing	127,911	74,712
- Non-interest bearing	3,967	3,186
Deferred tax asset (note 19)	2,967	3,118
Corporation tax receivable	1,738	1,674
Prepayments and accrued income	4,350	4,070
Amounts recoverable on contracts	2,715	7,991
	<u>176,731</u>	<u>128,909</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.

17. Creditors: amounts falling due within one year

	Audited 2019 £'000	Unaudited 2018 £'000
Obligations under finance leases (note 24)	12	10
Payments received on account	171	140
Trade creditors	9,329	11,344
Amounts due to parent company	-	860
Amounts due to other group companies	93,901	24,938
Other taxation and social security	2,287	1,758
Other creditors	79	848
Accruals and deferred income	11,603	10,586
	<u>117,382</u>	<u>50,484</u>

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

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. Creditors: amounts falling due after more than one year

	Audited 2019 £'000	Unaudited 2018 £'000
Amounts due to parent company	-	45,045
Amounts due to other group companies	89,045	61,000
Obligations under finance leases (note 24)	24	32
Accruals and deferred income	138	165
	<u>89,207</u>	<u>106,242</u>

On 12 December 2018, Xylem Industries S.à.r.l. became the direct parent company of Xylem Water Holdings Limited as a result of a merger between Xylem Luxembourg S.à.r.l. and Xylem Industries S.à.r.l. On that date all loans were transferred from Xylem Luxembourg S.à.r.l to Xylem Industries S.à.r.l.

On 13 December 2018, £45m of the existing loan note from Xylem Industries S.à.r.l. was set off against the subscription price of 100 new ordinary shares issued in the Company.

On 31 May 2019 the 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 (2018: £23m), £14m (2018: £14m) and £nil (2018: £24m) of which interest is charged at a variable rate of £3m LIBOR + 1.20%, with maturity scheduled for 31 March 2022.

19. Deferred tax asset

	Audited 2019 £'000	Unaudited 2018 £'000
Retirement benefit obligation	1,763	1,508
Accelerated capital allowances	623	625
Losses carried forward	540	957
Other timing differences	41	28
	<u>2,967</u>	<u>3,118</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Deferred tax asset

The movement on the deferred tax asset is as follows:

	Audited	Unaudited
	2019	2018
	£'000	£'000
At 1 January	3,118	2,047
Profit and loss account movement arising during the year	(406)	924
Movement arising from pension scheme deficit	255	147
As at 31 December	<u>2,967</u>	<u>3,118</u>

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

20. Provisions for liabilities and charges

	Dilapidations
	£'000
At the beginning of the year - Unaudited	-
Arising during the year	<u>291</u>
At the end of the year - Audited	<u>291</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 is expected to be settled before 31 December 2020 since the lease agreement expired in September 2020.

21. 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 £2,285k 2018: £2,250k). A liability of £nil (2018: £nil) existed in respect of pension contributions at 31 December 2019.

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.

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit schemes (continued)

b) Defined benefit schemes

Xylem UK Pension Plan (XUPP)

The XUPP is a defined benefit scheme in the UK that shares risks between entities under common control. The contributions made by other Xylem entities amounted £283k (2018: £283k) and have been recorded in the profit and loss account within other operating income (note 4). Total contributions paid to the scheme amounted £1,100k (2018: £1,100k). The total contributions to be paid to the scheme for 2020 are expected to be £900k.

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 closed for future accrual.

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 £1,165k with the aim of the new contributions just covering the administration cost of the scheme.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2019.

The major assumptions used by the actuary were:

	Audited 2019 %	Unaudited 2018 %
Discount rate	2.00	2.90
- RPI price inflation, capped at 2.5%	2.15	2.15
- CPI price inflation, capped at 3%	2.00	2.05
- CPI price inflation, capped at 5%	2.15	2.25
RPI price inflation	3.15	3.25
PI price inflation	2.15	2.25

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

	Audited 2019 Years	Unaudited 2018 Years
Male	23.1	23.0
Female	25.0	25.0

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

	Audited 2019 Years	Unaudited 2018 Years
Male	24.8	24.8
Female	26.9	26.8

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21. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Sensitivities of the scheme assets

	Audited Change in DBO 2019 £'000	Unaudited Change in DBO 2018 £'000
Change of -1% in discount rate	39,854	36,549
Change of +1% in inflation rate	21,198	16,590
Change of +1 years in life expectancy	8,831	7,354

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:

	Audited 2019 £'000	Unaudited 2018 £'000
Fair value of scheme assets	243,961	247,187
Present value of defined benefit obligation	(214,840)	(205,621)
Surplus in the scheme	29,121	41,566
Restriction on pension asset	(29,121)	(41,566)
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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21. 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:

	Audited Scheme assets 2019 %	Audited Value 2019 £'000	Unaudited Scheme assets 2018 %	Unaudited Value 2018 £'000
Equities	-	-	12.6	31,024
Liability hedging	99.5	242,804	40.8	100,951
Gilts	-	-	19.7	48,752
Cash	0.3	726	24.7	61,074
Other	-	-	2.0	4,924
Insured pensions	0.2	431	0.2	462
	100.0	243,961	100.0	247,187

Reconciliation of the fair value of the scheme assets

	Audited 2019 £'000	Unaudited 2018 £'000
Fair value of scheme assets at start of year	247,187	268,033
Interest income on scheme assets	6,808	6,465
Actuarial gain/(loss) on scheme assets	15,031	(18,967)
Employer contributions	817	817
Contributions paid by other group companies (note 4)	283	283
Administration expenses	(2,324)	(297)
Benefits paid	(7,080)	(9,147)
Assets distributed on settlements	(16,761)	-
Fair value of scheme assets at end of year	243,961	247,187

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit schemes (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Reconciliation of the present value of the scheme liabilities

	Audited 2019 £'000	Unaudited 2018 £'000
Present value of scheme liabilities at start of year	205,621	221,466
Interest cost	5,619	5,314
Past service cost	-	2,353
Actuarial (loss)/gain on scheme liabilities	27,489	(14,365)
Benefits paid	(7,080)	(9,147)
Liabilities curtailed on settlements	(16,809)	-
	<u>214,840</u>	<u>205,621</u>
Present value of scheme liabilities at end of year		

Analysis of amounts charged to operating profit

	Audited 2019 £'000	Unaudited 2018 £'000
Guaranteed minimum pension costs (note 5)	-	2,353
Administration expenses	2,324	297
	<u>2,324</u>	<u>2,650</u>

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

	Audited 2019 £'000	Unaudited 2018 £'000
Expected return on pension scheme assets	6,808	6,465
Interest on pension scheme liabilities	(5,619)	(5,314)
Interest cost adjustment	(1,205)	(1,141)
	<u>(16)</u>	<u>10</u>
Net finance (costs)/income (note 11)		

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Xylem UK Pension Plan (XUPP) (continued)

Amounts transferred to statement of other comprehensive income

	Audited 2019 £'000	Unaudited 2018 £'000
Actuarial gain/(loss) on scheme assets	15,031	(18,967)
Actuarial (loss)/gain on scheme liabilities	(27,489)	14,365
Interest cost adjustment	1,205	1,141
Movement in restriction on pension asset	12,445	5,001
Net gain	1,192	1,540

Movement in asset during the year

	Audited 2019 £'000	Unaudited 2018 £'000
Asset in scheme at start of year	-	-
Employer contributions	817	817
Contributions paid by other group companies (note 4)	283	283
Administration expenses	(2,324)	(2,650)
Net finance (costs)/income	(16)	10
Actuarial gain	1,192	1,540
Gain on settlements	48	-
Asset in scheme at year end	-	-

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 £630k (2018: £630k). The total contributions to be paid to the scheme for 2020 are expected to be £630k.

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 2017.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2019. The major assumptions used by the actuary were:

	Audited 2019	Unaudited 2018
Discount rate	2.10%	2.90%
Inflation assumption (RPI)	3.10%	3.25%
Inflation assumption (CPI)	2.10%	2.25%
Rate of increase in deferred pensions	2.10%	2.25%
Salary increase	3.00%	3.00%

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:

	Audited 2019 Years	Unaudited 2018 Years
Male	22.1	22.0
Female	24.0	23.9

Sensitivities of the scheme liabilities

	Audited Change in DBO 2019 £'000	Unaudited Change in DBO 2018 £'000
Change of -0.10% in discount rate	639	530
Change of +0.10% in inflation rate	607	505
Change of 1.50% in long term mortality rate	356	275

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

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:

	Audited 2019 £'000	Unaudited 2018 £'000
Fair value of scheme assets	21,265	19,360
Present value of defined benefit obligation	(31,633)	(28,234)
Net pension liability	<u>(10,368)</u>	<u>(8,874)</u>

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:

	Audited Scheme assets 2019 %	Audited Value 2019 £'000	Unaudited Scheme assets 2018 %	Unaudited Value 2018 £'000
Equities	83.6	17,786	77.9	15,081
Diversified growth fund	15.1	3,213	20.7	4,008
Cash and other	1.3	266	1.4	271
	<u>100.0</u>	<u>21,265</u>	<u>100.0</u>	<u>19,360</u>

Reconciliation of the fair value of the scheme assets

	Audited 2019 £'000	Unaudited 2018 £'000
Fair value of scheme assets at the beginning of the year	19,360	20,583
Expected return on scheme assets	557	533
Actuarial gain/(loss)	1,641	(1,602)
Group contributions	630	630
Benefits paid	(923)	(784)
Fair value of scheme assets at the end the year	<u>21,265</u>	<u>19,360</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

Reconciliation of the present value of the scheme liabilities

	Audited 2019 £'000	Unaudited 2018 £'000
Present value of scheme liabilities at the beginning of the year	28,234	28,591
Past service costs	-	28
Interest cost	806	733
Actuarial loss/(gain)	3,516	(334)
Benefits paid	(923)	(784)
Present value of scheme liabilities at the end of the year	<u>31,633</u>	<u>28,234</u>

Analysis of amounts charged to operating profit

	Audited 2019 £'000	Unaudited 2018 £'000
Guaranteed minimum pension costs (note 5)	<u>-</u>	<u>28</u>

Analysis of amounts charged to other finance costs

	Audited 2019 £'000	Unaudited 2018 £'000
Expected return on pension scheme assets	(557)	(533)
Interest on pension scheme liabilities	<u>806</u>	<u>733</u>
Net finance costs (note 11)	<u>249</u>	<u>200</u>

Amounts transferred to statement of other comprehensive income

	Audited 2019 £'000	Unaudited 2018 £'000
Actuarial gain/(loss) on scheme assets	1,641	(1,602)
Actuarial (loss)/gain on scheme liabilities	<u>(3,516)</u>	<u>334</u>
Net loss	<u>(1,875)</u>	<u>(1,268)</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

Godwin Pumps Limited Pension Scheme (continued)

Movement in deficit during the year

	Audited 2019 £'000	Unaudited 2018 £'000
Deficit in scheme at the beginning of the year	(8,874)	(8,008)
Past service costs - GMP	-	(28)
Group contributions	630	630
Net finance costs	(249)	(200)
Actuarial loss	(1,875)	(1,268)
Deficit in scheme at the end of the year	<u>(10,368)</u>	<u>(8,874)</u>

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 (2018: £181k) into this defined benefit pension scheme (see note 4). A liability of *Enil* (2018: *Enil*) existed in respect of pension contributions at 31 December 2019.

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 the 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. The contributions to be paid to the scheme for 2020 are expected to be £50k.

An actuarial review of the scheme valuation for FRS 102 was carried out by a qualified independent actuary as at 31 December 2019. The major assumptions used by the actuary were:

	Audited 2019	Unaudited 2018
Discount rate	1.85%	2.60%
Inflation assumption (RPI)	3.30%	3.25%
Inflation assumption (CPI)	2.30%	2.25%

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

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

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

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

	Audited 2019 Years	Unaudited 2018 Years
Male	23.1	23.0
Female	25.0	25.0

Sensitivities of the scheme assets

	Audited Change in DBO 2019 £'000	Unaudited Change in DBO 2018 £'000
Change of -1% in discount rate	771	827
Change of +1% in inflation rate	113	147
Change of +1 years in life expectancy	299	237

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:

	Audited 2019 £'000	Unaudited 2018 £'000
Fair value of scheme assets	8,127	7,996
Present value of defined benefit obligation	(7,766)	(7,468)
Surplus in the scheme	361	528
Restriction on pension asset	(361)	(528)
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.

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

21. 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:

	Audited Scheme assets 2019 %	Audited Value 2019 £'000	Unaudited Scheme assets 2018 %	Unaudited Value 2018 £'000
UK equities	1.0	81	2.7	217
Overseas equities	4.3	348	11.4	910
Index linked gilts	14.7	1,192	29.6	2,362
Fixed interest	29.6	2,407	39.3	3,146
Corporate bonds	49.5	4,020	-	-
Cash and other	0.9	79	17.0	1,361
	<u>100.0</u>	<u>8,127</u>	<u>100.0</u>	<u>7,996</u>

Reconciliation of the fair value of the scheme assets

	Audited 2019 £'000	Unaudited 2018 £000
Fair value of scheme assets at the beginning of the year	7,996	8,445
Expected return on scheme assets	201	190
Employer contributions	50	181
Actuarial gain/(loss)	460	(276)
Administration costs	(74)	(33)
Benefits paid	(506)	(511)
Fair value of scheme assets at the end of the year	<u>8,127</u>	<u>7,996</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

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

Reconciliation of the present value of the scheme liabilities

	Audited 2019 £'000	Unaudited 2018 £'000
Present value of scheme liabilities at the beginning of the year	7,468	8,105
Interest cost	188	181
Actuarial loss/(gain)	616	(307)
Benefits paid	(506)	(511)
Present value of scheme liabilities at the end of the year	<u>7,766</u>	<u>7,468</u>

Analysis of amounts charged to operating profit

	Audited 2019 £'000	Unaudited 2018 £'000
Administration costs	<u>74</u>	<u>33</u>

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

	Audited 2019 £'000	Unaudited 2018 £'000
Expected return on pension scheme assets	(201)	(190)
Interest on pension scheme liabilities	188	181
Interest cost adjustment	13	9
Net finance costs (note 11)	<u>-</u>	<u>-</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Retirement benefit scheme (continued)

b) Defined benefit schemes (continued)

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

Amounts transferred to statement of other comprehensive income

	Audited 2019 £'000	Unaudited 2018 £'000
Actuarial gain/(loss) on scheme assets	460	(276)
Actuarial (gain)/loss on scheme liabilities	(616)	307
Restriction on pension asset including interest cost adjustment	181	(180)
Net gain/(loss)	25	(149)

Movement in deficit during the year

	Audited 2019 £'000	Unaudited 2018 £'000
Surplus in scheme at start of year	528	340
Administration costs	(74)	(33)
Employer contributions	50	181
Net credit to other finance income	13	9
Actuarial gain	(156)	31
Surplus in scheme at year end	361	528

22. Share capital and reserves

Called up share capital

	Audited 2019 £'000	Audited 2018 £'000
<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.

On 13 December 2018 the Company issued 100 shares to Xylem Industries S.à.r.l. for a subscription price of £45m.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

22. Share capital and reserves

Share premium account

	Audited £'000
At 1 January 2019 and at 31 December 2019	<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.

23. Cash flow statement

Reconciliation of operating profit to cash generated by operations

	Audited 2019 £'000	Unaudited 2018 £'000
Operating loss	(5,003)	(8,693)
Adjustment for:		
Depreciation	1,360	1,340
Amortisation	9,660	9,679
Profit on sale of tangible assets	(12)	(82)
Operating cash inflow before movement in working capital	<u>6,005</u>	<u>2,244</u>
Inventories	(916)	(4,292)
Trade and other receivables	(64,506)	32,639
Trade and other payables	62,204	(28,429)
Pension contributions in excess of operating costs	571	799
Provisions and other financial liabilities	291	-
Net cash inflows from operating activities	<u>3,649</u>	<u>2,961</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

23. Cash flow statement (continued)

Net debt reconciliation

	Unaudited At 1 January 2019 £'000	Cash flows £'000	Other non- cash changes £'000	Audited At 31 December 2019 £'000
Cash and cash equivalents	1,190	1,622	-	2,812
	<u>1,190</u>	<u>1,622</u>	<u>-</u>	<u>2,812</u>
Net debt due within one year				
Obligations under finance leases	(10)	6	(8)	(12)
Net debt due after more than one year				
Obligations under finance leases	(32)	-	8	(24)
Amounts due to parent and other group companies	(106,045)	-	17,000	(89,045)
	<u>(106,045)</u>	<u>-</u>	<u>17,000</u>	<u>(89,045)</u>
Net debt	<u>(104,897)</u>	<u>1,628</u>	<u>17,000</u>	<u>(86,269)</u>

Non-cash transactions

During the year the Group agreed to reduce its loans with its parent and other group companies via offsetting the amount due to the Group on its interest-bearing cash pool debtor.

24. 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 (2018: £nil).

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

	Land & buildings		Other	
	Audited 2019 £'000	Unaudited 2018 £'000	Audited 2019 £'000	Unaudited 2018 £'000
<i>Operating leases which expire:</i>				
Within one year	1,143	1,345	1,844	2,034
Between two and five years	2,784	863	1,995	2,527
After five years	2,329	-	-	-
	<u>6,256</u>	<u>2,208</u>	<u>3,839</u>	<u>4,561</u>

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

24. Financial commitments (continued)

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

	Audited	Unaudited
	2019	2018
	£'000	£'000
<i>Net obligation payable:</i>		
Within one year	12	10
Between two and five years	24	32
	<u>36</u>	<u>42</u>

25. Post balance sheet events

Whilst the COVID-19 pandemic has impacted the Group, in terms of reduced revenues, management have taken a number of steps to manage our costs. The actions have focused on preserving our financial resilience and strategic positioning. The short and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain. Whilst uncertain, we do not believe, however, that the impact of COVID-19 pandemic has adversely affected the financial position or liquidity of the Group, or given rise to any material post balance sheet adjusting event. This is considered a non-adjusting post balance sheet event.

In the second half of 2020, we are undertaking a group-wide program of cost actions and strategic initiatives to optimally position Xylem to succeed in a post-COVID-19 pandemic environment. Our focus is on preserving our financial resilience, strategically positioning the Group for new customer needs and market trends accelerated by the pandemic, and simplifying our operations to increase our ability to act as a one group and speed up decision-making. As part of these actions, we have closed the Farnborough office since the lease expired, activities have been relocated to other sites along with increased home-working, with a small number of redundancies associated with this site closure. The financial impact of closing Farnborough is not currently quantifiable due to the level of uncertainty around the specific arrangements and the related liabilities for exiting the facility.

While the COVID-19 pandemic has impacted the business, 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, we have taken steps to adapt and have continued to supply goods and services to customers.

In response to the COVID-19 pandemic, management have taken a number of steps to manage our costs, including a slowdown in recruitment, reducing discretionary expenditures and improving our inventory management. 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. Overall global operating capacity was close to 90% by the start of June 2020.

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.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

26. Financial Instruments

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

Group	2019	2018
	£'000	£'000
Financial assets measured at amortised cost		
Cash	2,812	1,190
Trade debtors (Note 16)	33,082	34,157
Amounts due from parent company (Note 16)	1	1
Amounts due from other group companies:		
- Interest bearing (Note 16)	127,911	74,712
- Non-interest bearing (Note 16)	3,967	3,186
	<u>167,773</u>	<u>113,246</u>
Financial liabilities measured at amortised cost		
	2019	2018
	£'000	£'000
Obligations under finance leases (note 24)	12	10
Trade creditors (note 17)	9,329	11,344
Amounts due to parent company (note 17)	-	860
Amounts due to other group companies (note 17)	93,901	24,938
Amounts due to parent company (note 18)	-	45,045
Amounts due to other group companies (note 18)	89,045	61,000
Obligations under finance leases (note 24)	24	32
	<u>192,311</u>	<u>143,229</u>

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

Group	2019	2018
	£'000	£'000
Interest income/(expense)		
Total interest income for financial assets at amortised cost (note 9)	403	274
Total interest expense for financial liabilities at amortised cost (note 10)	<u>(4,677)</u>	<u>(7,236)</u>

27. 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.

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. Share-based payments (continued)

Restricted Stock Unit Grants

Restricted shares granted to employees in 2019 vest over a three-year period. Restricted shares granted to employees prior to 2019 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.

28. Ultimate controlling party

As at 31 December 2019 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 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, 1 International Drive, Rye Brook, NY 10573, USA.

XYLEM WATER HOLDINGS LIMITED
COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2019

		2019	Restated (see note 7)
	Notes	£'000	2018 £'000
Fixed assets			
Investments	5	53,779	53,779
Current assets			
Debtors	6	3,980	4,633
Creditors: amounts falling due within one year	7	(15,414)	(19,553)
Net current liabilities		(11,434)	(14,920)
Total assets less current liabilities		42,345	38,859
Creditors: amounts falling due after one year	8	(75,045)	(68,045)
Net liabilities		(32,700)	(29,186)
Capital and reserves			
Called up share capital	9	2	2
Share premium account	9	271,999	271,999
Profit and loss account	9	(304,701)	(301,187)
Shareholders' deficit		(32,700)	(29,186)

For the financial year ended 31 December 2019 the Company reported a loss of £3,514k (2018: loss of £6,111k).

Notes 1 to 12 on pages 61 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 29 December 2020 and are signed on its behalf by:



C J Rhodes
Director

XYLEM WATER HOLDINGS LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2018	2	226,999	(295,076)	(68,075)
Loss for the financial year	-	-	(6,111)	(6,111)
Proceeds from shares issued (note 11)	-	45,000	-	45,000
Balance at 31 December 2018	<u>2</u>	<u>271,999</u>	<u>(301,187)</u>	<u>(29,186)</u>
	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2019	2	271,999	(301,187)	(29,186)
Loss for the financial year	-	-	(3,514)	(3,514)
Balance at 31 December 2019	<u>2</u>	<u>271,999</u>	<u>(304,701)</u>	<u>(32,700)</u>

Notes 1 to 12 on pages 61 to 69 form an integral part of these financial statements.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 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, 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 3 September 2020 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 profit or loss.

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 2019

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 its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, 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 profit or loss.

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 2019

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 profit or loss.

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 2019

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 (2018: 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

	£'000
Cost	
At 1 January 2019 and at 31 December 2019	312,327
Provision for Impairment	
At 1 January 2019 and at 31 December 2019	258,548
Net book value	
At 31 December 2019	53,779
At 31 December 2018	53,779

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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	106 Hawley Lane Farnborough Hants GU14 8JE
Pension Trustee Management Ltd**	Ordinary	100%	Dormant	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
Bellingham & Stanley Ltd*	Ordinary	100%	Fluid Tech	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
Lowara UK Ltd**	Ordinary	100%	Dormant	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
Godwin Holdings Ltd**	Ordinary	100%	Dormant	England & Wales	Quenington Fairford, Cirencester Gloucestershire GL7 5BX
Xylem Water Services Ltd*	Ordinary	100%	Head Office	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
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 2019

5. Investments in subsidiaries (continued)

b) Indirectly 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 Ltd*	Ordinary	100%	Fluid Tech	England & Wales	Private Road 1 Colwick Nottingham Nottinghamshire NG4 2AN
Water Process Ltd*	Ordinary	100%	Fluid Tech	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
Xylem Water Solutions Rugby Ltd*	Ordinary	100%	Fluid Tech	England & Wales	106 Hawley Lane Farnborough Hants GU14 8JE
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 s749A 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 Enil since it has been fully impaired.

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

6. Debtors: amounts due within one year

	2019	2018
	£'000	£'000
Amounts owed by parent company	1	1
Amounts owed by subsidiaries	3,979	4,632
	<u>3,980</u>	<u>4,633</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

	2019	Restated 2018
	£'000	£'000
Amounts due to parent company	-	860
Amounts owed to subsidiaries	10,031	10,031
Amounts owed to other group companies:		
- Interest bearing	5,345	8,633
Other creditors	38	29
	<u>15,414</u>	<u>19,553</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.

Restatement

Amounts owed to other group companies for 2018 have been restated to Creditors: amounts falling due after more than one year by £23,000,000 as the loans are not due for repayment until 31 March 2022 and are not repayable on demand.

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

	2019	Restated 2018
	£'000	£'000
Amounts owed to parent company	-	45,045
Amounts owed to other group companies	75,045	23,000
	<u>75,045</u>	<u>68,045</u>

XYLEM WATER HOLDINGS LIMITED

NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

8. Creditors: amounts falling due after more than one year (continued)

On 12 December 2018, Xylem Industries S.à.r.l. became the direct parent company of Xylem Water Holdings Limited as a result of a merger between Xylem Luxembourg S.à.r.l. and Xylem Industries S.à.r.l. On that date all loans were transferred from Xylem Luxembourg S.à.r.l. to Xylem Industries S.à.r.l.

On 13 December 2018, £45m of the existing loan note from Xylem Industries S.à.r.l. was set off against the subscription price of 100 new ordinary shares issued in the Company).

On 31 May 2019 the 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 (2018: £23m) in which interest is charged at a variable rate of £3m LIBOR + 1.20%, with maturity scheduled for 31 March 2022.

Restatement

Amounts owed to other group companies for 2018 have been restated from Creditors: amounts falling due within one year by £23,000,000 as the loans are not due for repayment until 31 March 2022 and are not repayable on demand.

9. Capital and reserves

Called up share capital

	2019 £'000	2018 £'000
<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.

On 13 December 2018 the Company issued 100 shares to Xylem Industries S.à.r.l. for a subscription price of £45m.

Share premium account

	£'000
At 1 January 2019 and at 31 December 2019	271,999

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

On 13 December 2018 the Company issued 100 shares to Xylem Industries S.à.r.l. for a subscription price of £45m.

Profit and loss account

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

XYLEM WATER HOLDINGS LIMITED
NOTES TO THE COMPANY FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Related party transactions

In accordance with the exemption in FRS 102 section 33, related party transactions with other group companies have not been disclosed.

11. Post balance sheet events

Since 31 December 2019, the outbreak of Covid-19 has severely disrupted many UK businesses, leading to an economic slowdown. The Company has determined that these events are non-adjusting subsequent events. The Company itself is not directly impacted, however the detail of the impact on the Xylem Water Holdings Limited Group is considered with the Xylem Water Holdings Limited Consolidated financial statements.

12. Ultimate controlling party

As at 31 December 2019 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, 1 International Drive, Rye Brook, NY 10573, USA.