SOUTHERN WATER (GREENSANDS) FINANCING PLC

ANNUAL REPORT

AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 2020

Registered number: 07581353

SOUTHERN WATER (GREENSANDS) FINANCING PLC

Annual Report and Financial Statements for the year ended

31 March 2020

Contents	**Page**
Company information	1
Strategic report	2
Directors' report	3
Income statement	6
Statement of financial position	7
Statement of changes in equity	8
Notes to the financial statements	9
Independent auditor’s report	17

COMPANY INFORMATION

The company is a public company limited by shares.

Directors
P Hedley
S Howard
B Somes
R Wall
J Lynch

Company Secretary
R Manning

Registered office
Southern House
Yeoman Road
Worthing
West Sussex
United Kingdom
BN13 3NX

Bankers
HSBC Bank Plc
PO Box 125
2nd Floor, 62-76 Park Street
London
United Kingdom
SE1 9DZ

Auditor
Deloitte LLP
Statutory Auditor
London
United Kingdom

Registered number
07581353

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

The strategic report for the year ended 31 March 2020 has been prepared in terms of Section 414C of the Companies Act 2006.

Southern Water (Greensands) Financing Plc (Registered No. 07581353) is incorporated in the United Kingdom and was established to complement the activities of the other companies in the Greensands Holdings group. The company continues to act as a financing company for Greensands Senior Finance Limited.

The company did not trade during the year, and there is no intention for it to trade in the future, however it will continue to act as a financing company for Greensands Senior Finance Limited. The company’s activity was in relation to financing the Greensands Holdings group.

KEY PERFORMANCE INDICATORS

Southern Water (Greensands) Financing Plc acts as a financing company for the overall group and as such does not have any KPIs as an individual company. KPIs are monitored at the group level and are disclosed in the consolidated financial statements of Greensands Holdings Limited which may be obtained from the Company Secretary at Southern House, Yeoman Road, Worthing, West Sussex, BN13 3NX.

Given the limited activity of the company, additional information can be found in the directors’ report, which describes the business model and strategy employed by the company. The report also includes a review of the company's performance during the year, insight on future developments and information about the principal risks and uncertainties facing the company. As a result, no further information is included in this strategic report.

Approved by the Board and signed on its behalf by.

B Somes
Director
27 July 2020

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020

The directors of Southern Water (Greensands) Financing Plc (Registered No. 07581353) present their annual report and audited financial statements for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES

The company provides financing to Greensands Senior Finance Limited.

REVIEW OF THE BUSINESS, RESULTS AND DIVIDENDS

The company did not trade during the year, and there is no intention for it to trade in the future, however it will continue to act as a financing company for Greensands Senior Finance Limited. The company's only activity was in relation to financing the Greensands Holdings group.

The company paid interest of £46.2m (2019: £36.5m), received interest of £46.3m (2019: £36.5m) and legal costs of £0.1m (2019: £nil).

The company generated a loss of £0.1m before taxation for the year ended 31 March 2020 (2019: £nil result). The loss this year has been caused by recognising an impairment loss of £0.1m (2019: £nil) in relation to the company's intercompany receivable owed by Greensands Holdings Limited. Please see note 7 for further details.

There were no dividends charged in the financial statements in the year (2019: £nil).

The directors do not propose payment of a final dividend for the year ended 31 March 2020 (2019: £nil per share).

The company has net assets of £nil (2019: £0.1m) comprising largely of amounts owed by group undertakings of £741.9m (2019: £705.6m). This includes loans and other borrowings (including group amounts) of £728.3m (2019: £695.6m) and £14.3m (2019: £16.7m) of interest payable.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk that the company is exposed to is the occurrence of events that would result in the impairment of its loan to Greensands Senior Finance Limited. This risk is mitigated by the continued support received by the company from its ultimate parent undertaking, Greensands Holdings Limited.

GOING CONCERN

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, the financial covenant position including projections based on future forecasts, the current credit ratings of entities within the Group and financial risk. The directors have received confirmation that its ultimate parent undertaking, Greensands Holdings Limited, intends to support the company for at least one year after these financial statements are signed.

During this process it was identified that due to the implementation of the 2019 Final Determination for SWS and due to COVID-19 there are possible scenarios where covenants applicable to the debt held in the group structure above Southern Water Services Limited may be stressed over the next 12 months. In addition the liquidity available to pay interest on this debt is scheduled to be exhausted by October 2021 and the associated financing may be subject to certain credit rating covenants outside of the Greensands Group Directors' control.

As disclosed in the Annual Report to 31 March 2020 the Board of Greensands Holdings, the ultimate parent undertaking have initiated a strategic review and consider that there are a range of options available to them in order to manage these matters. They are in early dialogue with the lenders involved and are confident that these can be resolved. These discussions, however, are at an early stage and have not been finalised at the time of issuing these financial statements. Reflecting that these have not been agreed, and that the company is reliant on group support, this represents a material uncertainty associated with the going concern assumption. Overall the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements.

Following consideration of these factors the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and they continue to adopt the going concern basis of accounting in preparing the annual financial statements. However, there is a material uncertainty related to a financial restructuring which has not been completed at the time of issuing the financial statements as identified above, which may cast significant doubt about the ability of the Group to realise its assets and discharge its liabilities in the normal course of business.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

FUTURE DEVELOPMENTS

The directors expect the general level of activity to remain consistent with 2020 in the forthcoming year, however there maybe wider economic factors, such as the UK's departure from the European Union and the impact of COVID-19, which could affect future company dealings. However, the company is safeguarded by being a holding company not engaged in any trade.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

There are no significant events after the statement of financial position date to report.

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

A Gilbert	Resigned as Director 5 August 2019
B Goodwin	Resigned as Director 28 November 2019
P Hedley	
S Howard	
B Somes	
R Wall	
J Lynch	Appointed as Director 5 August 2019
R Manning	Appointed as Company Secretary 28 November 2019
J Statton	Resigned as Company Secretary 28 November 2019

DIRECTORS' INDEMNITIES

The company maintains liability insurance for its directors and officers, which is also maintained for the directors and officers of its holding companies and fellow subsidiaries. Following shareholder approval, the company has also provided an indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. An indemnity has also been provided for the directors and company secretaries of the company's holding companies and fellow subsidiaries.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 “Reduced Disclosure Framework”. 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 of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 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 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.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2020 (continued)

STATEMENT OF PROVISION OF INFORMATION TO AUDITOR

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

(1) so far as the director is aware, there is no relevant audit information of which the company’s auditor is unaware; and
(2) each director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the company’s auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

INDEPENDENT AUDITOR

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed by order of the Board.

R Manning
Company Secretary
27 July 2020

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £m	2019 £m
Continuing operations			
Operating costs		**(0.1)**	-
Operating (loss)/result		**(0.1)**	-
Finance income	4	**46.3**	36.5
Finance costs	5	**(46.2)**	(36.5)
Impairment loss on financial assets	7	**(0.1)**	-
Net finance (loss)/result		**(0.1)**	-
(Loss)/result before taxation	6	**(0.1)**	-
Tax on (loss)/result	8	**-**	-
(Loss)/result for the financial year		**(0.1)**	-

There were no other comprehensive income or losses for the years ending 31 March 2020 and 31 March 2019, accordingly no separate statement of other comprehensive income is presented.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	**2020 £m**	2019 £m
Non-current assets			
Other non-current assets	9	**685.6**	439.2
		685.6	439.2
Current assets			
Other receivables	10	**56.3**	272.6
Cash and cash equivalents		**0.7**	0.6
		57.0	273.2
Total assets		**742.6**	712.4
Current liabilities			
Borrowings: amounts falling due within one year	11	**(54.8)**	(266.3)
		(54.8)	(266.3)
Non-current liabilities			
Borrowings: amounts falling due after one year	12	**(687.8)**	(446.0)
		(687.8)	(446.0)
Total liabilities		**(742.6)**	(712.3)
Net assets		**-**	0.1
Equity			
Called up share capital	13	**0.1**	0.1
Retained losses		**(0.1)**	
Total equity		**-**	0.1

The financial statements of Southern Water (Greensands) Financing Plc (Registered No. 07581353) were approved by the Board of Directors and authorised for issue on 27 July 2020.

Signed on behalf of the Board of Directors:

B Somes
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Called up share capital £m	Retained Losses £m	Total £m
Balance at 1 April 2018	**0.1**	**-**	**0.1**
Result for the financial year and total comprehensive result	-	-	-
Balance at 31 March 2019	**0.1**	**-**	**0.1**
Loss for the financial year and total comprehensive loss	-	(0.1)	(0.1)
Balance at 31 March 2020	**0.1**	**(0.1)**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1 Accounting policies

Basis of preparation

Southern Water (Greensands) Financing Plc (the Company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1. The nature of the company's operations and its principal activities are set out in the directors' report on page 3.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. The principal accounting policies adopted, which have been applied consistently throughout the current and preceding year are set out below.

These financial statements have been prepared on a going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Greensands Holdings Limited. The directors have received confirmation that Greensands Holdings Limited intends to support the company for at least one year after these financial statements are signed. As described in greater detail in the Directors' Report there are possible scenarios where covenants applicable to the debt held in the group structure above Southern Water Services Limited may be stressed over the next 12 months and liquidity available to pay interest on this debt is scheduled to be exhausted by October 2021. These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements have been prepared under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about Southern Water (Greensands) Financing Plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group financial statements of Greensands Holdings Limited are available to the public and can be obtained from the Southern Water website.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a statement of cash flows, financial instruments, fair value measurement, standards not yet effective, presentation of a statement of financial position as at the beginning of the preceding period following a retrospective accounting policy application or restatement, capital management, related party transactions and impairment of assets. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited.

1 Accounting policies (continued)

Adoption of new and revised accounting and financial reporting standards

A number of new standards and amendments are effective for periods beginning from or after 1 January 2019 and had no material impact. These were as follows:

IFRS 16 'Leases', IFRIC 23 'Uncertainty over Income Tax Treatments', annual improvements to IFRS Standards 2015-2017 Cycle, amendments to IAS 19 'Employee Benefits' and amendments to IFRS 9 'Financial Instruments'.

Related party disclosure

The company has taken advantage of the exemption under FRS 101 paragraph 8(j) from the requirements of IAS 24, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Greensands Holdings Limited, whose financial statements are publicly available from the address in note 13.

Investments

Investments held as non-current assets are stated at cost, less provision, if appropriate, for any impairment in value other than a temporary impairment in value. The carrying values of non-current asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Interest income is accrued on a daily basis. Dividends and other investment income is accounted for when it becomes receivable.

Taxation

The taxation charge in the income statement represents the sum of the tax currently payable and deferred tax.

Current taxation is based on the profit for the year as adjusted for disallowable and non-taxable items and items of income or expense which are taxable or deductible in other years. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation is tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated but not reversed by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Interest income, interest payable and similar income and expenses

Interest income, interest payable and similar income and expenses are recognised on an accruals basis.

Financial instruments

The company has adopted IFRS 9 'Financial Instruments' from 1 April 2018.

IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. There was no material impact resulting from the application of this standard for the reasons that follow. The financial assets and liabilities held by the company were previously held at amortised cost, as described below, and there has been no change to their accounting treatment. The company has always conducted an annual impairment review of its financial assets and taken into consideration future expected cash flows. The company does not currently hedge account.

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

1 Accounting Policies (continued)

Financial assets

(i) Loans receivable
Loans receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'held to collect'. Loans receivable are measured at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets
All debt type financial assets which are not measured at FVTPL are assessed for impairment at each reporting date using a forward looking approach by identifying expected credit losses ('ECL's). ECLs are defined as the difference between the contractual cash flows that are due in accordance with the contract and the cash flows that the company expected to receive, discounted at the original effective interest rate.

Based on that analysis at the end of the reporting period, the impairment on the company's assets are considered to be immaterial and no allowance has been recognised in financial statements.

(iii) Derecognition of financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities

(i) Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

(iii) Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Financial liabilities
Fixed and variable rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis.

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

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the income statement in the year in which it arises.

Premiums and proceeds from gilt lock agreements received on issue of debt instruments are credited to the income statement over the term of the debt at a constant rate on the carrying amount.

Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company’s accounting policies

The directors believe that, other than the going concern assumption described in note 1 above, there are currently no critical judgements applied in the preparation of the financial statements that the company is required to disclose apart from those involving estimations, which are dealt with separately below.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the reporting period end that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Impairment
Impairment is recognised in the income statement when there is evidence that the value of an investment is higher than the recoverable amount. Recoverable amount is the lower of, value in use or net realisable value. An impairment review requires management to make subjective judgements regarding the recoverable amount of the investment under review. In determining the investment’s recoverable amount, the Directors take into account current and expected regulated returns and these are subject to ongoing review and negotiation. Having conducted this exercise the investment is not currently considered to be impaired, however, this judgement is subjective by nature. Therefore there is no impairment recognised in the financial statements.

Regulatory returns are sensitive to the actual performance of Southern Water Services Limited, the only operating company in the group.

3 Employee information

During the year the company had no employees (2019: None).

The services of the directors are deemed to be wholly attributable to their services to Greensands Holdings Limited, with only two directors receiving payment for their services in the year to Greensands Holdings Limited. The total sum has been recorded in the consolidated financial statements of Greensands Holdings Limited, which are available to the public and can be obtained from the Southern Water website (www.southernwater.co.uk). Therefore, the directors received no emoluments during the year or the prior year in respect of their services to the company.

4 Finance income

	2020 £m	2019 £m
Interest receivable from Greensands Senior Finance Limited	**46.3**	36.5

5 Finance costs

	2020 £m	2019 £m
Interest payable on loans	**46.2**	36.5

For the terms attached to these loans please refer to note 10 and 11.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

6 Result before taxation

In 2020 and 2019 financial statement audit fees of £1,000 were borne by Greensands Holdings Limited and not recharged to the company.

7 Impairment Loss

The directors have reviewed the recoverability of the company's amount due from group undertaking Greensands Holdings Limited and as it stands, it is unlikely that this amount will be recovered. The balance of £0.1m has been written down in full and charged to the income statement as impairment.

8 Tax on loss

No UK tax charge arises in respect of the result for the year (2019: £nil).

No deferred tax arose during the year to 31 March 2020 (2019: £nil).

The tax position for the year can be reconciled to the income statement as follows:

	2020 £m	2019 £m
(Loss)/result before taxation	**(0.1)**	-
UK corporation tax rate at 19% on (loss)/result for the year (2019: 19%)	**-**	-
Permanent differences arising on impairment loss	**-**	-
Total tax for year	**-**	-

Factors that may affect future tax charges
Reductions in the main rate of corporation tax to 17% from the 1 April 2020 were enacted in the Finance Bill 2016. It was subsequently announced in March 2020 that the corporation tax rate would instead increase to 19% from 1 April 2020. This increase has been substantively enacted in Finance Bill 2020 at the Balance sheet date.

9 Other non-current assets

	2020 £m	2019 £m
Amounts due from group undertakings (note (i) to (iii) below):		
- £125m Facility Agreement 2022 – Libor plus 3.5%	**123.4**	122.6
- £75m Facility Agreement 2025 – Libor plus 4.0%	**73.5**	73.3
- £150m Facility Agreement 2025 – Libor plus 5.25%	**146.7**	146.3
- £100m Facility Agreement 2026 – Libor plus 5.25%	**97.6**	97.5
- £250m Facility Agreement 2025 – Libor plus 5.25%	**244.4**	-
- Loan issue costs	**-**	(0.5)
	685.6	439.2

Notes

(i) Of amounts due from group undertakings, the £125m Facility Agreement 2022 – Libor plus 3.5%, the £75m Facility Agreement 2025 – Libor plus 4.0%, the £150m Facility Agreement 2025 – Libor plus 5.25%, the £100m Facility Agreement 2026 – Libor plus 5.25% and the £250m Facility Agreement 2025 – Libor plus 5.25% all relate to debt advanced to Greensands Senior Finance Limited (GSSF) at the same interest rates and terms of the external agreements (mirroring any related swap agreements) and are stated at amortised cost.

(ii) The £250m Facility Agreement 2025 – Libor plus 5.25% was drawn down on 8 April 2019 and passed onto GSSF in the manner stated in note (i).

(iii) Loan issue costs relate to consent fees paid to existing lenders upon drawing down additional loan funds within the wider Greensands group of companies. This year's balance is presented in note 9 in line with its maturity profile.

All entities are wholly owned within the group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

10 Other receivables

	2020 **£m**	2019 £m
Amounts due from Greensands Holdings Limited (note (i) below)	**0.1**	0.1
Cumulative impairment losses (note (iv) below)	**(0.1)**	-
	-	0.1
Amounts due from Greensands (UK) Limited (note (i) below)	**0.1**	-
Amounts due from Greensands Senior Finance Limited (note (i) below)	**42.3**	-
Interest receivable from group undertakings	**14.3**	16.7
Amounts due from group undertakings (note (ii) below):		
- £250m 8.5% Guaranteed Secured Fixed Rate Notes 2019	**-**	250.0
- Loan issue costs (note (iii) below)	**(0.4)**	(0.4)
Prepayments	**-**	6.2
	56.3	272.6

Notes

(i) All amounts due from group undertakings due within one year are unsecured, interest free and repayable on demand.

(ii) The £250m 8.5% Guaranteed Secured Fixed Rate Notes 2019 relates to debt advanced to Greensands Senior Finance Limited (GSSF) at the same interest rate and terms of the external agreement and is stated at amortised cost. This bond has since matured and was repaid on 15 April 2019.

(iii) Loan issue costs relate to consent fees referred to in note 8, being the short-term element.

(iv) As referred to in note, an impairment loss of £0.1m has been recognised in the income statement for the year in relation to the balance owed by group undertaking Greensands Holdings Limited.

All entities are wholly owned within the group.

11 Borrowings: amounts falling due within one year

	2020 **£m**	2019 £m
Loans and other borrowings		
Interest payable	**14.3**	16.7
Amounts owed to Greensands Finance Limited (note (i) below)	**40.9**	-
Loans and other borrowings (note (ii) below):		
- £250m 8.5% Guaranteed Secured Fixed Rate Notes 2019	**-**	250.0
- Loan issue costs	**(0.4)**	(0.4)
	54.8	266.3

Notes

(i) All amounts owed to group undertakings due within one year are unsecured, interest free and repayable on demand.

(ii) The £250m 8.5% Guaranteed Secured Fixed Rate Notes 2019 were issued on 21 April 2011 and is stated at amortised cost. This bond has since matured and was repaid on 15 April 2019. For further details see note 11 below. Loan issue costs relate to consent fees referred to in note 11, being the short-term element.

(iii) All entities are wholly owned within the group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (continued)

12 Borrowings: amounts falling due after one year

	2020 **£m**	2019 £m
Amounts owed to group undertakings (note (i))	**2.2**	6.8
Loans and other borrowings (note (ii) and (iii) below)		
- £125m Facility Agreement 2022 – Libor plus 3.5%	**123.4**	122.6
- £75m Facility Agreement 2025 – Libor plus 4.0%	**73.5**	73.3
- £150m Facility Agreement 2025 – Libor plus 5.25%	**146.7**	146.3
- £100m Facility Agreement 2026 – Libor plus 5.25%	**97.6**	97.5
- £250m Facility Agreement 2025 – Libor plus 5.25%	**244.4**	-
- Loan issue costs	**-**	(0.5)
	687.8	446.0

Notes

(i) All entities are wholly owned within the group.

(ii) Both the £125m Facility Agreement 2022 – Libor plus 3.5% and the £75m Facility Agreement 2025 – Libor plus 4.0% were issued on 15 April 2015. The £150m Facility Agreement 2025 – Libor plus 5.25% was issued on 29 November 2018 and the £100m Facility Agreement 2026 – Libor plus 5.25% was drawn on 22 March 2019. The £250m Facility Agreement 2025 – Libor plus 5.25% was issued on 8 April 2019. All of these facilities are stated at amortised cost. The facilities are guaranteed under a group Security Agreement. The agreement is over the entire property, assets, rights and undertakings of each of Southern Water Services Limited, Southern Water Services (Finance) Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of Southern Water Services Limited, this is to the extent permitted by the Water Industry Act 1991 and License.

(iii) Loan issue costs relate to consent fees paid to existing lenders upon drawing down additional loan funds within the wider Greensands group of companies.

	2020 **£m**	2019 £m
Repayments fall due as follows:		
Between two and five years	**123.4**	122.1
After five years not by instalments	**564.4**	323.9
	687.8	446.0

13 Called up share capital

	2020 £m	2019 £m
Authorised:		
50,000 ordinary shares of £1 each	**0.1**	0.1
Allotted and part paid:		
49,999 ordinary shares of £1 each paid up as to £0.25p	**0.1**	0.1
Allotted, called up and fully paid:		
1 ordinary share of £1 each	**-**	-

The shares were issued at par on 28 March 2011.

Each ordinary share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members at a time specified in the notice of meeting, being not more than 48 hours (disregarding non-working days) before the general meeting in question. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respect capital to participate in a distribution (including on a winding up) other than those that exist as a matter of law. The shares are not redeemable.

14 Ultimate parent and controlling party

The immediate parent undertaking is Greensands (UK) Limited. The ultimate parent and controlling company is Greensands Holdings Limited (Registered Number: Jersey 98700), it was incorporated in Jersey and its registered office address is 44 Esplanade, St Helier, Jersey, United Kingdom, JE4 9WG. Greensands Holdings Limited is itself owned and controlled by a consortium of investors. At 31 March 2020, no single investor owned a controlling shareholding.

Greensands Holdings Limited is the largest and smallest parent company and the only group company that prepares consolidated financial statements, which contain the financial statements of Southern Water (Greensands) Financing Plc. Copies of Greensands Holdings Limited's consolidated financial statements may be obtained from the Company Secretary of Greensands Holdings Limited, at Southern House, Yeoman Road, Worthing, United Kingdom, BN13 3NX.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER (GREENSANDS) FINANCING PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Southern Water Financing (Greensands) Plc (the 'Company'):

- **give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its loss for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, 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.

Material uncertainty related to going concern

We draw attention to note 1 of the financial statements which indicates that the Company is reliant on a letter of group support from Greensands Holdings Limited. There are possible scenarios where covenants applicable to the debt held in the group structure above Southern Water Services Limited may be stressed over the next 12 months and liquidity available to pay interest on this debt is scheduled to be exhausted by October 2021 as disclosed in the Annual Report of Greensands Holdings Limited. As stated in note 1 to the financial statements these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were • Going concern (see material uncertainty related to going concern section above) • Recoverability of inter-company loans Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £5.8 million which was determined on the basis of total assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have identified a new key audit matter 'Going concern' as the Company is reliant on the support from Greensands Holdings Limited which disclosed in its Annual report that a material uncertainty exists that may cast significant doubt on the parent company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER FINANCING (GREENSANDS) PLC (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Recoverability of inter-company loans	
Key audit matter description	The Company had total amounts due from its group undertaking (Greensands Senior Finance Limited ('GSSF') of £685.6m (2019: £439.2m) recognised in other non-current assets and amounts due from Greensands (UK) Limited ('GSUK'), Greensands Holding Limited ('GSH') and GSSF of £56.3m (2019: £276.6) recognised in other receivables. An impairment loss of £0.1m (2019: 0m) has been recognised during the year to write off the amounts due from GSH. There is significant level of judgement involved in determining the recoverability of these receivables from group undertakings based on the financial position and future prospects of the group undertakings. This takes into consideration a range of factors such as the trading performance of the group undertakings and expected revenue growth. We consider this to be a key audit matter as the inter-company loan is of a significant value and involves significant management judgement. This is also deemed as a potential fraud risk due to management bias for our audit. Further details are included within the directors' report and 10 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls related to the recoverability of inter-company loans. We assessed the recoverability of the Company's inter-company loans. In doing so we have considered the going concern stance of GSSF, GSH and GSUK, management's assessment of GSSF, GSH and GSUK expected credit losses and whether GSSF, GSH and GSUK are in a position to continue to repay the loan supported by the valuation of the key subsidiary Southern Water Services Limited. We have evaluated management's assessment of Covid-19 impact on the recoverability of the intercompany balances and the potential implications on going concern. We have assessed the net asset position of GSSF, GSH and GSUK, after factoring in the value associated with Southern Water Services Limited, to determine whether there is sufficient coverage for the inter-company borrowings with the Company within their calculations. We evaluated the adequacy of disclosures made in the above mentioned notes to the financial statements.
Key observations	Based on the work performed, we concluded that the inter-company loans are appropriately stated.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER FINANCING (GREENSANDS) PLC (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£5.8 million (2019: £6.4 million)
Basis for determining materiality	0.7% of total assets (2019: 0.9% of total assets)
Rationale for the benchmark applied	The principal activity of the Company is to provide finance to Greensands Senior Finance Limited and loan receivables balance accounts for over 96% of the company's total asset balance. On this basis we deem the benchmark which will be the focus of users of the financial statements to be total assets for determining the statutory materiality.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 31 March 2020 audit (2019: 70%). In determining performance materiality, we considered factors including impact of Covid-19 on business operations and account balances, our ability to rely on general IT controls, management's willingness to make process improvements as well as to correct errors identified.

Error reporting threshold

We agreed with the directors that we would report to the directors all audit differences in excess of £0.29 million (2019: £0.32 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Our consideration of the control environment

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal controls and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER FINANCING (GREENSANDS) PLC (continued)

Other information

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

We have nothing to report in respect of these matters.

Our opinion on the financial statements does not cover the other information and 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 this other information, we are required to report that fact.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER FINANCING (GREENSANDS) PLC (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report 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.

Anthony Matthews FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
London, United Kingdom
29 July 2020