ALBION WATER LIMITED

Annual Report and Financial Statements

30 June 2021

Registered in England and Wales No. 03102176

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STRATEGIC REPORT

The directors present the strategic report for the year to 30 June 2021.

Principal Activities

The principal activities of the company are the provision of water, sewerage, drainage and allied services to developers, primarily to serve new housing.

Overview

The market in which the company operates has been the subject of significant review by Ofwat and its advisers and it is evident that there is a growing realisation of the value of the company's services in enhancing both the resilience and sustainability of new housing. The company continues to work hard with regulators and other stakeholders to level the playing field, which is still tilted heavily in favour of monopoly incumbents.

Business review

During the year the company generated revenue of £1,2m (2020 - £1.0m) from its involvement in various housing developments. Resulting losses stood at £0.3m (2020 - £1.0m).

Albion Water has negotiated arm's length service level agreements with other companies in the Wessex Water Group to enable it to benefit from more economic and more scalable support and thereby to focus its resources on sales, marketing and the delivery of projects. The focus remains on larger housing developments although these can take a long time to receive all necessary approvals.

On 8 April 2021 the parent company, Wessex Water Ltd purchased the 49 'A' Ordinary shares from Waterlevel Ltd (see Note 20). Albion Water Ltd is now a 100% owned subsidiary of Wessex Water Ltd.

Future developments

Future developments will be characterized by a greater push for sales. This will be supported by a concerted programme of regulatory briefings and by our continuing programme of trying to get incumbent water companies to see Albion as part of the solution.

Principal risks and uncertainties

The company's policy on risk assessment and management is subject to regular review by the board. The identification and management of risk is delivered through a hierarchy of risk management reviews from operational staff, senior management, executive directors. The board reviews and holds ultimate responsibility for the risk process and for the identification and mitigation of risks.

The Risk and Resilience Management Group meets through the year and submits the current risk register and summary report every six months to the Risk Management Advisory Group made up of the executive directors. This group scrutinises and challenges the risks included in the register and identifies any additional work it thinks is necessary to better classify the risk or explore other mitigation methods which may be available. Any significant new risks are reported to the advisory group and to the board as they arise.

STRATEGIC REPORT *(continued)*

Principal risks and uncertainties *(continued)*

Principle risks identified include but are not limited to:

- Government/regulatory action. Market uncertainties reflecting the Brexit vote and political intervention are all reflected in this risk. Relationships with politicians and regulators are maintained so that the company's views about the effect of any proposed legislative changes on the company and its customers are heard.
- Major pollution incident. Significant effort is made to prevent such an incident occurring through staff adherence to company processes and procedures. Local emergency plans are in place to protect the local environment at key installations and monitors are being installed to mitigate the risk at critical locations.
- There remains the problem of the long time taken by large development sites to achieve full planning permission and the need for Albion to be involved at the start of this process to ensure the full benefit of its innovative services are reflected in the design of the development. At present there are no competitors offering equivalent services but that is expected to change.

By order of the Board,

Mark Watts, Director
Claverton Down
Bath BA2 7WW
8 December 2021

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year to 30 June 2021.

Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

Mark Watts
Charlotte Maher
Barry Hayward (appointed 31 August 2020)
Jeremy Bryan (resigned 8 April 2021)
Gareth King (resigned 30 March 2021)
David Knaggs (resigned 8 April 2021)
Luke DeVal (resigned 31 August 2020)
David Elliott (resigned 15 April 2021)

Mark Watts and Charlotte Maher are also Directors of Turnbull Infrastructure and Utilities Ltd, Wessex Water Enterprises Ltd and Flipper Ltd.

Mark Watts is also a Director of Wessex Water Ltd, Wessex Water Services Finance Plc, GENeco Ltd, GENeco (South West) Ltd, Wessex Utility Solutions Ltd, Wessex Concierge Ltd, Wessex Water Trustee Company Ltd, Water 2 Business Ltd, Brabazon Estates Ltd, YTL Places Ltd, YTL Homes Ltd, YTL Property Holdings (UK) Ltd, YTL Developments Ltd, YTL Land and Property (UK) Ltd and YTL Utilities (UK) Ltd.

Directors' emoluments

Directors' and key management personnel's remuneration is paid by other members of the group with no charge to the company, therefore no remuneration summary is presented in these finance statements.

Directors' share interests

Share options

The Director Mark Watts was granted ordinary share options of Malaysian Ringgit RM0.50 each in YTL Power International Berhad, a subsidiary of the pre-penultimate parent company YTL Corporation Berhad (see note 26).

The share options held by Mark Watts are shown in the accounts of Wessex Water Ltd.

Shares held

The ordinary shares of YTL Power International Berhad held by Mark Watts are shown in the accounts of Wessex Water Ltd.

Results and dividends

The loss for the year was £319k (2020: loss of £1,045k). No ordinary dividends were paid in 2021 (2020: £nil). The directors do not recommend payment of a final dividend.

Political donations

The Company made no political donations nor incurred any political expenditure during the year (2020: £nil).

DIRECTORS' REPORT *(continued)*

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on a parent company, Wessex Water Ltd. The company has received undertakings from Wessex Water Ltd, for at least until 31 December 2022, that they will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue to trade for the foreseeable future by meeting its liabilities as and when they become due. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result if such funds were not available.

Disclosure of information to the auditor

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

Re-appointment of auditor

Following the resolution of the board, Ernst & Young LLP were reappointed as the auditor of the company for the current financial year.

Mark Watts, Director
Claverton Down
Bath BA2 7WW
8 December 2021

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

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom 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 Company's financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- in respect of the company's financial statements, state whether International Accounting Standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and Directors' report, that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Directors' responsibility statement

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit for the Company; and
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALBION WATER LIMITED

Opinion

We have audited the financial statements of Albion Water Limited for the year ended 30 June 2021 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALBION WATER LIMITED *(continued)*

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 period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALBION WATER LIMITED *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud *(continued)*

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:
    - International Accounting Standards in conformity with the requirements of the Companies Act 2006
    - Tax legislation (Governed by HM Revenue and Customs)
    - General Data Protection Regulation
    - The UK Bribery Act
    - Anti-Money Laundering Legislation
    - Health & Safety Legislation
    - Environment Act 1995
- We understood how Albion Water Limited is complying with those frameworks by making enquiries of management to understand how the company maintains and communicates its policies and procedures in these areas. We performed procedures, including reading minutes of the board meetings and making enquiries with the management for any correspondence of non-compliance with the tax authorities, and noted no significant issues. We performed journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year and to ensure that the management is in compliance with the applicable framework.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by inquiring with management and those charged with governance and performing a walkthrough of the financial statement closing process. We performed overall analytical procedures to assess the fairness of the overall financial performance and the position as at and for the year ended. In relation to management override we used data analytics to sample from the entire population of journals, identifying specific transactions which did not meet our expectations based on specific criteria, to investigate to gain an understanding and agree to source documentation.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Mapleston

Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 8 December 2021

Income Statement and Statement of Other Comprehensive Income

For the year ended 30 June 2021

	Note	**2021**	2020
		£000	£000
Revenue	*3*	**1,179**	1,048
Raw materials and consumables used		**(41)**	(13)
Staff costs	*5*	**(676)**	(761)
Depreciation and amortisation	*9,11*	**(289)**	(96)
Other expenses		**(756)**	(1,389)
Total expenses		**(1,762)**	(2,259)
Other income		**241**	-
Operating loss		**(342)**	(1,211)
Financial expense	*7*	**(64)**	(67)
Loss before taxation		**(406)**	(1,278)
Taxation	*8*	**87**	233
Loss for the financial year		**(319)**	(1,045)
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive loss for the year		**(319)**	(1,045)

Statement of Financial Position

At 30 June 2021

	Note	2021	2020
		£000	£000
Non-current assets			
Property, plant and equipment	9	**15,359**	11,708
Intangible assets	11	**25**	37
		15,384	11,745
Current assets			
Trade and other receivables	12	**478**	404
Corporation tax receivable	12	**78**	233
Cash and cash equivalents	13	**165**	165
		721	802
Total assets		**16,105**	12,547
Current liabilities			
Bank overdraft	14	**(511)**	(22)
Trade and other payables	15	**(957)**	(722)
Other interest-bearing loans and borrowings	14	**(17)**	(7)
		(1,485)	(751)
Non-current liabilities			
Other interest-bearing loans and borrowings	14	**(4,605)**	(3,201)
Deferred grants and contributions	16	**(13,661)**	(11,885)
Provisions	17	**(101)**	(138)
		(18,367)	(15,224)
Total liabilities		**(19,852)**	(15,975)
Net liabilities		**(3,747)**	(3,428)
Equity			
Share capital	20	**-**	-
Retained earnings		**(3,747)**	(3,428)
Total deficit		**(3,747)**	(3,428)

The financial statements were approved by the board of directors and authorised for issue on 8 December 2021 and are signed on its behalf by:

Mark Watts, Director

Statement of Changes in Equity

For the year to 30 June 2021

	Note	Share capital	Retained earnings	Total (deficit)
		£000	**£000**	**£000**
Balance at 1 July 2019		-	(2,383)	(2,383)
Loss and total comprehensive loss for the year		-	(1,045)	(1,045)
Balance at 30 June 2020		-	(3,428)	(3,428)
Balance at 1 July 2020		**-**	**(3,428)**	**(3,428)**
Loss and total comprehensive loss for the year		**-**	**(319)**	**(319)**
Balance at 30 June 2021		**-**	**(3,747)**	**(3,747)**

Statement of Cash Flows

For the year to 30 June 2021

	Note	**2021**	2020
		£000	£000
Cash flows from operating activities			
Loss for the year		**(319)**	(1,045)
Adjustments for:			
Depreciation and amortisation		**48**	96
Financial expense		**64**	67
Taxation		**(87)**	(233)
		(294)	(1,115)
(Increase)/decrease in trade and other receivables		**(74)**	155
Increase/(decrease) in trade and other payables		**117**	(18)
(Decrease) in provisions		**(37)**	(37)
		6	100
Tax receipts		**242**	-
Net cash from operating activities		**(46)**	(1,015)
Cash flows from investing activities			
Acquisition of intangible assets		**-**	(2)
Acquisition of property, plant and equipment		**(1,759)**	(34)
Net cash from investing activities		**(1,759)**	(36)
Cash flows from financing activities			
Proceeds from new borrowings		**2,000**	1,600
Interest paid		**(57)**	(2)
Repayment of borrowings		**(627)**	(14)
Net cash from financing activities		**1,316**	1,584
(Decrease)/increase in cash and cash equivalents		**(489)**	533
Cash and cash equivalents at 1 July	*13,14*	**143**	(390)
Cash and cash equivalents at 30 June	*13,14*	**(346)**	143

Notes to the financial statements

1. Accounting Policies

1.1 Basis of Preparation

Albion Water Limited is a private company limited by shares incorporated, domiciled and registered in England in the UK. The registered number is 03102176 and the registered address is Operations Centre, Claverton Down Road, Claverton Down, Bath; BA2 7WW.

The Company financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

1.2 Measurement convention

The financial statements are prepared on a cost basis and presented in pounds sterling which is the company's functional and presentational currency.

1.3 Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on a parent company, Wessex Water Ltd. The company has received undertakings from Wessex Water Ltd, for at least until 31 December 2022, that they will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue to trade for the foreseeable future by meeting its liabilities as and when they become due. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result if such funds were not available.

1.4 Financial instruments

Cash and cash equivalents

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

Financial assets

Initial recognition and measurement

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

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

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

***1.4 Financial instruments** (continued)*

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

Subsequent measurement

Financial assets at amortised cost (receivables)

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

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

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

The Company's financial assets at amortised cost includes trade and other receivables due in less than 12 months.

Derecognition

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.4 Financial instruments (continued)

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

Derecognition

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

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

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

- Land and buildings 10 to 60 years
- Plant, equipment and vehicles 3 to 20 years
- Office and IT equipment 3 to 15 years
- Infrastructure assets 60 to 125 years

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

1.6 Intangible assets

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and less accumulated impairment losses.

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

- Specialised computer software 10 years
- In-house computer software development 5 years

1. Accounting policies *(continued)*

1.7 Impairment

Financial assets (including receivables)

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

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in note 22.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

1.8 Employee benefits

Defined contribution plans

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

The Company's employees are members of the Wessex Water Ltd Group pension scheme. The Company recognises a cost equal to its contribution payable for the period. The assets of the scheme are held separately from those of the Group.

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.8 Employee benefits *(continued)*

Short-term benefits

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

1.9 Revenue

Supply of water and sewerage services

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

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

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

Variable Consideration

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

Developer Services

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

(i) Connections and meter installation in exchange for payment.
(ii) Adoptions of water and wastewater mains.

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

Period over which performance obligations are satisfied

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

Notes to the financial statements *(continued)*

1. Accounting policies *(continued)*

1.10 Expenses

Lease payments

Lease payments on short-term leases and leases of low value assets are recognised as expenses on a straight-line basis over the lease term.

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

Financing income and expenses

Financing expenses comprise interest payable. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.11 Taxation

Tax on the profit for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

1.12 Dividends

Dividends are proposed by the Board and immediately afterwards are authorised by the shareholder and are therefore recognised as a liability in the accounts until paid.

1.13 Deferred Grants and Contributions

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

Grants and contributions relating to infrastructure assets are amortised over an average of between 60 and 125 years (see note 1.5).

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

Notes to the financial statements *(continued)*

2. Segmental Reporting

Operating segments are reported in a manner consistent with internal reporting provided to the Board.

The business comprises the regulated water and wastewater services provided by Albion Water in four areas of new housing undertaken by developers. Each housing development gives rise to ongoing revenue from the residential and commercial customers in those areas. As new customers are connected to the network this gives rise to new connections income. In addition, there is ongoing activity to expand the business into new housing developments.

	2021	2020
	£000	£000
Revenue		
Knowle	**233**	202
Rissington	**223**	187
Oaklands	**117**	77
Ebbsfleet	**154**	-
New connections	**61**	170
Business development	**391**	412
	1,179	1,048
Operating (loss)		
Knowle	**181**	150
Rissington	**16**	2
Oaklands	**(79)**	(725)
Ebbsfleet	**32**	-
New connections	**(3)**	26
Business development	**(489)**	(664)
	(342)	(1,211)

1. Accounting policies *(continued)*

1.14 Leases

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

Company as a lessee

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

i) Right-of-use assets

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

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

The Company's lease liabilities are included in Interest-bearing loans and borrowings (see note 14).

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

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

Notes to the financial statements *(continued)*

3. Revenue

Current year	**Measured**	**Unmeasured**	**Total**
	£000	**£000**	**£000**
Revenue recognised over time:			
Water Supply	**135**	**53**	**188**
Waste Water	**342**	**197**	**539**
	477	**250**	**727**
Other			**391**
			1,118
Revenue recognised at a point in time:			
New Connections			**61**
Total Revenue			**1,179**

Prior Year	Measured	Unmeasured	Total
	£000	£000	£000
Revenue recognised over time:			
Water Supply	101	42	143
Waste Water	167	156	323
	268	198	466
Other			421
			887
Revenue recognised at a point in time:			
New Connections			161
Total Revenue			1,048

In accordance with IFRS 15, revenue has been disaggregated based on what is recognised in relation to the core services of supplying clean water and the removing and treating of wastewater. Each of these services is deemed to give rise to a distinct performance obligation under the contract with customers, though following the same pattern of transfer to the customer who simultaneously receives and consumes both of these services over time.

Notes to the financial statements *(continued)*

4. Operating Loss

Operating loss for the year is stated after charging/(crediting):

	2021	2020
	£000	£000
Fees payable to the company's auditor for audit services	**8**	6
Depreciation of owned property, plant and equipment	**262**	173
Depreciation on right of use assets	**15**	14
Amortisation of intangible assets	**12**	12
Amortisation of deferred grants and contributions	**(241)**	(192)
Short-term lease charges	**12**	13

5. Employees

The average number of persons (including directors) employed by the company during the year was:

	Number of employees	
	2021	2020
Average number of employees	**10**	12

Their aggregate renumeration comprised:

	2021	2020
	£000	£000
Wages and salaries	**617**	674
Social security costs	**67**	68
Pension costs	**20**	19
	704	761

These costs were allocated as follows:		
Capital schemes	**28**	-
Operating expenses	**676**	761
	704	761

Notes to the financial statements *(continued)*

6. Director's remuneration

The number of directors for whom retirement benefits were accruing under defined contribution schemes amounted to 2 (2020 was 2).

	2021	2020
	£000	£000
Remuneration for qualifying services	**301**	308
Company pension contributions to defined contributions schemes	**13**	12
	314	320

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

Remuneration for qualifying services	**110**	109

7. Finance expenses

	2021	2020
	£000	£000
Interest on loans from participatory company	**32**	24
Interest on loans from immediate holding company	**31**	42
Other interest	**1**	1
	64	67

8. Taxation

	2021	2020
	£000	£000
Current Tax		
Current year	**(78)**	(233)
Adjustments for prior years	**(9)**	-
Deferred Tax		
Origination and reversal of timing differences	**-**	-
Total tax (credit)	**(87)**	(233)

The actual (credit) for the year can be reconciled to the expected credit for the year based on the loss and the standard rate of tax as follows:

	2021	2020
	£000	£000
Loss before taxation	**(406)**	(1,278)
Expected tax credit based on the standard rate of corporation tax in the UK of 19% (2020: 19%)	**(77)**	(243)
Tax effect of expenses that are non-deductible in determining taxable profit	**3**	10
Movement in unrecognised deferred tax balances	**(4)**	-
Adjustment to tax charge in respect of previous period	**(9)**	-
Taxation for the year	**(87)**	(233)

Notes to the financial statements *(continued)*

9. Property, plant and equipment

	Land & buildings	Infra-structure assets	Plant, equipment & vehicles	Office & IT equipment	Assets under construction	Total
	£000	£000	£000	£000	£000	£000
Cost						
Balance at 1 July 2019	272	12,962	55	15	-	13,304
Cost of ROU assets on transition to IFRS 16	21	-	-	-	-	21
Additions	9	(127)	21	-	-	(97)
Disposals	-	(90)	-	-	-	(90)
Balance at 30 June 2020	302	12,745	76	15	-	13,138
Balance at 1 July 2020	302	12,745	76	15	-	13,138
Cost of ROU assets	33	-	-	-	-	33
Transfer between categories (AUC) [1]	-	(767)	-	-	767	-
Additions	-	-	-	-	3,895	3,895
Transfer on commissioning	778	-	1,614	-	(2,392)	-
ROU assets terminated	(21)	-	-	-	-	(21)
Disposals	-	-	-	-	-	-
Balance at 30 June 2021	**1,092**	**11,978**	**1,690**	**15**	**2,270**	**17,045**
Depreciation and impairment						
Balance at 1 July 2019	(17)	(1,187)	(30)	(9)	-	(1,243)
Depreciation on ROU assets	(14)	-	-	-	-	(14)
Depreciation charge for the year	(3)	(159)	(6)	(5)	-	(173)
Disposals	-	-	-	-	-	-
Balance at 30 June 2020	(34)	(1,346)	(36)	(14)	-	(1,430)
Balance at 1 July 2020	(34)	(1,346)	(36)	(14)	-	(1,430)
Depreciation on ROU assets	(15)	-	-	-	-	(15)
Depreciation charge for the year	(86)	(65)	(110)	(1)	-	(262)
Depreciation on ROU assets terminated	21	-	-	-	-	21
Disposals	-	-	-	-	-	-
Balance at 30 June 2021	**(114)**	**(1,411)**	**(146)**	**(15)**	**-**	**(1,686)**
Net Book Value						
At 30 June 2019	255	11,775	25	6	-	12,061
At 30 June 2020	268	11,399	40	1	-	11,708
At 30 June 2021	**978**	**10,567**	**1,544**	**-**	**2,270**	**15,539**

[1] In the prior year expenditure on assets still under construction was included in the various reporting categories. In the current year management has decided to show assets under construction (AUC) as a separate category as it is believed this will aid users of the accounts.

Notes to the financial statements *(continued)*

10. Leases

Assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land & buildings £000	Plant & machinery £000	Total £000
As at 1 July 2019	21	-	21
Additions	-	-	-
Depreciation expense	(14)	-	(14)
As at 30 June 2020	7	-	7
As at 1 July 2020	7	-	7
Additions	33	-	33
Depreciation expense	(15)	-	(15)
As at 30 June 2021	25	-	25

Liabilities

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

			2021 £000
As at 1 July 2020			7
Additions			33
Accretion of interest			-
Payments			(15)
As at 30 June 2021			25
Current	Note	14	17
Non-current	Note	14	8

Expenses

The following are the amounts recognised in profit or loss:

	2021 £000	2020 £000
Depreciation expense of right-of use assets	**15**	14
Interest expense on lease liabilities	**-**	1
Expenses relating to short-term leases	**12**	13
	27	28

Notes to the financial statements *(continued)*

11. Intangible assets

	Software development £000	Total £000
Cost		
Balance at 1 July 2019	87	87
Additions in the year	2	2
Balance at 30 June 2020	89	89
Balance at 1 July 2020	89	89
Additions in the year	-	-
Balance at 30 June 2021	**89**	**89**
Amortisation and impairment		
Balance at 1 July 2019	(40)	(40)
Amortisation charge for the year	(12)	(12)
Balance at 30 June 2020	(52)	(52)
Balance at 1 July 2020	(52)	(52)
Amortisation charge for the year	(12)	(12)
Balance at 30 June 2021	**(64)**	**(64)**
Net book value		
at 30 June 2019	47	47
At 30 June 2020	37	37
At 30 June 2021	**25**	**25**

12. Trade and other receivables

	2021 £000	2020 £000
Amounts receivable from customers	**321**	328
Corporation tax	**78**	233
Other receivables	**125**	44
Prepayments	**32**	32
	556	637

Trade and other receivables are due in under one year.

Notes to the financial statements *(continued)*

13. Cash and cash equivalents

	2021	2020
	£000	£000
Short term deposits	165	165

14. Other interest-bearing loans and borrowings

	2021	2020
	£000	£000
Current liabilities:		
Bank Overdraft	511	22
Lease liabilities	17	7
	528	29
Non-current liabilities:		
Loans from undertakings which have a participating interest in the company	-	611
Lease liabilities	8	-
Loan from immediate holding company	4,597	2,590
	4,605	3,201

The loans are secured by a fixed and floating charge on the company assets. The loan from the participating company had interest accruing at 1% above the LIBOR rate and was repaid in April 2021.

The loan from the parent company accrues interest at 1% above the LIBOR rate and is repayable in September 2026.

Notes to the financial statements *(continued)*

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

Changes in liabilities arising from financing activities

	30 June 2020	**Cash flows**	**New leases**	**Other**	**30 June 2021**
	£000	**£000**	**£000**	**£000**	**£000**
Current interest-bearing loans and borrowings	22	489	-	-	511
Current obligations under leases	7	(15)	25	-	17
Non-current obligations under leases	-		8	-	8
Non-current interest-bearing loans and borrowings	3,201	1,388	-	7	4,596
Total liabilities from financing activities	**3,230**	**1,862**	**33**	**7**	**5,132**

	30 June 2019	Cash flows	Transition to IFRS 16	Other	30 June 2020
	£000	£000	£000	£000	£000
Current interest-bearing loans and borrowings	555	(533)	-	-	22
Current obligations under leases	-	(14)	14	7	7
Non-current obligations under leases	-	-	7	(7)	-
Non-current interest-bearing loans and borrowings	1,536	1,600	-	65	3,201
Total liabilities from financing activities	2,091	1,053	21	65	3,230

Notes to the financial statements *(continued)*

15. Trade and other payables

	2021	2020
	£000	£000
Trade payables	257	122
Owed to immediate holding company	189	-
Owed to fellow subsidiaries	14	5
Owed to participating companies	-	208
Contract liabilities	179	169
Accrued expenses	314	218
Other creditors	4	-
	957	722

Analysis of contract liabilities

	2021	2020
	£000	£000
At 1 July	169	176
Deferred during the year	179	169
Recognised as revenue during the year	(169)	(176)
At 30 June	179	169

The contract liabilities within current payables all relate to performance obligations due to be settled within the following 12 months.

16. Deferred grants and contributions

	Below ground grants £000	Adopted assets £000	Totals £000
Balance at 1 July 2019	3,438	8,639	12,077
Received during the year	-	-	-
Amortisation	(56)	(136)	(192)
Balance at 30 June 2020	**3,382**	**8,503**	**11,885**
Balance at 1 July 2020	3,382	8,503	11,885
Received during the year	-	2,017	2,017
Amortisation	(33)	(208)	(241)
Balance at 30 June 2021	**3,349**	**10,312**	**13,661**

Amortised amounts are offset against depreciation charges in the income statement.

Notes to the financial statements *(continued)*

17. Provisions

	2021	2020
	£000	£000
Movement of provisions:		
At 1 July 2020	**138**	175
Utilisation of provision	**(37)**	(37)
At 30 June 2021	**101**	138

The provisions relate to money received from developers to cover economic shocks that Albion Water Ltd may face in future. The provision is being released over 12 years.

18. Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets	Assets
	2021	2020
	£000	£000
Accelerated capital allowances	-	-
Tax losses	-	-
	-	-

Movements in the year:

	2021	2020
	£000	£000
Liability/(Asset) at 1 July	-	-
Change to profit or loss	-	-
Liability/(Asset) at 30 June	-	-

The company has unrecognized trading losses in the region of £0.6m at the balance sheet date. Due to the uncertainty of when the company will return to profitability, no deferred tax asset has been recognised in respect of these assets. The cumulative unprovided deferred tax asset at 25% is expected to be in the region of £150k.

Notes to the financial statements *(continued)*

19. Retirement Benefits Scheme

	2021	2020
	£000	£000
Change of profit and loss in respect of defined contributions scheme	**20**	19

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

20. Share Capital

Authorised share capital

	2021	2020
	£	£
Ordinary Shares	**999.00**	999.00
49 Ordinary A shares of 1p each	**0.49**	0.49
51 Ordinary B shares of 1p each	**0.51**	0.51
	1,000.00	1,000.00

Issued share capital

	2021	2020
	£	£
Ordinary of £1 each	-	-
49 Ordinary A shares of 1p each	**0.49**	0.49
51 Ordinary B shares of 1p each	**0.51**	0.51
	1.00	1.00

On 8 April 2021 the parent company, Wessex Water Ltd purchased the 49 'A' Ordinary shares from Waterlevel Ltd. Albion Water Ltd is now a 100% owned subsidiary of Wessex Water Ltd.

21. Capital Management

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

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Notes to the financial statements *(continued)*

22. Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale. The fair value of short term and floating rate borrowings approximate to book value. The fair value of long-term fixed rate borrowings can be calculated using market values or discounted cash flow techniques.

The IFRS 13 fair value hierarchy is a categorisation relating to the extent that the fair value can be determined by reference to comparable market values. The hierarchy ranges from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to derive fair value do not have comparable market data.

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

There are no financial instruments in the Company apart from trade payables, trade receivables, the bank overdraft, lease liabilities and loans from the immediate holding company.

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

a) Fair values of financial instruments

	Carrying amount 2021 £000	**Fair Value 2021 £000**	**Level 2 2021 £000**	Carrying amount 2020 £000	Fair Value 2020 £000	Level 2 2020 £000
Bank overdraft (note 14)	**511**	**511**	**511**	22	22	22
Lease liabilities	**25**	**25**	**25**	7	7	7
Other interest-bearing loans and borrowings (note 14)	**4,597**	**4,597**	**4,597**	3,201	3,201	3,201
Total financial liabilities	**5,133**	**5,133**	**5,133**	3,230	3,230	3,230

The management assessed that the fair values of cash and cash equivalents, debtors (excluding VAT) and creditors approximate their carrying values due to the short-term maturities of these instruments.

Notes to the financial statements *(continued)*

22. Financial Instruments *(continued)*

b) Credit risk

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

Cash and cash equivalents are short term deposits with counterparties that have a credit rating of A1+/P1 or A1/P1, and hence there is minimal exposure to credit risk for these values.

	2021 £000	2020 £000
Cash and cash equivalents	**165**	165
	165	165

Billed and unbilled receivables are from domestic and business customers. Set out below is the information about the credit risk exposure on the Company's trade receivables.

Amounts receivable from customers

	2021 £000	2020 £000
Billed receivables	**331**	344
Unbilled receivables	**106**	93
Expected credit losses	**(116)**	(109)
	321	328

	Gross 2021 £000	**ECL rate 2021 %**	**Impairment 2021 £000**
Less than 1 year	**437**	**26.5%**	**(116)**
	437		**(116)**

	Gross 2020 £000	ECL rate 2020 %	Impairment 2020 £000
Less than 1 year	437	24.9%	(109)
	437		(109)

Notes to the financial statements *(continued)*

22. Financial Instruments *(continued)*

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

	2021	2020
	£000	£000
Balance at 1 July	**(109)**	(88)
Written off	**-**	4
Charge to profit and loss	**(7)**	(25)
Balance at 30 June	**(116)**	(109)

c) Liquidity risk

Financial risk management

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

The Company has secured long-term funding through loans from its parent company. This means that the need to obtain additional finance has been spread over future years and is not considered onerous in any one year.

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

	Carrying amount	**Contractual cash flows**	**Year 1**	**Years 2-5**	**Over 5 years**
	2021	**2021**	**2021**	**2021**	**2021**
	£000	**£000**	**£000**	**£000**	**£000**
Non-derivative financial instruments					
Lease liabilities	**25**	**25**	**17**	**8**	**-**
Inter-company loan	**4,597**	**4,653**	**-**	**4,653**	**-**
Total financial instruments	**4,622**	**4,678**	**17**	**4,661**	**-**

	Carrying amount	Contractual cash flows	Year 1	Years 2-5	Over 5 years
	2020	2020	2020	2020	2020
	£000	£000	£000	£000	£000
Non-derivative financial instruments					
Lease liabilities	7	7	7	-	-
Loan from participating interest	611	678	-	-	678
Inter-company loan	2,590	2,680	-	2,680	-
Total financial instruments	3,208	3,365	7	2,680	678

Notes to the financial statements *(continued)*

22. Financial Instruments *(continued)*

d) Market risk

There is no exposure to equity or foreign currency risk, the interest rate risk is shown below.

Interest rate risk

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

	2021	2020
	£000	£000
Floating rate instruments	**4,622**	3,208

Sensitivity

The floating rate instruments are sensitive to interest rate movements. If there was a 1% increase in interest rates on those floating rate instruments at the balance sheet date, there would be an additional interest charge to the income statement of £46k (2020 - £32k).

23. Capital Commitments

The Company has made no commitments (2020 - £nil)

24. Contingencies

There are no material contingent liabilities at 30 June 2021 for which provision has not been made in these accounts (2020: £nil)

25. Significant transactions with related parties

	2021	2020
	£000	£000
Sales of goods and services:		
Participating company	**369**	314
Interest expense:		
Participating company	**32**	24
Immediate holding company	**31**	42
Purchase of goods and services:		
Fellow subsidiaries	**11**	43
Year-end balances owing to:		
Participating company	**-**	819
Immediate holding company	**4,786**	2,590
Fellow subsidiaries	**14**	5

Notes to the financial statements *(continued)*

26. Ultimate parent company and parent company of the larger group

The immediate parent company is Wessex Water Limited a company incorporated in the United Kingdom whose registered office is Wessex Water Operations Centre, Claverton Down Road, Bath, BA2 7WW.

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

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

27. Subsequent events

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

28. Accounting estimates and judgements

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

a) Expected credit loss provision

The expected credit loss on outstanding receivables is a key estimate under IFRS 9. We base our estimate of recoverability by grouping customers into similar economic profiles and applying a percentage loss rate based on forward looking judgements on the future collection rates that are likely to be achieved.

b) Classification of capital expenditure

Due to the high value of capital expenditure the judgements made on the classification of expenses as operating or capital, and within capital between maintenance and enhancement, are key to the preparation of the accounts. The Company follows both accounting standards and guidelines issued by Ofwat in making these judgements.

c) Revenue recognition

The unbilled income accrual from metered water services requires an estimation of the amount of unbilled charges at the period end. This is calculated using system generated information based on previous customer volume usage.

d) Asset lives

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