

Registration number: 09902835

Pennon Water Services Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2023

Pennon Water Services Limited

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Pennon Water Services Limited

Strategic Report for the Year Ended 31 March 2023

The Directors present their Strategic Report for the year ended 31 March 2023.

Principal activities

The Company's principal activity is the provision of water and waste water retail services to non-household customers across the UK. The revenue is split between national accounts and SME businesses.

Business review

Pennon Water Services (PWS) delivered a strong set of financial results, as a direct result of its positive customer growth, lower customer attrition and higher customer consumption which increased by 4% compared to the prior year.

Since the market opened in 2017, PWS has lost only 14.2% of its customer business accounts, reflective of its strong customer support and quality of services and maintained a stable market share of 6.1% in England and Wales. The market share for the UK is 5.3% including Scotland, serving over 158,800 business customers in total.

PWS continued to win new customer contracts across a diverse range of business sectors. This was achieved despite ongoing economic uncertainty. The combination of strong growth in new contracts and high retention delivered a cumulative net consumption gain of 23% (8,969 ML) from transfers since market opening.

Financial Results

Total revenue for the year was £218,048,000 (2022: £191,710,000), up 14% on the prior year.

Total operating costs were £214,434,000 (2022: £189,010,000). Operating profit was £3,614,000 (2022: £2,700,000) up 33.9% on the prior year.

Net finance costs were up 13% to £1,790,000 (2022: £1,584,000) with no loan repayments in the year (2022: nil).

The Company's taxation position results in a current tax charge of £595,000 (2022: £151,000) and a deferred tax credit of £325,000 (2022: £111,000). The profit before tax for the year is £1,824,000 (2022: £1,116,000).

Financing

Borrowings were £32,587,000 (2022: £32,587,000). These are attributable to loans from the parent undertaking and minority shareholder. These are expected to be renewed as necessary to cover the medium and long term financing requirements.

Dividends and Reserves

The Company paid no interim dividends during the year (2022: £nil). The Directors do not recommend payment of a final dividend (2022: £nil).

The accumulated losses carried forward at 31 March 2023 were £4,659,000 (2022: £6,213,000).

Principal risks and uncertainties

PWS risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite.

PWS integrated assurance plan utilises a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of requirements. The integrated assurance approach includes:

- Quarterly risk reviews by senior management, feeding up to the Board
- Policies and culture
- Business management systems
- Monthly performance reporting on key performance indicators
- Internal audit
- Market compliance audit by regulator OFWAT and market operator MOSL
- Financial audit

Pennon Water Services Limited

Strategic Report for the Year Ended 31 March 2023 (continued)

Environmental, community and sustainability

The Company recognises the importance of its environmental and sustainability responsibilities. PWS helps businesses to use water more efficiently. Installation of boreholes and projects designed to allow businesses to recycle water back into their business process help to reduce network demand and support a more resilient water future for us all.

The ultimate parent company, Pennon Group plc, continues to help global communities, build and thrive by championing access to clean drinking water through the charity WaterAid while locally supporting beach clean ups. Further information regarding Pennon Group plc's environmental and sustainability report is included in the 31 March 2023 Annual report available at the Company website.

Key performance indicators ('KPIs')

Pennon Water Services strategy is to grow the Company's market share of the non-household water market and to deliver financial contribution in line with Pennon Group plc's business plan. The main key performance indicators are, but not limited to:

• Customer and operational performance

PWS maintained its focus upon high quality customer interactions resulting in a Trust score of 4.8 out of 5 measured through the independent review platform Trustpilot, comparing favourably to its peers. Our large strategic users of water rated the quality service from our account team at 4.95 out of 5 demonstrating our ability to provide tailored services to meet varying business needs. Our market performance is monitored through the Market Performance Framework and PWS are in 9th position of Retailers with more than 5000 water and wastewater meters (SPIDs).

• Financial performance

Revenue increased by 14% from £191 million in 2021/22 to £218 million in 2022/23, as a direct result of continued customer growth, low customer attrition and customer consumption increasing.

• EBITDA and PBT

These grew by 26% and 80% in the year respectively, demonstrating operational efficiency against higher revenues and the success of focus on customer debt recovery and the support of wholesaler incentive schemes, improving the accuracy and efficiency of the deregulated market.

Future outlook and development

Throughout the year PWS continued streamlining its systems and processes to accommodate growth and to ensure its core activities remained efficient and those which added value to the business and its customers. Customer and employee safety remained at the heart of our business focus.

With contract wins throughout 2022/23 PWS expects to continue to grow in the financial year 2023/24. The Company continues to have significant cash and liquidity to support growth and has not taken any additional group funding in the last year. PWS remains well placed to deliver against its long-term strategic objectives, growing organically and able to take advantage of opportunities to further consolidate the market for economies of scale should they arise.

We continue to work with regulators to develop the Water Retail Market in a responsible and sustainable manner, looking to offer customer protections whilst maintaining competition.

The Strategic Report was approved by the Board of Directors and authorised for issue on 30 August 2023 and was signed on its behalf by:

DocuSigned by:

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P M Boote
Director

Pennon Water Services Limited Directors' Report

The Directors present their Directors' Report and audited financial statements for the year ended 31 March 2023.

The Directors' Report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 3 to 6 as well as any matters incorporated by reference.

Information regarding the Company, including events and its progress during the year, events since the year end and likely future developments is contained in the Strategic Report set out on pages 1 to 2.

In addition, and in accordance with s414C of the Companies Act 2006, the Strategic Report contains a fair, balanced and comprehensive review and analysis of the development and performance of the Company's business during the year and the position of the Company's business at the end of the year.

Donations

No political donations were made or political expenditure incurred and no contributions were made to a non-EU political party (2022: nil).

Financial risk management policy

The Company's activities expose it to a variety of risks: market risk (interest rate risk), liquidity risk and credit risk. Further information on the Company's management of these risks is disclosed in note 3 of the financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. The company is expected to generate positive cash flows on its own account for the foreseeable future as a result of its retail activities.

The Company has felt the impact of the ongoing economic uncertainty and continues to monitor its impact on non household customers and markets more generally. The Company has prepared financial projections which take into account a range of possible profiles, all of which indicate a sustainable future for the business. The ultimate parent company, Pennon Group plc, has given an undertaking to provide adequate financial resources to support the continuation of the business should the need arise, for a period of at least 12 months from the date of approval of these financial statements up to 31 August 2024.

Having considered the Company's funding position and financial projections, the current trading environment and the availability of financial resources from the ultimate parent company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Future developments

The future developments of the Company are discussed in the Strategic Report on pages 1 to 2.

Parent company

The Company is an 80% owned subsidiary of Pennon Group plc, making Pennon Group plc its ultimate parent company.

Pennon Water Services Limited Directors' Report (continued)

Directors

The Directors who served during the year and up to the date of signing the financial statements were:

S J Davy

P C Newland (resigned 24 May 2023)

P A Rayner (resigned 24 January 2023)

P M Boote

R J O'Malley

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association and the Company has maintained throughout the year Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its Officers. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Employees

The Company has policies relating to the health and safety, training, development and performance of all employees. All policies can be found in the Annual Report and Financial Statements of Pennon Group plc.

Section 172 Statement

Legislation is now in place requiring companies to report on how Directors have discharged their duty to promote the success of the Company, while having regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (CA2006).

Each Director is required to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing so Directors must have regard (among other matters) to:

- The likely long term consequences of any decision
- The interests of the company's employees
- The need to foster the company's business relationships with suppliers, customers and others
- The impact of the company's operations on our community and environment
- Maintenance of the company's reputation for the highest standards of business conduct
- The need to act fairly as between members of the company

The Board welcomes the reporting requirement introduced by Section 172, and sees it as an opportunity to explain how these considerations have informed and helped shape strategy and decision making.

Stakeholder engagement is embedded within the detailed corporate governance framework operated by the Board, and the long-term consequences of its strategic decision making are reviewed and assessed at each Board meeting, through its Committees and through its oversight of decision making delegated to executive management. The Board takes its Section 172 obligations very seriously, and applies Section 172 in the context of its strategic direction of the Company at its meetings, including in the following specific ways:

Strategic priorities

At every Board meeting the Directors review progress against our strategic priorities with the executive management team.

Health and safety of staff

The Pennon Group plc Board and its Committees conduct regular reviews of safety matters and environmental performance, with the aim of continually improving site safety and minimising environmental impact. PWS is included in this assessment as a subsidiary of Pennon Group plc.

Financial discipline

Board meetings review executive management's focus around fiscal discipline, and delivery of solid and stable earnings.

Pennon Water Services Limited Directors' Report (continued)

People

The Board approaches all its decisions which may affect employees by reference to our Pennon Group corporate values of 'trusted, responsible, collaborative and progressive'. The Board has focused this year on fostering a leadership culture which stresses the importance of good mental health, diversity and inclusion.

Governance

Our governance requires consistently high standards of business conduct and the Board and Group Audit Committee review all decisions in the light of this strategic priority. Strong cultural leadership and governance are seen by the Board as critical elements underpinning the continuing success of the Company.

Operational availability and reliability

Executive management is charged by the Board with maintaining the strong operational presence expected by our customers, complete regulatory compliance expected by our suppliers and others, with reports on these areas provided to each Board meeting.

Board decisions are taken in a way which furthers both the long-term financial success of the Company and the interests of our stakeholders.

The table below provides the context behind the Board's approach to decision-making in view of its obligations under Section 172 and to ensure wider stakeholder engagement.

The likely consequences of any decision in the long term	Our strategic objectives, which are set and monitored through a rolling long-term strategic planning process, and delivered through our focus on customer service and satisfaction, employee training, development and wellbeing, our Sustainable Financing Framework and sustainable procurement policy, ensure we work towards achieving long-term growth in a sustainable way.
The interests of the Company's employees	We pride ourselves on being a responsible employer, focused on employee engagement and communication, promoting a diverse and inclusive workforce and the continued development of our people in a safe working environment.
The need to foster the Company's business relationships with suppliers, customers and others	Continued commitment to delivering quality of service, value for money and satisfaction to our customers, with regular monitoring through external surveys. We strive to be the most trusted retailer in the market, adopting a full compliance approach with regulatory codes. We maintain an open dialogue and transparent engagement with our regulatory bodies, policy makers and other stakeholders who shape our social contact.
The impact of the Company's operations on the community and the environment	Committed to providing educational programmes and community sponsorships and engaging in charity support initiatives and events across our region. We engage in regular water conservation initiatives proposed by our industry.
The desirability of the Company maintaining a reputation for high standards of business conduct	We ensure a transparent approach to conducting business in a responsible manner, with a focus on maintaining good governance. The codes of conduct and policies which apply across our Company are regularly updated to ensure the highest of standards are adhered to.
The need to act fairly as between members of the Company	Regular engagement with our stakeholders to ensure they are well informed of our business strategy and key developments.

Pennon Water Services Limited Directors' Report (continued)

Directors' responsibility 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 Company's financial statements in accordance with UK adopted international accounting standards (IFRSs) in conformity with the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss 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 judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Energy and Carbon Usage

The Directors understand the importance of carbon emissions reduction and look to use all means at their disposal to reduce the Company's carbon footprint, with a goal to become Net Zero Carbon by 2030. As part of the Pennon-Group plc Company's environment performance is included as part of the Task Force on Climate-related Financial Disclosures section of the Group's Annual Report.

Statement as to disclosure of information to auditors

a) So far as each of the Directors in office at the date of the signing of the report is aware, there is no relevant audit information of which the Company's auditors are unaware, and

b) Each of the Directors has taken all the steps they ought to have taken individually as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Independent auditors Ernst & Young LLP are deemed to be reappointed auditors of the Company in accordance with section 487(2) of the Companies Act 2016.

Ernst & Young LLP have indicated their willingness to continue as auditors.

The Directors Report was approved by the Board of Directors and authorised for issue on 30 August 2023 and was signed on its behalf by:

DocuSigned by:

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P M Boote
Director

Independent Auditor's Report to the Members of Pennon Water Services Limited

Opinion

We have audited the financial statements of Pennon Water Services Limited for the year ended 31 March 2023 which comprise the Income Statement, Statement of Comprehensive Loss, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the Related Notes 1 to 24 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from the date of our report to 31 August 2024.

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

Other information

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

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Pennon Water Services Limited (continued)

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:

Independent Auditor's Report to the Members of Pennon Water Services Limited (continued)

- o Companies Act
- o Financial Reporting Council (FRC)
- o Tax legislation (governed by HM Revenue & Customs)
- o Ofwat regulations
- o WICS regulations

We understood how Pennon Water Services Limited is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Company's Chief Executive Office and Commercial Finance Director and the Group's Head of Internal Audit. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards and UK legislation.

- The company operates in the retail water sector which is regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:



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Christabel Cowling (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

30 August 2023

Pennon Water Services Limited
Income Statement for the Year Ended 31 March 2023

	Note	2023 £'000	2022 £'000
Total Revenue			
Underlying revenue		<u>218,048</u>	<u>191,710</u>
Operating Costs			
Manpower costs		(4,788)	(4,541)
Depreciation and amortisation expense		(666)	(778)
Other expenses		<u>(208,980)</u>	<u>(184,296)</u>
Operating costs before non-underlying items	5	(214,434)	(189,615)
Non-underlying income	21	<u>-</u>	<u>605</u>
Total operating expenses		<u>(214,434)</u>	<u>(189,010)</u>
Operating profit	5	3,614	2,700
Net finance cost	7	<u>(1,790)</u>	<u>(1,584)</u>
Profit before tax		1,824	1,116
Income tax charge	8	<u>(270)</u>	<u>(40)</u>
Profit for the year		<u><u>1,554</u></u>	<u><u>1,076</u></u>

Statement of Comprehensive Income for the year ended 31 March 2023

	2023 £'000	2022 £'000
Profit for the year	<u>1,554</u>	<u>1,076</u>
Total Comprehensive Income for the year	<u><u>1,554</u></u>	<u><u>1,076</u></u>

The notes on pages 14 to 28 form an integral part of these financial statements.

Pennon Water Services Limited
Statement of Financial Position as at 31 March 2023

	Note	2023 £'000	2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	12	70	117
Intangible assets	11	1,595	2,047
Investments in subsidiaries, joint ventures and associates	13	-	-
Deferred tax assets	19	502	180
Total non-current assets		<u>2,167</u>	<u>2,344</u>
Current assets			
Trade and other receivables	14	55,956	53,298
Income tax receivable	17	-	52
Cash and cash equivalents	15	1,817	1,808
Total current assets		<u>57,773</u>	<u>55,158</u>
Total assets		<u><u>59,940</u></u>	<u><u>57,502</u></u>
Equity and liabilities			
Equity			
Share capital	20	8,397	8,397
Accumulated deficit		<u>(4,659)</u>	<u>(6,213)</u>
Total equity		<u>3,738</u>	<u>2,184</u>
Non-current liabilities			
Loans and borrowings	18	32,587	32,587
Current liabilities			
Trade and other payables	16	23,430	22,731
Income tax liability	17	185	-
		<u>23,615</u>	<u>22,731</u>
Total liabilities		<u>56,202</u>	<u>55,318</u>
Total equity and liabilities		<u><u>59,940</u></u>	<u><u>57,502</u></u>

The notes on pages 14 to 28 form an integral part of these financial statements.

The financial statements on pages 10 to 28 were Approved by the Board of Directors and authorised for issue on 30 August 2023 and signed on its behalf by:

DocuSigned by:

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 P M Boote
Director

(Registration number: 09902835)

Pennon Water Services Limited
Statement of Changes in Equity for the Year Ended 31 March 2023

	Share capital	Accumulated	
	£'000	deficit	Total
		£'000	£'000
At 1 April 2021	8,397	(7,289)	1,108
Profit for the year	-	1,076	1,076
	<hr/>	<hr/>	<hr/>
Total Comprehensive Income	-	1,076	1,076
	<hr/>	<hr/>	<hr/>
At 31 March 2022	<u>8,397</u>	<u>(6,213)</u>	<u>2,184</u>

	Share capital	Accumulated	
	£'000	deficit	Total
		£'000	£'000
At 1 April 2022	8,397	(6,213)	2,184
Profit for the year	-	1,554	1,554
	<hr/>	<hr/>	<hr/>
Total Comprehensive Income	-	1,554	1,554
	<hr/>	<hr/>	<hr/>
At 31 March 2023	<u>8,397</u>	<u>(4,659)</u>	<u>3,738</u>

The notes on pages 14 to 28 form an integral part of these financial statements.

Pennon Water Services Limited
Statement of Cash Flows for the Year Ended 31 March 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Profit for the year		1,554	1,076
Adjustments to cash flows from non-cash items:			
Depreciation and amortisation	5	666	778
Impairment of investment in subsidiaries	21	-	720
In specie dividend from subsidiaries	21	-	(1,325)
Finance income	7	(99)	(2)
Finance costs	7	1,889	1,586
Income tax charge	8	270	40
Adjustments for employee share schemes		36	35
		<u>4,316</u>	<u>2,908</u>
Working capital adjustments			
Increase in trade and other receivables	14	(2,658)	(4,047)
Increase in trade and other payables		308	4,319
		<u>1,966</u>	<u>3,180</u>
Net cash generated from operating activities		<u>1,966</u>	<u>3,180</u>
Cash flows from investing activities			
Interest received		99	2
Acquisition of intangible assets	11	(166)	(186)
Acquisitions of property plant and equipment	12	(1)	(18)
		<u>(68)</u>	<u>(202)</u>
Net cash used from investing activities		<u>(68)</u>	<u>(202)</u>
Cash flows used in financing activities			
Interest paid		(1,889)	(1,586)
		<u>(1,889)</u>	<u>(1,586)</u>
Net cash flows used in financing activities		<u>(1,889)</u>	<u>(1,586)</u>
Net increase in cash and cash equivalents		9	1,392
Cash and cash equivalents at the beginning of the year		1,808	416
Cash and cash equivalents at the end of the year	15	<u>1,817</u>	<u>1,808</u>

The notes on pages 14 to 28 form an integral part of these financial statements.

Pennon Water Services Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

1 General information

Pennon Water Services Limited is a company registered in the United Kingdom under the Companies Act 2006. The company is a private company limited by shares, incorporated and domiciled in England and Wales. The address of the registered office is Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR, United Kingdom. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis and in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The financial statements have been prepared in Pounds Sterling (GBP) with the level of rounding to the nearest thousand (£000) except when otherwise indicated.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. The company is expected to generate positive cash flows on its own account for the foreseeable future as a result of its retail activities.

The Company has felt the impact of the ongoing economic uncertainty and continues to monitor its impact on non household customers and markets more generally. The Company has prepared financial projections which take into account a range of possible profiles, all of which indicate a sustainable future for the business. The ultimate parent company, Pennon Group plc, has given an undertaking to provide adequate financial resources to support the continuation of the business should the need arise, for a period of at least 12 months from the date of approval of these financial statements up to 31 August 2024.

Having considered the Company's funding position and financial projections, the current trading environment and the availability of financial resources from the ultimate parent company, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Pennon Group plc's own going concern assessment period has been updated to cover the period to 31 August 2024.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2022 did not have a material impact on the net assets or results of the Company.

New standards or interpretations due to be adopted from 1 April 2023 are not expected to have a material impact on the Group's net assets or results.

The preparation of financial statements in conformity with UK adopted IAS requires the use of estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best assessment of the amounts, actual events or actions and results may ultimately differ from those estimates. See note 4 for key estimates and judgements.

Pennon Water Services Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

(continued)

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

The company has taken advantage of the exemption from preparing consolidated accounts by virtue of section 401 of the Companies Act 2006, as it is a wholly owned subsidiary of Pennon Group plc, which prepares publicly available consolidated accounts. As such these financial statements present information about the Company as an individual undertaking only.

The Company continued measuring at fair value all financial assets previously held at fair value under IAS 39.

(b) Revenue recognition

Revenue is recognised following delivery of performance obligation and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Company applies a revenue recognition method that accurately reflects performance in transferring control to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract, the total transaction price is estimated, being the fair value to which the Company expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations.

Revenue excludes value added tax.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and waste water services, revenue is recognised over time in line with customer usage of those services.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments. The performance obligation has been assessed as standing ready to provide water and sewerage services when required by our customers, and accordingly revenue is recognised under IFRS 15 as the stand-ready obligation is fulfilled over time.

Customers with a metered supply are sent up to twelve bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for non-household customers include an annual Meter Payment Plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year.

Pennon Water Services provides specialist retail water and wastewater services to business customers. It raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable.

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

2 Principal accounting policies (continued)

(c) Other intangible assets

Other intangible assets include assets acquired in a business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs. These estimated economic lives are principally:

Computer Software: 2 - 5 years on straight line

Asset lives and residual values are reviewed annually, and adjusted if appropriate.

Intangible assets in the course of preparation are not amortised until they are available for use.

(d) Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation.

Assets are depreciated evenly over their estimated economic lives to their residual value. These estimated economic lives are principally:

Plant and machinery: 3 - 10 years on straight line

Vehicles, mobile plant and computers: 3 - 10 years on straight line

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company.

Asset lives and residual values are reviewed annually, and adjusted if appropriate.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

(e) Impairment of non-financial assets

Assets which are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use represents the present value of projected future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the cash-generating unit.

Impairments are charged to the income statement in the year in which they arise.

(g) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently, investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks.

Pennon Water Services Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

(continued)

2 Principal accounting policies (continued)

(i) Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9. The Company classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance with the terms and conditions of IFRS 9, the Company performs an impairment analysis at each reporting date to measure the ECLs. The Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

iii) Receivables due from fellow subsidiary undertakings

Amounts owed by fellow subsidiaries are classified and recorded at amortised cost and reduced by allowances for ECLs. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default. Individual balances are written off when management deems them not to be collectible.

iv) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(j) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain.

The Company is part of the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising in other Group companies. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Pennon Water Services Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

(continued)

2 Principal accounting policies (continued)

(k) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditure expected to be required to settle obligations.

(l) Share capital

Ordinary shares are classified as equity.

3 Financial risk management

(a) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (interest rate risk), liquidity risk and credit risk. The Company receives treasury services from the treasury function of its ultimate parent, Pennon Group plc, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk.

The principal financial risks faced by the Company can be found in the Annual Report and Financial Statements of Pennon Group plc, the ultimate parent company.

Financial instruments are used to raise finance and to manage risk, and optimise the use of surplus funds. The Company and Pennon Group plc does not engage in speculative activity.

i) Market risk

Pennon Group plc is responsible for setting interest rates for the Pennon Group.

The principal market risks faced by the Company can be found in the Annual Report and Financial Statements of Pennon Group plc, the ultimate parent company.

The Company has no significant interest-bearing assets upon which the net return fluctuates from market risk.

ii) Liquidity risk

Pennon Water Services actively maintains long-term committed facilities that are provided solely by its parent companies. Details of the Group's management and details of facilities are provided in the ultimate parent company's accounts.

iii) Credit risk

Credit counterparty risk arises from cash and cash deposits and exposure to customers, including outstanding receivables. Surplus funds are managed by the Group's treasury function, in accordance with the policies of the ultimate parent company.

(b) Capital risk management

The principal capital risks faced by the Company can be found in the Annual Report and Financial Statements of Pennon Group plc, the ultimate parent company.

4 Critical accounting judgements and estimates

The Company's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.

Pennon Water Services Limited

Notes to the Financial Statements for the Year Ended 31 March 2023

(continued)

4 Critical accounting judgements and estimates (continued)

(a) Taxation

The Company's corporation tax recoverable balance reflects estimates of the amount of tax recoverable for fiscal years with open tax computations where net recoverables remain to be agreed with HM Revenue and Customs. Management periodically evaluates items detailed in tax returns where the tax treatment is subject to interpretation. The Company establishes provisions on a full basis for individual tax items where the tax position is assessed as uncertain.

(b) Revenue recognition

Revenue is recognised in accordance with contracts with customers and in line with the limits established for non-household periodic price setting processes where applicable. For water and waste water customers with meters, revenue recognised is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. Estimated usage is based on historical data, judgement and assumptions. The accrued income balance in this area on the balance sheet date included in trade receivables was £27,777,000 (2022: £22,307,000).

(c) Provision for expected credit losses

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Pennon Water Services has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

In light of the broad economic challenges caused by the cost of living crisis, part of the assessment of ECLs has been focused on the potential impact of this. Considerations in this assessment have included the type of customers and past experience of behaviours in challenging economic times. The precise quantum of the impact of the economic crisis on the Company's customers is subject to significant estimate at the current time.

The actual level of debt collected may differ from the estimated levels of recovery, and could impact future operating results positively or negatively. As at 31 March 2023 the Company's current trade receivables were £66,557,000 (2022: £64,467,000) against which £13,493,000 (2022: £13,934,000) was provided for ECLs.

(d) Judgements

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Company's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 21 for further details.

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

5 Operating profit

Arrived at after charging

		2023	2022
		£'000	£'000
Manpower costs	9	<u>4,788</u>	<u>4,541</u>
Other operating expenses:			
Short term/low value asset lease rentals		75	44
Trade receivables impairment	14	815	550
Other external charges		<u>208,090</u>	<u>183,702</u>
		<u>208,980</u>	<u>184,296</u>
Depreciation and amortisation			
Amortisation expense	11	618	630
Depreciation expense	12	<u>48</u>	<u>148</u>
		<u>666</u>	<u>778</u>

Other external charges consist of wholesale water charges from suppliers.

6 Auditors' remuneration

		2023	2022
		£'000	£'000
Audit of the financial statements		<u>153</u>	<u>116</u>

7 Net finance costs

		2023	2022
		£'000	£'000
Finance income			
Interest income on bank deposits		<u>99</u>	<u>2</u>
Total finance income		<u>99</u>	<u>2</u>
Cost of servicing debt			
Interest on loans from ultimate parent undertaking		(1,343)	(1,064)
Interest on credit support from parent undertaking		(132)	(123)
Interest on loans from minority shareholder		(336)	(361)
Interest on credit support from minority shareholder		<u>(78)</u>	<u>(38)</u>
Total finance costs		<u>(1,889)</u>	<u>(1,586)</u>
Net finance costs		<u>(1,790)</u>	<u>(1,584)</u>

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

8 Income tax

Tax credited in the income statement

	2023	2022
	£'000	£'000
Current taxation		
UK corporation tax charge	595	151
Deferred taxation		
Arising from origination and reversal of temporary differences	<u>(325)</u>	<u>(111)</u>
Tax expense in the income statement	<u>270</u>	<u>40</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2022: 19%).

The differences are reconciled below:

	2023	2022
	£'000	£'000
Profit before tax	<u>1,824</u>	<u>1,116</u>
Corporation tax at standard rate	347	334
Increase from effect of expenses not deductible in determining taxable loss	1	(3)
Deferred tax expense from unrecognised tax loss or credit	(5)	-
Deferred tax credit relating to changes in tax rates or laws	(73)	(55)
Decrease from effect of dividends from UK companies	<u>-</u>	<u>(236)</u>
Total tax charge	<u>270</u>	<u>40</u>

Factors affecting future tax charges

The current tax charge is marginally lower than the UK headline rate of 19%, primarily due to adjustments in respect of prior years offsetting depreciation in excess of capital allowances.

Following the Chancellor's budget in March 2021 the rate of UK corporation tax will remain at 19% until April 2023 and thereafter will increase to 25%. These changes were substantively enacted on 24 May 2021, as a result any deferred tax assets and liabilities have been remeasured to the rate at which they are expected to crystallise. These changes are considered non-underlying due to it arising from a material legislative change, and its treatment is consistent with that applied in relation to previous corporation tax rate changes.

The budget also introduced an acceleration of capital allowances for expenditure on new qualifying assets in the period April 2021 to April 2023, with a 130% super-deduction for plant and machinery and a 50% first year allowance for other qualifying assets. This is expected to reduce the current tax charge in the next two financial years, however it will be offset by an increase in deferred tax charges and liabilities for the acceleration of tax relief and the higher corporate tax rate applicable to future timing differences. The changes were substantially enacted on 24th May 2021.

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2023	2022
	£'000	£'000
Wages and salaries	4,074	3,897
Social security costs	408	363
Pension costs	306	281
Total staff costs	<u>4,788</u>	<u>4,541</u>

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2023	2022
	No.	No.
Sales	84	84
Administration and support	50	50
Total	<u>134</u>	<u>134</u>

The Company's employees are eligible to participate in a defined contribution pension scheme, operated by the ultimate parent company.

The assets of the Pennon Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of the schemes' trustees is determined by the schemes' trust documentation. The Pennon Group has a policy that one-half of all trustees other than the Chairman are nominated by active members of the fund and current pensioners. The value of contributions payable at the balance sheet totalled £nil (2022: £nil).

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2023	2022
	£'000	£'000
Remuneration	<u>199</u>	<u>198</u>

The Company incurred no direct charge for Directors' emoluments. Costs relate to charges made by the shareholder companies in relation to the Company's share of each Directors' remuneration, which are shown in the employing company's financial statements.

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

11 Intangible assets

	Other Intangible Assets £'000	Assets in the course of Construction £ 000	Total £'000
Cost			
At 1 April 2022	4,294	619	4,913
Additions	14	152	166
At 31 March 2023	<u>4,308</u>	<u>771</u>	<u>5,079</u>
Accumulated amortisation			
At 1 April 2022	2,866	-	2,866
Charge for the year	618	-	618
At 31 March 2023	<u>3,484</u>	<u>-</u>	<u>3,484</u>
Carrying amount			
At 31 March 2022	<u>1,428</u>	<u>619</u>	<u>2,047</u>
At 31 March 2023	<u>824</u>	<u>771</u>	<u>1,595</u>

Asset lives and residual values are reviewed annually. Computer software is amortised over the useful life of the asset which at acquisition was two to five years.

12 Property, plant and equipment

	Computer Hardware £'000	Other Assets £'000	Total £'000
Cost or valuation			
At 1 April 2022	671	56	727
Additions	-	1	1
At 31 March 2023	<u>671</u>	<u>57</u>	<u>728</u>
Depreciation			
At 1 April 2022	573	37	610
Charge for the year	35	13	48
At 31 March 2023	<u>608</u>	<u>50</u>	<u>658</u>
Carrying amount			
At 31 March 2022	<u>98</u>	<u>19</u>	<u>117</u>
At 31 March 2023	<u>63</u>	<u>7</u>	<u>70</u>

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

13 Investments

Subsidiaries

Details of the investment in subsidiary undertakings as at 31 March 2023 are as follows:

Name of subsidiary	Principal activity	Country of incorporation	Proportion of ordinary shares held	
			2023	2022
Source For Business Limited	Dormant	England	100%	100%
SSWB Limited	Dormant	England	100%	100%

In the opinion of the Directors, the total value of these investments is not less than the amount at which they are shown in the balance sheet.

The registered address for the companies listed above: Peninsula House, Rydon Lane, Exeter, EX2 7HR

The trade and assets of Source For Business Limited and SSWB Limited were transferred to Pennon Water Services Limited with effect from 31 March 2022. The issued share capital in both companies was reduced to £1 and the value of the investment by Pennon Water Services Limited was reduced accordingly.

	Source For Business Limited £'000	SSWB Limited £'000	Total £'000
Investment as at 31 March 2023	-	-	-

14 Trade and other receivables

	2023 £'000	2022 £'000
Amounts receivable from customers	66,557	64,467
Provision for impairment of trade receivables	<u>(13,493)</u>	<u>(13,934)</u>
Net trade receivables	53,064	50,533
Prepayments	1,871	1,877
Social security and other taxes	967	888
Amounts due from subsidiary undertakings	<u>54</u>	<u>-</u>
	<u>55,956</u>	<u>53,298</u>

Amounts receivable from customers include accrued income of £27,777,000 (2022: £22,307,000) relating to services delivered up to the balance sheet date.

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

14 Trade and other receivables (continued)

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Company has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for. The Company applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward looking information.

As at 31 March, an analysis of the aging of gross trade receivables is as follows:

	2023	2022
	£'000	£'000
Not due	32,505	34,071
Past due 1 - 30 days	5,594	5,071
Past due 31 - 120 days	7,385	6,349
More than 120 days	21,073	18,976
Total trade receivables	<u>66,557</u>	<u>64,467</u>

	Trade	Expected Credit
	Receivables	Loss
	£'000	£'000
Current occupier < 12 months: 0%-60%	50,932	1,980
Current occupier 12 – 24 months: 3%-100%	4,002	1,201
Current occupier 24 – 36 months: 8%-100%	1,701	777
Current occupier > 36 months: 13%-100%	1,529	1,518
Previous occupier: 30%-100%	8,393	8,017
Total	<u>66,557</u>	<u>13,493</u>

The Company specifically reviews separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2(i). The expected credit loss rate applied ranges are shown above.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2023	2022
	£'000	£'000
At 1 April	13,934	13,962
Provision for expected credit losses	815	550
Net receivables written off during the year as uncollectable	(2,154)	(573)
Transfer of other provisions	898	-
At 31 March	<u>13,493</u>	<u>13,934</u>

15 Cash and cash equivalents

	2023	2022
	£'000	£'000
Cash at bank	<u>1,817</u>	<u>1,808</u>

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

16 Trade and other payables

	2023	2022
	£'000	£'000
Trade payables	9,009	6,580
Amounts due to minority shareholder	1,343	1,272
Amounts due to fellow subsidiary undertakings	11,033	11,836
Accruals and deferred income	2,045	3,043
	<u>23,430</u>	<u>22,731</u>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

17 Current tax (payable)/recoverable

	2023	2022
	£'000	£'000
UK corporation tax	<u>(185)</u>	<u>52</u>

18 Loans and borrowings

	2023	2022
	£'000	£'000
Non-current loans and borrowings		
Amounts owed to minority shareholder	6,517	6,517
Amounts owed to ultimate parent undertaking	26,070	26,070
	<u>32,587</u>	<u>32,587</u>

The loans and borrowings classified as financial instruments are disclosed in note 2.

The company's exposure to market and liquidity risk in respect of loans and borrowings is disclosed in note 3 "Financial risk management". The terms of borrowings are laid out in note 22.

19 Deferred tax asset

	2023	2022
	£'000	£'000
Asset as at 1 April	180	71
Credited to the income statement	322	109
	<u>502</u>	<u>180</u>

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

19 Deferred tax asset (continued)

	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Share based payments £'000	Tax losses £'000	Total £'000
At 1 April 2021	56	5	10	-	71
Charged to the income statement	48	2	5	-	55
Non-underlying charge to the income statement	50	3	2	-	55
Charged to equity	-	-	(1)	-	(1)
At 31 March 2022	154	10	16	-	180
Charged to the income statement	33	1	11	280	325
Charged to equity	-	-	(3)	-	(3)
At 31 March 2023	<u>187</u>	<u>11</u>	<u>24</u>	<u>280</u>	<u>502</u>

Tax losses of £280,000 relate to the Corporate Interest Restriction carried forward which is expected to be realised in the future periods.

20 Share capital

Allotted, called up and fully paid shares

	No. 000	2023 £ 000	No. 000	2023 £ 000
Ordinary of £1 each	<u>8,397</u>	<u>8,397</u>	<u>8,397</u>	<u>8,397</u>

21 Exceptional/non-underlying items

Changes to Group Structure

On the 19th October 2021 the retail licences for Source For Business Ltd and SSWB Ltd were transferred to Pennon Water Services and both entities ceased trading. On 31st March 2022 the share capital of both companies was reduced to £1 and all the assets and liabilities were transferred to Pennon Water Services as an In-specie dividend.

	Source For Business Limited £'000	SSWB Limited £'000	Total £'000
Capital reduction	<u>(20)</u>	<u>(700)</u>	<u>(720)</u>
Intercompany debt waived	718	672	1,390
Corporation tax liability transferred	<u>(65)</u>	<u>-</u>	<u>(65)</u>
In-specie dividend from subsidiaries	653	672	1,325
Impairment of investment	<u>(20)</u>	<u>(700)</u>	<u>(720)</u>
	<u>633</u>	<u>(28)</u>	<u>605</u>

Pennon Water Services Limited
Notes to the Financial Statements for the Year Ended 31 March 2023
(continued)

22 Related party transactions

Related Party Transactions	2023	2022
	£000	£000
<i>Ultimate Parent Undertaking</i>		
Rendering of services	(997)	(952)
Finance charges	(1,475)	(1,187)
<i>Fellow Subsidiary Undertakings</i>		
Purchase of goods	(94,693)	(89,929)
<i>Minority Shareholder</i>		
Purchase of goods	(17,785)	(18,360)
Finance charges	(357)	(399)
<i>Subsidiary Undertakings</i>		
Transfers under finance arrangements (excluding loans and equity contributions)	-	(1,247)

Year end balances	2023	2022
	£000	£000
<i>Payables</i>		
Amounts owed to ultimate parent undertaking - trading and other	(592)	(342)
Amounts owed to ultimate parent undertaking - borrowings	(26,070)	(26,070)
Amounts owed to fellow subsidiary undertakings - trading and other	(13,041)	(11,938)
Amounts owed to minority shareholder - trading and other	(1,343)	(1,272)
Amounts owed to minority shareholder - borrowings	(6,517)	(6,517)

The loans due to the ultimate parent undertaking and the minority shareholder undertaking are unsecured and repayable on demand in five equal and annual instalments, with the first instalment due and owing on the date one year following notice in writing. At close of business on 31 March 2023 no notice has been received. Interest is charged on a daily basis with 50% of the debt charged at 5.0% per annum and 50% of the debt charged at a variable rate of the Bank of England Base Rate plus 3% per annum.

23 Ultimate parent undertaking

The Company is an 80% owned subsidiary of Pennon Group plc, a company registered in England, company registration number 02366640.

The ultimate parent company and controlling party is Pennon Group plc, which is registered in England (02366640). This is the largest group in which the Company's results are consolidated. Group financial statements are included in the Annual Report of Pennon Group plc, which is available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.

24 Non-controlling interest

South Staffordshire plc, a Company registered in England (company registration number 04295398) holds a 20% non-controlling interest in the ordinary share capital of the Company.