

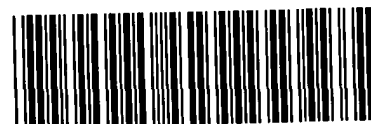
Registered Number 08608208

Evoqua Water Technologies Limited

Report and Financial Statements

30 September 2019

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COMPANIES HOUSE

Evoqua Water Technologies Limited

Registered Number 08608208

Directors

Ronald Keating
Benedict Stas
Michael Heaton
Reinhold Zeiner

Secretaries

Adam Jones
Vincent Grieco

Auditors

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

Bankers

JPMorgan Chase Bank
25 Bank Street
London
E14 5JP

Solicitors

Fried, Frank, Harris, Shriver & Jacobson LLP
99 City Road
London
EC1Y 1AX

Registered Office

Unit 9 Norman Way
Severnbridge Industrial Estate
Portskewett
Caldicot
Wales
NP26 5PT

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Strategic Report

The Directors present their Strategic report for the year ended 30 September 2019.

Principal Activities

The principal activities of the Company during the period were the sales, distribution and maintenance of water treatment equipment to the UK, European, Asian and African markets.

Review of the Business

The results of the Company for the period are set out in the income statement on page 13.

The Company generated an operating loss of £1,776,000 in the year (2018: loss of £2,786,000). This was driven by turnover in the period of £30,735,000 (2018: £32,143,000) showing an operating profit margin of -5.8% (2018: -8.7%).

Management review the results of the business using several key metrics including revenue, gross profit and EBITDA. Results are compared to budget and forecast as well as prior year.

A summary of the key metrics for the Company are included below.

	Year to 30 September 2019	Year to 30 September 2018
	(£000)	(£000)
Revenue	30,735	32,143
Gross Profit	7,191	6,255
EBITDA	(3,025)	(499)

Outlook and Future Developments

The key developments in each of the Company's business units are:

Electrocatalytic

The business continues to invest in product development which allows the footprint of our systems to reduce and the output of active substance to increase. This enables us to enter new markets and be more competitive in existing markets. With a clear product roadmap, the business has targeted growth opportunities in all regions in which we operate. With a strong capital projects pipeline and long-term customer relationships, management feel well positioned to grow our traditional Chloropac and CAPAC business.

In January 2019 the business took the decision to restructure and refocus on our more traditional markets of Power, Oil and Gas and Marine and step back from selling full system solutions to the Ballast Water Treatment market. This resulted in a number of redundancies but positions the business for future growth in more profitable projects. The business remains committed to the Ballast Water product and in May 2019 filed our application for approval of the system to the US Coast guard. This is currently pending evaluation ahead of certification likely in 2020. Further market opportunities will be explored as we approach full certification.

We have secured our first land-based order for the Mk4 cell system, with the potential for many more. Our key account management strategy has yielded several repeat capital orders with major customers in both the UK and internationally. A strong aftermarket proposition including being able to offer services of competitor equipment also positions the business well for profitable growth.

Strategic Report (continued)

Wastewater

The Wastewater business continues to focus on the next UK investment period known as the Asset Management Period (AMP7), that begun in April 2020. One of the key drivers of AMP7 is supplying wastewater processes to reduce phosphorus leaving the wastewater plants which significantly impacts the local ecosystem with detrimental effects on rivers and lakes. The EMEA Wastewater business has focused on the BioMag and CoMag processes that can achieve very low phosphorous in the effluent leaving the wastewater plants whilst reusing the existing assets such as civil tanks thus negating the need for major civil infrastructure investment. The BioMag and CoMag technologies use a ballast material (magnetite) to increase mixed liquor concentration in biological plants and create denser, heavier flocs in final settlement tanks thus increasing capacity of the existing plant and the quality of effluent leaving the clarifier.

BioMag is a unique process in the market that can achieve both better effluent and greater capacity with one process versus competition that requires two different technologies to achieve both these outcomes. The UK wastewater business now has one major operating reference with BioMag technology at Severn Trent Water (Rugby). The outlook regarding similar projects in AMP7 for BioMag remains healthy.

For CoMag the operating reference at Severn Trent (Finham) is strategic in securing other such similar projects. As the largest operating CoMag plant in the world treating up to 250,000,000 litres of wastewater per day to extremely low solids and phosphorus limits, this technology is both innovative and cost effective particularly in the medium to larger works. As such, a further project has now been placed by Severn Trent Water with this technology as well as two schemes with Welsh Water which indicates a healthy market in AMP7 for this unique technology.

Aquatics & Disinfection

Evoqua continues to build on its leading position in drinking water disinfection within the UK, expanding on its core strengths of chlorine gas disinfection and On-Site Electro Chlorination (OSEC), with the addition of ultraviolet disinfection solutions through the acquisition of ATG. This depth of portfolio allows us to better serve the critical UK municipal drinking water segment and meet industry needs.

In the aquatics segment, the addition of the ATG UV portfolio, including the market leading Wafer™ range of UV disinfection solutions offer real benefits in providing space saving compact UV solutions for pool construction partners and end users alike, where footprint is at a premium. Our Ezetrol Touch and Depolox pool units continue to offer reliable control of pool disinfection systems.

Integrating Pacific Ozone into the portfolio allows Evoqua to offer alternative ozone-based disinfection. This residual free solution is critical in the food and beverage industry, from bottling line disinfection, vegetable processing through to aquaculture. We offer critical non-chemical disinfection for a range of applications, including hospital laundry, public space disinfection, and transportation decontamination.

The COVID-19 pandemic had no impact on the financial year ending 30 September 2019. The impact of COVID-19 on the business in the current financial year and on the Directors' assessment of going concern as at the date of signing these 2019 financial statements is set out in the Directors' Report under the Going Concern section.

Strategic Report (continued)

Principal Risks and Uncertainties

The Company's operations expose it to a variety of financial and operating risks that include the effects of credit risk, liquidity risk, interest rate risk, foreign exchange risk, reputational risk and supplier risk. The Company benefits from having a mix of UK and international customers, meaning that to an extent it is insulated from economic downturns in individual markets. The customer portfolio also includes large municipal water companies, engineering and construction companies all over the world and smaller customers requiring standard products. The Company is therefore not solely dependent on one market.

Reputational Risk

The Company previously traded under the Siemens name and as such had a good reputation. The risk having left Siemens is that the Company is now not as recognisable in the market place, however a strong sales funnel and many years' experience prior to Siemens of trading with our customers greatly reduces this risk. The Company also maintain a warranty reserve for remediation works to ensure products meet customer requirements.

Credit Risk Exposure

The Company assesses the credit risk of new and existing customers on a regular basis. High risk customers will not be granted credit and payment with order or a bank letter of credit will be required.

Liquidity Risk

The Company monitors cash flow as part of its day to day control procedures. The management considers cash flow projections on a weekly and monthly basis and ensures that appropriate facilities are available to be drawn upon as necessary. The Company does not have an overdraft facility but has access to borrow cash from another company, EWT Holdings III Corp.

Foreign Exchange Risk

The Company has exchange risk in Euro, US dollar and Australian dollar. Overall foreign exchange exposure is monitored and managed at a Group level. The Company uses forward foreign currency contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The UK Company does not deal in any financial instruments for speculative purposes.

Supplier Risk

The Company operates strict quality protocols being accredited to ISO 9001 Quality Management Systems, ISO 45001 Occupational Health and Safety Management and ISO 14001 Environment Management. When selecting suppliers these principles are upheld in our processes. Credit checks and supplier risk evaluations are completed for every new supplier to ensure that the materials are going to arrive on time and of the required quality.

Signed by order of the board



Michael Heaton

Director

Date 29th September 2020

Directors' Report

The Directors present their report for the year ended 30 September 2019.

Directors

The Directors who held office during the period and subsequent to the period end were:

Ian Stentiford (Resigned 17th December 2018)

Christopher Rees (Resigned 20th December 2018)

Ronald Keating

Edward May Jr (Resigned 17th December 2018)

Benedict Stas

Michael Heaton (Appointed 20th December 2018)

Reinhold Zeiner (Appointed 20th December 2018)

Dividends

The Directors do not propose the payment of a final dividend. The retained loss for the period of £3,013,000 has been transferred to reserves.

Research and Development

The Company has invested in sustaining engineering and R&D in order to improve the manufacturing methods on existing products and to develop new products or applications. Management are confident that new products will further boost sales and profitability. The key developments in each of the business units are set out in the Strategic Report on pages 3-6.

Future Developments

The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3-5.

Going Concern

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The Company has net current assets of £8.316 million and net assets of £8.863 million. The Company has access to significant intercompany cash pooling facilities should they be required in order to meet its day to day working capital requirements and continuing financial support from parent companies.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects and specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for our people.

The Company has been deemed essential, providing mission critical water solutions to their customers. Our customers operate in a wide range of sectors including factories, healthcare and food and beverage as well as drinking water and wastewater solutions. Some sectors in which we operate, for example aquatics and leisure have been adversely affected by the COVID-19 pandemic, but overall management's assessment is that the business has a strong order book and pipeline to remain trading and be profitable. Management have increased the frequency and detail of cashflow forecasting to ensure that the Company can meet its liabilities as they fall due and continue to operate for the foreseeable future.

Directors' Report (continued)

The Directors have prepared forecasts for a period of 24 months from the balance sheet date. These financial forecasts, taking into consideration the current environment, show that the Company is expected to generate profit and positive cash flows giving the Company the ability to continue to operate for the foreseeable future.

In view of the circumstances referred to above, the directors are satisfied that financial support will be available to the company for the foreseeable future and the directors have received a support letter from the company's ultimate parent undertaking Evoqua Water Technologies Inc. Accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

Post Balance Sheet Events

On 2nd December 2019 the Company completed the acquisition of the trade and assets of ATG UV Technology Limited at book value.

On 2nd January 2020 Evoqua Water Technologies Inc. announced the completion of the divestiture of the Memcor global product line. The Memcor product line had previously formed part of the UK entity's product portfolio. Proceeds attributable to Evoqua Water Technologies Limited were \$3.3m, yielding a gain on disposal of £1.1m.

Foreign Branches

The Company operates foreign branch offices in Ireland, Greece, Bahrain and Finland. The Irish branch operates in the Industrial segment, with the Greece, Bahrain and Finland branches being sales offices for the UK entity.

Financial Instruments

Details of financial instruments are provided in the strategic report on page 5.

Political and Charitable Contributions

There were no contributions to charities or political organisations in the period.

Disabled employees

The Company gives full consideration to applicants for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever possible.

Employee involvement

During the period, the policy of providing employees with information about the Company has been continued through newsletters and publications in which employees have been encouraged to present their suggestions and views. Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of employee meetings, which allow a free flow of information and ideas.

Disclosure of information to auditors

The Directors who were members of the board at the time of approving the Directors' Report are listed on page 6. Having made enquiries of fellow directors and of the company's auditors, each of these Directors confirms that:

Directors' Report (continued)

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with s485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board



Michael Heaton
Director

Date: 29th September 2020

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Directors' 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). 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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.

Independent auditor's report

to the members of Evoqua Water Technologies Limited

Opinion

We have audited the financial statements of Evoqua Water Technologies Limited for the year ended 30 September 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

Emphasis of matter - Effects of COVID-19

We draw attention to Note 1.3 and 22 of the financial statements, which describes the financial and operational consequences the company is facing as a result of COVID-19 which is impacting the entities ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Independent auditor's report

to the members of Evoqua Water Technologies Limited (continued)

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

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

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

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

Independent auditor's report

to the members of Evoqua Water Technologies Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, 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.

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.

Ernst & Young UK

Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

Date *29th September 2020*

Income Statement

For the year ended 30 September 2019

	<i>Notes</i>	<i>2019</i> <i>£000</i>	<i>2018</i> <i>£000</i>
Turnover	2	30,735	32,143
Cost of sales		(23,544)	(25,888)
Gross profit		7,191	6,255
Administrative expenses		(5,349)	(6,182)
Other operating expenses		(3,618)	(2,859)
Operating loss	4	(1,776)	(2,786)
Profit on disposal of operations	4	-	1,133
Exceptional items	4	(2,014)	(446)
Interest receivable and similar income	5	151	207
Interest payable and similar charges	6	(64)	(41)
Other finance income/(expense)	7	(30)	-
Loss on ordinary activities before taxation		(3,733)	(1,933)
Tax credit/(charge) on loss on ordinary activities	8	533	(14)
Loss		(3,200)	(1,947)

The company does not have any unrecognised profits or losses other than the above.

There is no material difference between the profit on ordinary activities before tax and the profit for the financial year stated above and their historical equivalents.

All amounts relate to continuing activities.

The notes from 1 to 22 form part of these financial statements.

Statement of Comprehensive Income**For the year ended 30 September 2019**

	<i>Notes</i>	<i>2019</i> <i>£000</i>	<i>2018</i> <i>£000</i>
Loss for the financial year		(3,200)	(1,947)
<i>Other comprehensive income/(loss)</i>			
Re-measurement gain/(loss) recognised on defined benefit pension schemes	17	223	724
Deferred tax (charge)/credit relating to pension scheme	8	(36)	(132)
<i>Total other comprehensive income/(loss)</i>		<u>187</u>	<u>592</u>
<i>Total comprehensive loss for the year</i>		<u><u>(3,013)</u></u>	<u><u>(1,355)</u></u>

Statement of Changes in Equity**For the year ended 30 September 2019**

	<i>Share capital £000 (note 18)</i>	<i>Profit and loss account £000</i>	<i>Total Equity £000</i>
At 1 October 2017	15,000	(1,470)	13,530
Loss for the year	-	(1,947)	(1,947)
Other comprehensive income	-	592	592
Total comprehensive loss for the year	-	(1,355)	(1,355)
Share based payment expense	-	39	39
At 30 September 2018	15,000	(2,786)	12,214
Result of change in accounting policy (See Note 1.6)	-	(376)	(376)
At 1 October 2018	15,000	(3,162)	11,838
Loss for the year	-	(3,200)	(3,200)
Other comprehensive income	-	187	187
Total comprehensive loss for the year	-	(3,013)	(3,013)
Share based payment expense	-	38	38
At 30 September 2019	15,000	(6,137)	8,863

Statement of Financial Position

At 30 September 2019

	Notes	30 September 2019 £000	30 September 2018 £000
Fixed assets			
Intangible assets	9	88	527
Tangible assets	10	986	1,300
		<u>1,074</u>	<u>1,827</u>
Current assets			
Cash		-	-
Stocks	11	2,165	2,573
Debtors, amounts falling due within one year	12	22,580	27,356
		<u>24,745</u>	<u>29,929</u>
Creditors: amounts falling due within one year	13	(16,429)	(18,563)
Net current assets		<u>8,316</u>	<u>11,366</u>
Total assets less current liabilities		<u>9,390</u>	<u>13,193</u>
Creditors: amounts falling due after one year	14	(87)	(77)
Provisions for liabilities and charges	16	(2,594)	(2,863)
Net assets excluding pension liability		<u>6,709</u>	<u>10,253</u>
Pension scheme asset	17	2,154	1,961
Net assets		<u>8,863</u>	<u>12,214</u>
Capital and reserves			
Called up share capital	18	15,000	15,000
Profit and loss account		(6,137)	(2,786)
Equity shareholders' funds		<u>8,863</u>	<u>12,214</u>

The financial statements of Evoqua Water Technologies Limited were approved by the Board of Directors and authorised for issue on 29th September 2020 and signed on its behalf by:



Michael Heaton, Director

Date 29th September 2020.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies

1.1. Statement of compliance

Evoqua Water Technologies Limited is a limited liability company incorporated in England. The Registered Office is Unit 9 Norman Way, Severnbridge Industrial Estate, Portskewett, Caldicot, Wales, NP26 5PT.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 30 September 2019.

1.2. Basis of preparation

The financial statements of Evoqua Water Technologies Limited were approved for issue by the Board of Directors on 29 September 2020.

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. During the year, the Company changed its revenue recognition policy to align with its Group, who adopted ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" on 1st October 2018, using the modified retrospective approach to those contracts that were not completed or substantially complete as of 1st October 2018. Results for the reporting period beginning after 1st October 2018 are presented under the new revenue recognition policy, while prior period amounts have not been adjusted and continue to be reported in accordance with the Company's historical accounting. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £000.

1.3. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due. The Company has net current assets of £8.316 million and net assets of £8.863 million. The Company has access to significant intercompany cash pooling facilities should they be required in order to meet its day to day working capital requirements and continuing financial support from parent companies.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects and specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for our people.

The Company has been deemed essential, providing mission critical water solutions to their customers. Our customers operate in a wide range of sectors including factories, healthcare and food and beverage as well as drinking water and wastewater solutions. Some sectors in which we operate, for example aquatics and leisure have been adversely affected by the COVID-19 pandemic, but overall management's assessment is that the business has a strong order book and pipeline to remain trading and be profitable. Management have increased the frequency and detail of cashflow forecasting to ensure that the Company can meet its liabilities as they fall due and continue to operate for the foreseeable future.

The Directors have prepared forecasts for a period of 24 months from the balance sheet date. These financial forecasts, taking into consideration the current environment, show that the Company is expected to generate profit and positive cash flows giving the Company the ability to continue to operate for the foreseeable future.

In view of the circumstances referred to above, the directors are satisfied that financial support will be available to the company for the foreseeable future and the directors have received a support letter from the

Notes to the financial statements

For the year ended 30 September 2019

company's ultimate parent undertaking. Accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

1.4. Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- (a) The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d).
- (b) The requirements of Section 11 paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.26 to 12.29A.
- (c) The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23.
- (d) The requirement of Section 33 Related Party Disclosures paragraph 33.7.

1.5 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements and are the company's key sources of estimation uncertainty.

Operating lease commitments

The company has entered into commercial property leases as a lessee (it obtains use of property, plant and equipment). The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 17.

Goodwill and intangible assets

The Company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Taxation

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the UK tax authorities. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

1.5. Significant accounting policies

Revenue recognition

The Company recognises sales of products and services based on the five-step analysis of transactions. For all contracts with customers, the Company first identifies the contract which usually is established when the customer's purchase order is accepted or acknowledged. Next the Company identifies the performance obligations in the contract. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company then determines the transaction price in the arrangement and allocates the transaction price to each performance obligation identified in the contract. The Company's allocation of the transaction price to the performance obligations are based on the relative standalone selling prices for the goods and services contained in a particular performance obligation. The transaction price is adjusted for the Company's estimate of variable consideration which may include discounts if the Company would fail to meet certain performance requirements, volume discounts or early payment discounts. To estimate variable consideration, the Company utilizes historical experience and known terms. Variable consideration in contracts for the year ended 30th September 2019 was insignificant.

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Turnover represents amounts invoiced to third parties and the value of long-term contract work done. Turnover attributable to continuing activities, relates to the delivery of water and wastewater treatment products and systems through project work for industrial and municipal customers, sales of parts, and the delivery of servicing and repair work.

Long-term contract work

Revenue from the construction of water treatment equipment and other long-term contracts is recognised by reference to the stage of completion. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. A full provision is made for losses on all contracts in the period in which they are first foreseen.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sale of services

Revenue from the maintenance, servicing, repair and other services is recognised on a straight-line basis over the life of the contract or at the moment the service is delivered, depending on the type of agreement with the customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Notes to the financial statements

For the year ended 30 September 2019

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Goodwill

Positive goodwill acquired on each business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight-line basis over its useful life.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each cash generating unit that is expected to benefit from the synergies of the combination.

If a subsidiary, associate or business is subsequently sold or discontinued, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or discontinuance.

Goodwill is amortised over 5 years. This is based on management's assessment of the factors creating goodwill such as order books, customer lists and sales pipeline. It was therefore felt prudent to write off goodwill over the five year period it was felt these benefits would crystallise over.

Intangible fixed assets

Intangible assets acquired separately from a business are capitalised at cost. Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight-line basis over their estimated useful life. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

- Software – 5 years
- Licenses – 5 years

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

Research and development

Research and development expenditure is written off as incurred up to a project value of £0.5m. Development expenditure incurred on an individual project over this value is capitalised as an intangible asset when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development the asset is tested for impairment annually.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

Property, plant and equipment

All fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets, at different rates calculated to write off the cost, at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings	over 10 years
Plant and machinery	over 5 years
Fixtures and fittings, tools and equipment	over 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight-line basis.

Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists, the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	- purchase cost on a moving average basis
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

Financial instruments

The company has chosen to adopt the requirements of sections 11 and 12 of FRS 102 in respect of the measurement and disclosure of financial instruments.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance revenue in the income statement.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

The company recognises an accrual for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The accrual is measured at the salary cost payable for the period of absence. The accrual for annual leave is presented under short term creditors.

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

The company does not have any 'other' financial instruments.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on timing difference between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable timing differences. Deferred tax assets are generally recognised for all deductible timing differences to the extent that it is probable that taxable profits will be available against which those deductible timing differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions and other post-retirement benefits

Defined contributions scheme

Contributions to the defined contribution scheme are charged to the income statement as they become payable in accordance with the rules of the scheme.

Defined benefit scheme

The Company operates a defined benefit pension scheme in the UK.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs. The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net 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-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur.

Notes to the financial statements

For the year ended 30 September 2019

1. Accounting policies (continued)

Re-measurements are not reclassified to profit and loss in subsequent periods. The defined net benefit pension asset or liability in the balance sheet comprises the total 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 any net 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

The company participates in an equity settled share-based payment plan for some of its employees operated by the ultimate parent. The equity-based share options are measured at fair value at the grant date and is recognised as an expense on a straight-line basis over the vesting period of the grant.

The fair value is calculated using an appropriate pricing model. Non market-based vesting conditions are adjusted for in assumptions as to the number of shares which are expected to vest.

The Company did not enter into any share-based payment transactions with parties other than employees during the current period.

1.6 Change in Accounting Policy

As discussed in Note 1.5, "Accounting Policies", the Company has changed its accounting policy in relation to revenue recognition in order to ensure alignment with ASU 2014-09 on 1st October 2018, using the modified retrospective approach to those contracts that were not completed or substantially complete as of 1st October 2018. Results for the reporting period beginning after 1st October 2018 are presented under the new accounting policy, while prior period amounts have not been adjusted and continue to be reported in accordance with the historical accounting policy. The Company has applied the standard to all open contracts at the date of initial application. The Company recorded a net decrease to opening retained earnings of £376,000 as of 1st October 2018 as a result of the cumulative impact of adopting the new accounting policy representing the unfavourable impact to prior results had the over-time revenue recognition for some customer agreements been applied. In addition, a £724,000 increase of contract assets and a £1,100,000 increase to contract liabilities was recorded as a result of the adoption using the modified retrospective method.

Notes to the financial statements

For the year ended 30 September 2019

2. Turnover

Turnover by geographical market - continuing operations	2019 £000	2018 £000
United Kingdom	17,707	16,859
Rest of Europe	5,782	5,549
Other	7,246	9,735
	<u>30,735</u>	<u>32,143</u>

3. Staff costs

Employment Costs	2019 £000	2018 £000
Wages and salaries	8,874	8,418
Social security costs	812	858
Other pension costs	506	526
Share based payments	38	39
	<u>10,230</u>	<u>9,841</u>

There were outstanding pension contributions of £80,519 at the period end. These related to September 2019 and were paid 10th October 2019.

Monthly average number of employees (including directors)	2019 No.	2018 No.
Administration and management	97	127
Production	52	41
	<u>149</u>	<u>168</u>

Directors' emoluments	2019 £000	2018 £000
Emoluments	551	328
Amounts recognised relating to share based payments	38	39
Total	<u>589</u>	<u>367</u>
Company contributions paid to money purchase pension schemes	<u>24</u>	<u>30</u>

Notes to the financial statements

For the year ended 30 September 2019

3. Staff costs (continued)

Three directors were remunerated by the Company during the period. Two directors had awards granted under long term share option schemes which were exercised in the period and are included within emoluments below.

The amounts in respect of the highest paid director are as follows:	2019 £000	2018 £000
Emoluments	265	205
Amounts recognised relating to share based payments	27	28
Total	292	233
Company contributions paid to money purchase pension schemes	8	18

4. Operating loss

This is stated after charging/(crediting):	2019 £000	2018 £000
Auditors' remuneration		
- for audit services	45	43
- for taxation services	12	9
Research and development expenditure written off	239	698
Operating lease rentals land & buildings	307	327
Operating lease rentals plant & machinery	49	49
Loss/(gain) arising from foreign exchange	603	454
Amounts charged for warranty provisions (note 16)	541	1,610
Loss on disposal of fixed assets (note 10)	2	-
Depreciation of owned assets (note 10)	589	721
Depreciation of assets held under finance lease (note 10)	78	109
Amortisation of goodwill (note 9)	-	739
Amortisation of intangible assets (note 9)	98	31

Exceptional items

Legal and Consultancy	12	-
Severance costs	1,101	426
Other restructuring costs	901	20
	2,014	446

Notes to the financial statements

For the year ended 30 September 2019

5. Interest receivable and similar income

	2019 £000	2018 £000
Interest relating to intercompany loan	151	151
Interest relating to prior corporation tax return	-	56
Total interest receivable	<u>151</u>	<u>207</u>

6. Interest payable and similar charges

	2019 £000	2018 £000
Interest relating to finance leases	1	3
Other interest payable	63	38
Total interest payable	<u>64</u>	<u>41</u>

7. Other finance income/(expense)

	2019 £000	2018 £000
Expected return on pension scheme assets	248	247
Interest on pension scheme liabilities	(191)	(211)
(Loss)/gain on pension plan introductions and changes	(87)	-
Exchange gain/(loss) on forward contract	-	(36)
Total other finance income/(expense)	<u>(30)</u>	<u>-</u>

Notes to the financial statements

For the year ended 30 September 2019

8. Taxation

(a) Tax on profit on ordinary activities

The tax is made up as follows:	2019 £000	2018 £000
Current tax:		
UK corporation tax charge/(credit)	-	183
Tax on income of foreign branches	69	64
Total current tax charge/(credit)	69	247
Deferred tax:		
Origination and reversal of timing differences	(602)	(233)
Total deferred tax	(602)	(233)
Total tax (credit)/charge on loss on ordinary activities (note 8(c))	(533)	14

(b) Tax included in the Statement of Comprehensive Income

The tax is made up as follows:	2019 £000	2018 £000
Actuarial loss/(gain) on pension scheme	36	132
Effect of decreased tax rate on opening deferred tax balance	-	-
Total tax charge/(credit) included in SCI	36	132

Notes to the financial statements

For the year ended 30 September 2019

8. Taxation (continued)

(c) Factors affecting total tax charge

The tax assessed on the profit on ordinary activities for the period is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
(Loss)/profit on ordinary activities before tax	(3,733)	(1,933)
(Loss)/profit on ordinary activities multiplied by standard rate of tax in the UK of 19% (2018: 19%)	(709)	(367)
<i>Effects of:</i>		
Expenses not deductible for tax purposes (including goodwill amortisation)	10	289
Adjustments in respect of prior periods	-	304
Movement in capital allowances	125	(153)
Tax losses carried forward	-	(79)
Other timing differences	41	20
Total tax charge/(credit) on loss on ordinary activities	(533)	14

(d) Factors that may affect future tax charges

At Budget 2020, the government announced that the corporation tax main rate for the years starting 1 April 2020 and 2021 would remain at 19%. Deferred tax has therefore been calculated using this rate.

(e) Deferred tax

The deferred tax included in the Statement of Financial Position is as follows:

	2019 £000	2018 £000
Included in Debtors (note 12)	1,066	500
	1,066	500

Notes to the financial statements

For the year ended 30 September 2019

8. Taxation (continued)

The deferred tax balance is made up as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Accelerated capital allowances	140	265
Pension (liability)	(409)	(373)
Tax losses carried forward	1,335	608
	<u>1,066</u>	<u>500</u>

The movements in the deferred tax balance were as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
At 1 October		
Deferred tax credit/(charge) in income statement	602	231
Deferred tax (charge)/credit in Statement of Comprehensive Income	(36)	(132)
	<u>566</u>	<u>99</u>

Notes to the financial statements

For the year ended 30 September 2019

9. Intangible assets

	<i>Software</i> <i>£000</i>	<i>Licenses</i> <i>£000</i>	<i>Goodwill</i> <i>£000</i>	<i>Total</i> <i>£000</i>
<i>Cost:</i>				
At 1 October 2018	351	327	3,692	4,370
Additions	-	-	-	-
Disposals	(125)	(327)	-	(452)
At 30 September 2019	226	-	3,692	3,918
<i>Depreciation:</i>				
At 1 October 2018	151	-	3,692	3,843
Charged in the year	98	-	-	98
Disposals	(111)	-	-	(111)
At 30 September 2019	138	-	3,692	3,830
<i>Net book value:</i>				
At 30 September 2019	88	-	-	88
At 1 October 2018	200	327	-	527

The Goodwill arose when the Company acquired the trade and assets of the Water Technologies Division of Siemens Plc. Goodwill is amortised over 5 years based on managements' judgement of the value of the customer relationships, customer lists and order backlog acquired with the carve out from Siemens Plc.

Amortisation of licenses will commence once certification is complete. The expenditure incurred on licenses is the result of an EU directive regarding Biocides regulation. Under these regulations we would not be able to continue to sell our products without the required approvals and related certification.

Notes to the financial statements

For the year ended 30 September 2019

10. Tangible fixed assets

	<i>Freehold land & buildings £000</i>	<i>Plant and Equipment - owned £000</i>	<i>Plant and Equipment - leased £000</i>	<i>Fixtures, fittings, tools and equipment £000</i>	<i>Assets in the course of construction £000</i>	<i>Total £000</i>
<i>Cost:</i>						
At 1 October 2018	419	1,315	265	1,216	28	3,243
Additions	252	-	46	48	9	355
Disposals	-	(789)	-	(145)	-	(934)
Transfers	28	-	-	-	(28)	-
At 30 September 2019	699	526	311	1,119	9	2,664
<i>Depreciation:</i>						
At 1 October 2018	118	833	155	837	-	1,943
Charged in the year	44	331	78	214	-	667
Disposals	-	(788)	-	(144)	-	(932)
At 30 September 2019	162	376	233	907	-	1,678
<i>Net book value:</i>						
At 30 September 2019	537	150	78	212	9	986
At 1 October 2018	301	482	110	379	28	1,300

There is no land included in the above amounts.

Notes to the financial statements

For the year ended 30 September 2019

11. Stocks

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Raw materials	448	672
Work in progress	239	292
Finished goods	1,478	1,609
	<u>2,165</u>	<u>2,573</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £14,561,205 (2018 - £16,106,383).

The following amounts are recorded in respect of long term contracts:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Gross amount due from customers for contract work included in Debtors (note 12)	6,584	6,253
Gross amount due to customers for contract work included in Creditors (note 13)	787	566

Notes to the financial statements

For the year ended 30 September 2019

12. Debtors: amounts falling due within one year

	2019 £000	2018 £000
Trade debtors	4,592	7,606
Gross amount due from customers for contract work	6,584	6,253
Amounts due from parent company and fellow subsidiaries	9,845	12,416
Deferred tax	1,066	500
Prepayments and accrued income	493	581
	<u>22,580</u>	<u>27,356</u>

No amounts were due in over one year.

Amounts due from parent company and fellow subsidiaries are unsecured, repayable on demand and interest free, except for an amount of £3,500,000 that receives interest of 4.25% p.a.

Also included within amounts due from parent company and fellow subsidiaries are payments of €1,100,000, €2,441,000, €1,100,000 and €1,100,000 made on 29th January 2015, 1st April 2015, 29th January 2016, 26th January 2017 and 29th January 2018 respectively in relation to an agreement made to compensate Siemens for the inactive employees not transferring to the new pension scheme following the carve out of the Company. The liability for these payments fell with Water Technologies Ltd, an immediate holding company, and therefore these amounts are due to be reimbursed to the Company.

13. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Bank overdraft	607	2,503
Trade creditors	1,391	1,754
Amounts owed to parent company and fellow subsidiary undertakings	11,255	10,269
Gross amount due to customers for contract work	787	566
Obligations under finance leases	48	105
Corporation tax creditor	52	-
Other taxation and social security	628	1,147
Accruals and deferred income	1,089	1,262
Other payables	572	957
	<u>16,429</u>	<u>18,563</u>

Notes to the financial statements

For the year ended 30 September 2019

14. Creditors: amounts falling due over one year

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Deferred rent	57	77
Obligations under finance leases	30	-
	<u>87</u>	<u>77</u>

15. Obligations under leases and hire purchase contracts

Company as a lessee

The Company uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments due under finance leases and hire purchase contracts:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Amounts payable:		
Within one year	48	68
In two to five years	30	37
	<u>78</u>	<u>105</u>
less: finance charges allocated to future periods	1	1
	<u>77</u>	<u>104</u>

Future minimum lease payments due under non-cancellable operating leases are as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Amounts payable:		
Within one year	293	375
In two to five years	479	634
After five years	-	-
	<u>772</u>	<u>1,009</u>

Notes to the financial statements

For the year ended 30 September 2019

16. Provisions for liabilities and charges

	<i>Contract loss and warranty £000</i>	<i>Long term service awards £000</i>	<i>Dilapidations £000</i>	<i>Deferred tax £000</i>	<i>Total £000</i>
At 1 October 2018	2,159	55	649	-	2,863
Charged to the profit and loss account in the period	541	15	10	-	566
Utilised in the period	(741)	(7)	(28)	-	(776)
Released in the period	(50)	(9)	-	-	(59)
At 30 September 2019	1,909	54	631	-	2,594

The contract loss and warranty provision is for product integrity rework and contract loss provisions. Contract losses are provided at the point when management identify a contract to be resulting in an overall loss whereupon the full loss is provided. The warranty provision is customer and product specific and based on historical trends and estimated project specific costs.

Long term service awards represent an estimate of amounts payable to staff for extended periods of employment.

Dilapidations are estimates to make good premises used by the company to conduct its business operations.

Notes to the financial statements

For the year ended 30 September 2019

17. Pension arrangements

The Company operates a defined benefit and defined contribution pension scheme, both of which require contributions to be made to separately administered funds.

Defined contributions scheme

The pension costs are charged to the profit and loss as they become payable. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £506,000 (2018: £526,000). There were outstanding contributions of £80,519 at 30th September 2019 (2018: £89,689). The outstanding contributions related to September 2019 and were paid 10th October 2019.

Defined benefit scheme

The Company sponsors The Evoqua Pension Scheme, a funded defined benefit pension scheme in the UK. The Scheme is set up on a tax relieved basis as a separate trust independent of the Company and is supervised by independent Trustees. The Trustees are responsible for ensuring that the correct benefits are paid, that the Scheme is appropriately funded and that Scheme assets are appropriately invested.

As the Scheme is closed to future accrual the Company would only be required to pay contributions in respect of repairing any deficit on the Scheme's funding level, however the Scheme was in surplus as at the 1 April 2018 valuation and therefore no such contributions are required. The Trustees are required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

A formal valuation was carried out with an effective date of 1 April 2018. The results of that valuation have been projected to 30 September 2019 with allowance for Scheme cash flows since 1 April 2018 and using the assumptions set out below.

The figures in the following disclosure were measured using the Projected Unit Method.

The amounts recognised in the Statement of Financial Position are as follows:

	30 September 2019 £000	30 September 2018 £000
Defined benefit obligation	(8,012)	(6,411)
Fair value of plan assets:	10,166	8,372
	<hr/>	<hr/>
Net amount recognised at year end	2,154	1,961
	<hr/>	<hr/>

Notes to the financial statements

For the year ended 30 September 2019

17. Pension arrangements (continued)

The amounts recognised in comprehensive income are:

The current and past service costs, settlements and curtailments, together with the net interest expense for the year are included in profit or loss. Remeasurements of the net defined benefit liability are included in other comprehensive income.

	<i>30 September 2019 £000</i>	<i>30 September 2018 £000</i>
Service cost:		
Current service cost (net of employee contributions)	-	-
Administration expenses	-	-
Loss/(gain) on plan introductions, changes, curtailments and settlements	87	-
Net interest expense/(credit)	(57)	(36)
Charge/(credit) recorded in profit or loss	<u>30</u>	<u>(36)</u>
Remeasurements of the net liability		
Return on scheme assets (excluding amount included in net interest expense)	(1,585)	131
Actuarial losses/(gains)	1,362	(855)
Charge/(credit) recorded in other comprehensive income	<u>(223)</u>	<u>(724)</u>
Total defined benefit cost/(credit)	<u><u>(193)</u></u>	<u><u>(760)</u></u>

Notes to the financial statements

For the year ended 30 September 2019

17. Pension arrangements (continued)

The principal actuarial assumptions used were:

	<i>2019</i>	<i>2018</i>
Liability discount rate	1.97%	2.97%
Inflation assumption - RPI	3.44%	3.58%
Inflation assumption - CPI	2.44%	2.58%
Rate of increase in salaries	4.44%	4.58%
Revaluation of deferred pensions:		
GMP	4.50%	4.50%
Pension in excess of GMP	2.44%	2.58%
Increases for pensions in payment:		
Pre 88 GMP	0.00%	0.00%
Post 88 GMP	2.13%	2.21%
Pension in excess of GMP	3.34%	3.46%
Proportion of employees opting for early retirement	0.00%	0.00%
Proportion of employees commuting pension for cash	100% of members take 25% of pension as cash at retirement	100% of members take 25% of pension as cash at retirement
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end	87.4	87.3
Female aged 65 at year end	89.3	89.2
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end	89.2	89.1
Female aged 45 at year end	91.1	91.0

Notes to the financial statements

For the year ended 30 September 2019

17. Pension arrangements (continued)

Reconciliation of scheme assets and liabilities

	<i>Assets</i> £000	<i>Liabilities</i> £000	<i>Total</i> £000
At start of period	8,372	(6,411)	1,961
Benefits paid	(39)	39	-
Interest income/(expense)	248	(191)	57
Return on assets (excluding amount included in net interest expense)	1,585	-	1,585
Actuarial gains/(losses)	-	(1,362)	(1,362)
Gain/(loss) on plan introductions and changes	-	(87)	(87)
At end of period	<u>10,166</u>	<u>(8,012)</u>	<u>2,154</u>

The return on plan assets was:

	<i>30 September</i> <i>2019</i> £000	<i>30 September</i> <i>2018</i> £000
Interest income	248	247
Return on plan assets (excluding amount included in net interest expense)	1,585	(131)
Total return on plan assets	<u>1,833</u>	<u>116</u>

Notes to the financial statements

For the year ended 30 September 2019

17. Pension arrangements (continued)

The major categories of scheme assets are as follows:

	30 September 2019 £000	30 September 2018 £000
Index Linked	3,817	2,424
Liability Driven Investment	2,647	1,992
Guernsey Unit Trust	809	740
Diversified Credit	1,588	1,563
Cash	1,305	1,653
	<hr/>	<hr/>
Total market value of assets	10,166	8,372
	<hr/>	<hr/>

The Scheme has no investments in the Company or in property occupied by the Company.

18. Called up share capital

	30 September 2019 £000	30 September 2018 £000
<i>Authorised, Allotted, called up and fully paid</i>		
Equity shares: 15,000,001 ordinary shares of £1 each	15,000	15,000
	<hr/>	<hr/>

The Company issued 15,000,001 ordinary shares of a nominal value of £1 for consideration of £15,000,001 on 1 October 2013.

Notes to the financial statements

For the year ended 30 September 2019

19. Financial instruments

	2019	2018
	£000	£000
Financial assets at fair value through profit or loss		
Forward currency contracts	-	(36)

The Company purchases forward foreign currency contracts to hedge currency exposure on firm future commitments. The fair values of the assets and liabilities held at fair value through profit and loss at the balance sheet date are determined using quoted prices. Where quoted prices are not available for derivatives the fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates.

20. Related parties

Related parties balances and transactions

The company has taken advantage of exemption, under paragraph 33.1A of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group. The balances held with related parties are presented in aggregate within notes 12 and 13 (amounts owed to/ by group companies).

21. Ultimate parent company

The ultimate holding company and ultimate controlling party undertaking is EWT Holdings Corp I, a company incorporated in the United States of America. The largest group in which the results of the company are consolidated are the accounts of EWT Holdings Corp I, which are publicly available.

22. Post balance sheet events

On 2nd December 2019 the Company completed the acquisition of the trade and assets of ATG UV Technology Limited at book value.

On 2nd January 2020 Evoqua Water Technologies Inc. announced the completion of the divestiture of the Memcor global product line. The Memcor product line had previously formed part of the UK entity's product portfolio. Proceeds attributable to Evoqua Water Technologies Limited were \$3.3m, yielding a gain on disposal of £1.1m.

The developments surrounding COVID-19 represent a non-adjusting post balance sheet event and are not reflected in the carrying value of the tangible assets, investments, stocks or debtors shown in the financial statements. If the pandemic continues for a long period of time, there may be changes in the carrying values. These would be reflected in the financial statements for the year ended 30 September 2020.