

# **SOUTH WEST WATER FINANCE PLC**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 MARCH 2024**

# **SOUTH WEST WATER FINANCE PLC**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED**

### **31 MARCH 2024**

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# **SOUTH WEST WATER FINANCE PLC**

## **STRATEGIC REPORT**

The Directors present their Strategic Report for the year ended 31 March 2024.

### **REVIEW OF THE BUSINESS**

South West Water Finance plc (the Company) acts as a financing company in raising borrowings for its immediate parent company, South West Water Limited (SWW).

The Company currently has two borrowing facilities, an index linked bond maturing in 2057 with a book value of £376 million (2023: £357 million) and a £150 million loan maturing in 2040.

The results of the Company for the year show a pre-tax loss of £1,203,000 (2023: £1,109,000 pre-tax loss) with revenue for the year of £28,975,000 (2023: £55,528,000). Operating costs for the year were £30,178,000 (2023: £56,637,000). The decrease in revenue and operating cost primarily reflects lower RPI during the year decreasing interest payments on external debt and interest receipts from South West Water due to the back-to-back nature of the majority of loan agreements with the Company's immediate parent Company. The loss after taxation transferred to reserves for the year was £892,000 (2023: £690,000 loss for the year). The Directors do not recommend the payment of a dividend (2023: £nil). Net assets of the Company were £30,521,000 (2023: £31,413,000 net assets).

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company's sole function is to raise borrowings and provide finance for its immediate parent company, SWW. The Company is wholly reliant on capital and interest receipts from SWW to meet its external borrowings obligations.

The treasury operations of South West Water Group are managed by the Pennon Group plc treasury function. The Company does not engage in speculative activity.

The principal risk for the Company is that SWW does not meet its obligations in respect of its borrowings. A review of the principal risks and uncertainties of SWW, which could result in its inability to meet those obligations, has been undertaken. The categories of principal risks as outlined in SWW's annual report and accounts for the year ended 31 March 2024 are as follows:

- Law, regulation and finance
- Market and economic conditions
- Operating performance; and
- Business systems and capital investment

The directors note significant risks in relation to:

- Changes in Government policy
- Changes in regulatory frameworks and requirements
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological security results in a breach of the Company's assets, systems and data

The directors do not believe these risks will affect SWW's ability to settle capital and interest obligations when due.

The directors have also considered the impact of climate change on SWW to assess whether there is a significant risk to the going concern status of the business as a result. The directors have also had access to South West Water Limited's internal financial viability assessment that covers a period from the balance sheet date to 2030 and are satisfied there is not a significant risk to South West Water Finance's going concern status to June 2025 or long-term viability.

# **SOUTH WEST WATER FINANCE PLC**

## **STRATEGIC REPORT (continued)**

### **PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

The Company's activities expose it to a variety of financial risks; market risk (interest rate risk), liquidity risk and credit risk in respect of individual assets and liabilities. These risks are mitigated by the back to back nature of the majority of the Company's assets and liabilities on a cash-flow basis, mitigating the risks on the Company's largest financial instrument representing 73% of the Company's issued debt. The Company receives treasury services from the treasury function of Pennon Group plc, the ultimate parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk.

### **SECTION 172 STATEMENT**

The directors acknowledge and understand their duties under section 172 of the Companies Act 2006 (s.172), to act in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes a decision, the directors always take full account of the following:

- The long-term consequences of our decisions
- The interests of our employees
- The importance of having excellent business relationships with suppliers, customers and anyone else who we impact
- The impacts of our operations have on our communities and our environment
- Ensuring we maintain our reputation for the highest standards of business conduct
- We will always act fairly between our shareholders

The Company has no employees or customers with a single shareholder, SWW. Stakeholders include the holders of long term bonds issued by the Company. The Company acts as a financing company to raise borrowings for SWW, consequently any decisions made consider the best interests of SWW. The Company operates within the governance structure of the parent company, SWW, as well as the wider Pennon Group. Details of the governance of SWW can be found within its annual report at <https://www.southwestwater.co.uk/about-us/performance/how-we-are-performing>.

### **KEY PERFORMANCE INDICATORS ("KPIs")**

The company is considered a business unit of SWW. For that reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate to develop the understanding of the development, performance or position of the Company. The KPIs for SWW are discussed in the SWW's annual report, which does not form part of this report.

### **FUTURE OUTLOOK**

The Company fulfilled its principal activity during the year and the Directors are of the opinion that the Company will continue to provide South West Water Limited with financing, where appropriate, for the foreseeable future.

This Strategic Report was approved by the Board on 6 June 2024

On behalf of the Board

DocuSigned by:  
  
86C1DA84F32E418...  
C P Tregenna  
Director

6 June 2024

# **SOUTH WEST WATER FINANCE PLC**

## **REPORT OF THE DIRECTORS**

### **DIRECTORS**

The Directors who served on the Board during the period, and up to the date of signing the financial statements were:

S Buck (appointed 1 January 2024)  
C P Tregenna  
P M Boote (resigned 31 December 2023)

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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. These financial statements have been prepared in accordance with UK-adopted international accounting standards and in accordance with the provisions of the Companies Act 2006.

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

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Company's financial position and financial performance;
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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.

### **FUTURE DEVELOPMENTS**

The likely future developments of the business are set out in the Strategic Report.

### **GOING CONCERN**

The Company is in a net asset position of £30,521,000 (2023: £31,413,000). Short term liabilities will be met by a combination of interest receivable and capital repayments from the intercompany loan with South West Water Limited.

Having considered the Company's funding position, the nature of its relationship with its parent South West Water Limited (a regulated company with long-term sustainable business) and financial projections which take into account a range of possible impacts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the period from the date of the approval of the 2024 financial statements through to 30 June 2025 and there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

# **SOUTH WEST WATER FINANCE PLC**

## **REPORT OF THE DIRECTORS (continued)**

### **DIVIDENDS**

The Directors do not recommend the payment of a dividend (2022/23: £nil).

### **DIRECTORS' INSURANCE AND INDEMNITIES**

The Directors have the benefit of the indemnity provisions contained in the Company's Articles 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.

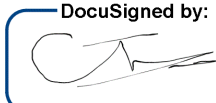
### **CORPORATE GOVERNANCE STATEMENT**

The parent company, South West Water Limited, has a well-established internal control framework which is operated and applied in relation to the process for preparing the company's financial statements and annual report. The framework incorporates activities and required reporting associated with South West Water Finance plc. The internal control framework is discussed in the South West Water Limited annual report, which does not form part of this report.

### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITOR**

- a) So far as each of the Directors in office at the date of signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) each of the Directors has taken all the steps that each Director ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 3 to 4 was approved by the Board on 6 June 2024.

DocuSigned by:  
  
86C1DA84F32E418...

C P Tregenna  
Director

6 June 2024

# **SOUTH WEST WATER FINANCE PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC**

### **Opinion**

We have audited the financial statements of South West Water Finance PLC for the year ended 31 March 2024 which comprise the Statement of Profit and Loss Account and Other Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted 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 2024 and of its loss 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. 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 as applied to listed public interest 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.

### **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. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included following procedures:

- We obtained and validated the terms and obligations of the two listed bonds in which South West Water Limited is the guarantor and of the loan agreement with South West Water Limited.
- We confirmed there were no covenant requirements relating to the company's own borrowings.
- We noted the terms and conditions attached to the loan agreement with South West Water Limited included a clause that ensures the rate of interest will be adjusted to ensure that the rate meets South West Water Finance PLC interest obligations for the life of the bonds.
- We compared management's cash inflows and outflows included in its cash flow forecast used in its going concern assessment to the terms of the bond and loan agreement to confirm these were appropriately reflected for both capital and interest receivables and payables.

# SOUTH WEST WATER FINANCE PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

- We checked the clerical accuracy of the forecast and understood the impact of the cashflows on the Company's liquidity covering the period to 30 June 2025.
- We evaluated management's historical accuracy of forecasting.
- We have also assessed the ability of South West Water Limited to pay interest and capital to the Company in line with the terms of the loan agreements. We performed a going concern assessment of South West Water Limited for period to 30 June 2025 and by performing the procedures below concluded that it would be able to meet its obligations to its lenders including South West Water Finance PLC.
  - We obtained an understanding of the process undertaken by management to perform the going concern assessment.
  - We have obtained management's going concern assessment, including the cash flow forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period 31 March 2024 to 30 June 2025, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash flow forecast and covenant calculations to incorporate unexpected changes in the forecast liquidity and covenant compliance of the company.
  - We have challenged the forecasts used for the going concern assessment period, agreed the data to the Board approved plan and, where applicable, corroborated the data with audit information from other areas, including capital commitments, impairment and deferred tax asset recoverability testing. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year-to-date performance and through consideration of historical forecasting accuracy and the impact of regulatory price increases.

We assessed the disclosures in the financial statements against applicable accounting standards and evaluated the consistency of the disclosures with our knowledge of the Company.

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 to 30 June 2025.

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.

### Overview of our audit approach

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Key audit matters	<ul style="list-style-type: none"><li>• We identified an inherent risk relating to the complexity of accounting for financial instruments, leading to a heightened risk of error in their measurement</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall materiality of £2.90m which represents 0.5% of total assets.</li></ul>

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# **SOUTH WEST WATER FINANCE PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)**

### **An overview of the scope of our audit**

#### **Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### **Climate change**

Stakeholders are increasingly interested in how climate change will impact the South West Water Finance PLC. The company has determined that due to its nature, there is no material impact from climate changes known about now or which could arise in the future. The most significant future impacts from climate change will result from those which affect its immediate and ultimate parent undertakings. These are explained in the financial statements of South West Water Limited and Pennon Group PLC, all of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

The company has explained in the financial statements of South West Water Limited and Pennon Group PLC how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change. There are no significant judgements or estimates relating to climate change in the notes to the financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks have been appropriately reflected. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

# SOUTH WEST WATER FINANCE PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Key Audit Matter	Our response	Key observations communicated to the Audit Committee
<p><b>Accounting for financial instruments and other financial liabilities</b></p> <ul style="list-style-type: none"> <li>Listed debt (£511.7m, PY comparative £493.1m)</li> <li>Unamortised hedging adjustment (£37.5m, PY comparative £39.8m)</li> </ul> <p><i>Refer to the Strategic Report (page 1); Accounting policies (page 19); and Note 14 of the Financial Statements (page 27)</i></p> <p>We identified an inherent risk relating to the complexity of accounting for financial instruments, leading to a heightened risk of error in their measurement.</p>	<p>We have performed the below procedures in relation to the identified inherent risk:</p> <ul style="list-style-type: none"> <li>We have obtained and reviewed the key terms of the agreements for the fixed-rate interest bond (£136.m) and the index-linked bond (£375.6m) and have tied these through to the client prepared schedules.</li> <li>We have recalculated the interest charge on the fixed-rate and index-linked bonds and we have recalculated the accretion of indexation on the index-linked bond and agreed these to the financial statements</li> </ul> <p>We have obtained and reviewed the key terms of the documentation for the unamortised hedging adjustment. We have recalculated the annual amortisation credit and resulting balance sheet measurement of the unamortised hedging adjustment.</p>	<p>We concluded that the financial instruments have been appropriately accounted for in accordance with IFRS 9</p>

### Changes from the prior year

There were no changes to the scope of the audit from the prior year.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

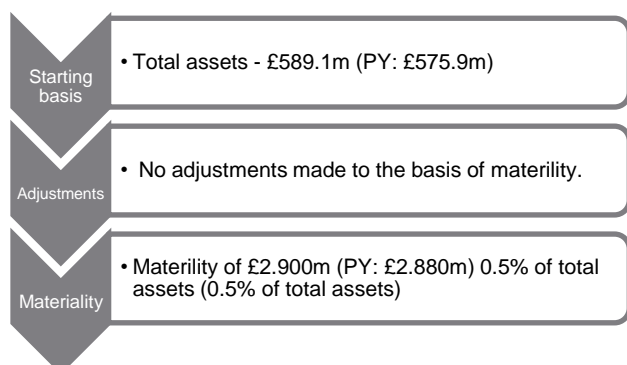
### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

# SOUTH WEST WATER FINANCE PLC

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

We determined materiality for the company to be £2.90 million (2023: £2.880 million), which is 0.5% (2023: 0.5%) of total assets. We believe that total assets provide us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt.



### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2023: 75%) of our planning materiality, namely £2.200m (2023: £2.160m). We have set performance materiality at this percentage due to a past history. This basis is consistent with prior year.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.145m (2023: £0.144m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### 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.

# **SOUTH WEST WATER FINANCE PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)**

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

## **SOUTH WEST WATER FINANCE PLC**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)**

#### **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 company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are
  - Companies Act 2006
  - International Accounting Standards
  - Tax Legislation (governed by HM Revenue and Customs)
- We understood how South West Water Finance PLC 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. 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.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance, 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 Financial Statements with the requirements of the relevant accounting standards and UK legislation.

# **SOUTH WEST WATER FINANCE PLC**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)**

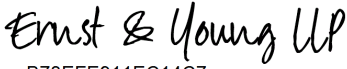
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Other matters we are required to address**

- Following the recommendation from the audit committee we were appointed by the company on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 10 years, covering the years ending 31 March 2015 to 31 March 2024.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

### **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  
6 June 2024

**SOUTH WEST WATER FINANCE PLC**  
**STATEMENT OF PROFIT AND LOSS ACCOUNT AND OTHER**  
**COMPREHENSIVE INCOME**  
for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Revenue	4	28,975	55,528
Operating costs	5	(30,178)	(56,637)
<b>Loss before tax</b>		<b>(1,203)</b>	<b>(1,109)</b>
Taxation	7	311	419
<b>Loss and total comprehensive income for the year</b>	16	<b>(892)</b>	<b>(690)</b>

The notes on pages 16 to 29 form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 March 2024

	Share Capital (note 15)	Retained Earnings (note 16)	Total Equity £000
	£000	£000	
At 1 April 2022	50	32,053	32,103
Loss attributable to owners of the parent	-	(690)	(690)
At 31 March 2023	50	31,363	31,413
Loss attributable to owners of the parent	-	(892)	(892)
<b>At 31 March 2024</b>	<b>50</b>	<b>30,471</b>	<b>30,521</b>

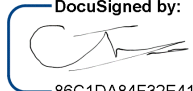
The notes on pages 16 to 29 form part of these financial statements.

**SOUTH WEST WATER FINANCE PLC**  
**BALANCE SHEET**  
**at 31 March 2024**

	Notes	2024 £000	2023 £000
<b>Non-current assets</b>			
Loans and other receivables	9	567,714	552,597
Deferred tax assets	12	10,185	10,835
		<u>577,899</u>	<u>563,432</u>
<b>Current assets</b>			
Current tax asset	11	242	-
Loans and other receivables	9	10,303	12,255
Cash and cash deposits		684	313
		<u>11,229</u>	<u>12,568</u>
<b>Current liabilities</b>			
Unamortised hedging adjustment	14	-	(2,343)
Other liabilities	10	(9,306)	(11,504)
Current tax liabilities	11	-	(55)
		<u>(9,306)</u>	<u>(13,902)</u>
<b>Net current assets/(liabilities)</b>		<u>1,923</u>	<u>(1,334)</u>
<b>Non-current liabilities</b>			
Borrowings	13	(511,764)	(493,148)
Unamortised hedging adjustment	14	(37,537)	(37,537)
		<u>(549,301)</u>	<u>(530,685)</u>
<b>Net assets</b>		<u>30,521</u>	<u>31,413</u>
<b>Equity</b>			
Share capital	15	50	50
Retained earnings	16	30,471	31,363
<b>Total equity</b>		<u>30,521</u>	<u>31,413</u>

The notes on pages 16 to 29 form part of these financial statements.

The financial statements on pages 13 to 29 were approved by the Board and authorised for issue on 6 June 2024 and signed on its behalf by:

DocuSigned by:  
  
86C1DA84F32E418...  
C P Tregenna  
Director

Registered Number: 05722435



**SOUTH WEST WATER FINANCE PLC**  
**CASH FLOW STATEMENT**  
**for the year ended 31 March 2024**

	Notes	<b>2024</b> <b>£000</b>	2023 £000
<b>Cash flows from operating activities</b>			
Interest received and other cash generated from operating activities	17	<b>12,660</b>	12,366
Interest paid		<b>(16,103)</b>	(15,773)
Tax received		<b>664</b>	247
Net cash used in operating activities		<b><u>(2,779)</u></b>	<u>(3,160)</u>
<b>Cash flows from investing activities</b>			
Repayment of inter-company loans by immediate parent company		<b><u>3,150</u></b>	<u>2,750</u>
Net cash generated by investing activities		<b><u>3,150</u></b>	<u>2,750</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>371</b>	(410)
Cash and cash equivalents at beginning of year		<b>313</b>	723
<b>Cash and cash equivalents at end of year</b>		<b><u>684</u></b>	<u>313</u>

The notes on pages 16 to 29 form part of these financial statements.

# **SOUTH WEST WATER FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 General information**

South West Water Finance plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom. The address of the registered office is Peninsula House, Rydon Lane, Exeter, EX2 7HR. The nature of the Company's operations are set out in the Strategic Report on page 1.

### **2 Material accounting policies information**

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

#### **(a) Basis of preparation**

These financial statements have been prepared in accordance with UK-adopted international accounting standards and in accordance with the provisions of the Companies Act 2006. A summary of the material 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.

No critical accounting estimates or judgements have been applied in the preparation of these accounts.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2023 did not have a material impact on the net assets or results of the Company.

At the date of approval of these financial statements, standards and interpretations in issue, but not yet effective are not expected to have a material impact on the Company's net assets or results.

#### ***Going concern***

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 2. The Company is in a net asset position of £30,521,000 (2023: £31,413,000).

The Company is wholly reliant on capital and interest receipts from South West Water Limited (SWW) to meet its external borrowings obligations. The terms and conditions of the loan receivable due from South West Water Limited included options to review and amend terms to ensure that South West Water Finance plc has adequate resources to meet cash flows due relating to the bonds. The principal risk for the Company is therefore that SWW does not meet its obligations in respect of its borrowings. A review of the principal risks and uncertainties of SWW, which could result in its inability to meet those obligations, has been undertaken. The categories of principal risks as outlined in SWW's annual report and accounts for the year ended 31 March 2024 are as follows:

- Law, regulation and finance
- Market and economic conditions
- Operating performance; and
- Business systems and capital investment

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 Material accounting policies (continued)

#### *Going concern (continued)*

The directors note significant risks in relation to:

- Changes in Government policy
- Changes in regulatory frameworks and requirements
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological security results in a breach of the Company's assets, systems and data

Key risks associated with the delivery of regulatory outcomes and performance commitments is reflected within individual principal risks and has therefore been removed as a standalone principal risk. The directors do not believe these risks will affect SWW's ability to settle capital and interest obligations when due. SWW have stress-tested their business plan to review the principal risks considered that might threaten the company's going concern status. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. While mitigations were not required in the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. These include; reduction in discretionary operational expenditure, deferral of capital expenditure and / or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

The directors have also had access to South West Water Limited's internal financial viability assessment that covers a period from the balance sheet date to 2030 and are satisfied there is not a significant risk to the Company's going concern status or long-term viability.

Having considered the Company's funding position, the nature of its relationship with its parent South West Water Limited (a regulated company with long-term sustainable business) and financial projections which take into account a range of possible impacts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the period from the date of the approval of the 2024 financial statements through to 30 June 2025 and there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **(b) Revenue**

The Company does not have any revenue from contracts with customers within the scope of IFRS 15.

Revenue represents interest income on loans receivable from the immediate Parent Company. Interest receivable is calculated using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period.

# **SOUTH WEST WATER FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **2 Material accounting policies (continued)**

#### **(c) Segmental reporting**

The Directors believe that the Company's activities constitute a single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Company's non-current assets are all located within the United Kingdom.

#### **(d) 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 Pennon 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.

The Organisation for Economic Co-operation and Development (OECD)/G20 inclusive Framework on Base Erosion and Profit Shifting published the Pillar Two model rules designed to address the tax challenges arising from the digitalisation of the global economy.

It is unclear if the Pillar Two rules created additional temporary difference, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred tax. In response to this uncertainty, the IASB on 23 May 2023 introduced a mandatory temporary exception to the requirements of IAS12 under which a company does not recognise or disclose information about deferred tax assets and liabilities relating to the proposed Pillar Two model rules. The Company applied the temporary exception at 31 March 2024.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the Company's financial year beginning 1 April 2024. The Company has performed an assessment of the Company's potential exposure to Pillar two income taxes.

# **SOUTH WEST WATER FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **2 Material accounting policies (continued)**

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the constituent entities in the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

#### **(e) Derivatives and 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.

Debt instruments at amortised cost include unamortised hedging adjustment referred to in (ii) below.

##### **(ii) Derivative financial instruments and hedging activities**

The Company previously designated certain hedging derivatives as a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge). On 1 October 2015 hedge accounting was discontinued and the hedged item ceased to be adjusted for changes in its fair value attributable to the hedged risk. This adjustment is being amortised over the remaining maturity of the 2040 bond.

##### **(iii) Cash and cash deposits**

Cash and cash deposits comprise cash in hand, short-term deposits held at banks and other short-term highly liquid deposits subject to insignificant risk of changes in value.

##### **(iv) Receivables due from immediate parent undertaking**

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

# **SOUTH WEST WATER FINANCE PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **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 Pennon Group plc, the ultimate parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk.

Treasury operations are managed in accordance with policies established by the Pennon Group Plc Board. Major transactions are individually approved by the Company's Board. Treasury activities are reported to the Company's Board and are subject to review by internal audit.

Financial instruments are used to raise finance and to manage risk. The Company does not engage in speculative activity. The principal financial risks faced by the Company relate to interest rate and credit counterparty risk.

#### **(i) Market risk – interest rate risk**

The Company has both interest-bearing assets and interest-bearing liabilities. The principal activity of the Company is to act as a financing company for raising borrowings for its immediate parent Company, South West Water Limited. All funds raised are lent to South West Water Limited under the same terms.

South West Water Finance plc's revenue and operating costs vary in line with movements in RPI on the Company's index-linked bonds. All of the Company's financial assets and liabilities are either fixed or index linked. Consequently, the underlying profitability and cash generated from operations is independent of changes in market interest rates. Therefore, the exposure of the Company to market risk is limited over the life of the bond.

73% (2022/23: 72%) of the Company's borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure.

For 2023/24 if interest rates had been on average 1.0% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £nil million (2022/23: £nil million).

For 2023/24 if RPI on index-linked borrowings had been on average 1.0% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £2.6 million (2022/23: £2.5 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis. The range of expected volatility is within the range of 0%-2%.

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Financial risk management (continued)

#### (ii) Liquidity risk

Refinancing risk is managed by the treasury function of Pennon Group plc, the ultimate parent company. 73% (2022/23: 72%) of the Company's borrowings have been loaned to the parent company on the same terms. The Company's remaining borrowing costs are serviced by further parent company lending, detailed in Note 10. All borrowings are covered by parent company guarantees. Due to the comparable nature of the borrowings and receivables and the presence of the parent company guarantee there is judged to be no material liquidity risk to the Company.

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

<b>31 March 2024</b>	<b>Due within 1 year £m</b>	<b>Due between 1 and 2 years £m</b>	<b>Due between 2 and 5 years £m</b>	<b>Over 5 years £m</b>	<b>Total £m</b>
<b>Non-derivative financial liabilities</b>					
Total borrowings	-	-	-	1,126.4	1,126.4
Interest payments on borrowings	16.4	16.6	51.2	481.2	565.4

Note total borrowings includes the RPI element of interest.

<b>31 March 2023</b>	<b>Due within 1 year £m</b>	<b>Due between 1 and 2 years £m</b>	<b>Due between 2 and 5 years £m</b>	<b>Over 5 years £m</b>	<b>Total £m</b>
<b>Non-derivative financial liabilities</b>					
Total borrowings	-	-	-	1,148.8	1,148.8
Interest payments on borrowings	16.2	16.5	51.0	507.4	598.9

#### (iii) Credit risk

The credit and counterparty risk of the Company is linked to its immediate parent company South West Water Limited (a regulated body with a long term sustainable business) and South West Water Limited's ability to repay intercompany loans. A group policy for managing such risk has been agreed by South West Water Limited's parent company the Pennon Group Plc's Board applying controls through credit limits, counterparty approvals and rigorous monitoring procedures. Therefore, exposure to credit risk is limited for the Company.

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Financial risk management (continued)

#### (b) Capital Risk Management

The management of capital risk is undertaken by South West Water Limited, the immediate parent Company and Pennon Group plc, the ultimate parent company. Details of these companies' capital risk management policies are included in the annual report of each of the respective companies.

	<b>2024</b>	2023
	<b>£000</b>	£000
Cash and cash deposits	<b>(684)</b>	(313)
Total shareholder's equity	<b>30,521</b>	31,413
<b>Total capital</b>	<b>29,837</b>	31,100

### 4 Revenue and Segmental information

	<b>2024</b>	2023
	<b>£000</b>	£000
<b>Revenue</b>	<b>28,975</b>	55,528

The Company operated wholly in the United Kingdom in one class of business during the year. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

### 5 Operating costs

	<b>2024</b>	2023
	<b>£000</b>	£000
Interest payable and similar charges	<b>32,471</b>	58,978
Other operating costs	<b>50</b>	2
Net gain on derivative unwinding	<b>(2,343)</b>	(2,343)
<b>Operating costs</b>	<b>30,178</b>	56,637

Operating costs include auditor's remuneration of £50,000 (2023: £2,000) for the statutory audit of the Company.

There was £nil payable to the Company's auditors for non-audit work for the year to 31 March 2024 (2023: £nil).

### 6 Directors' emoluments and employment costs

The Directors did not spend a material amount of time providing services to the Company in the year and as a result the Directors did not receive any remuneration from the Company during the year ended 31 March 2024 (2022/23: £nil). The Directors also did not receive any remuneration from the Parent Company in respect of this company (2022/23: £nil) and no recharges were made from the Parent Company of Directors salaries or costs (2022/23: £nil).

The Company had no employees during the year ended 31 March 2024 (2023: none).



# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7 Taxation

	2024 £000	2023 £000
Current tax credit	(961)	-
Deferred tax charge	650	-
Deferred tax arising on change of rate of corporation tax	-	(419)
Total deferred tax charge/(credit)	<u>650</u>	<u>(419)</u>
Tax credit for year	<u>(311)</u>	<u>(419)</u>

UK corporation tax is calculated at 25% (2023: 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £74,425 (2022/23: £nil) and a prior year deferred tax charge of £64,116 (2022/23: £nil).

Deferred tax charge arises due to the application of the tax disregard rules to historical derivative contracts, on which a deferred tax asset is unwinding.

<b>Reconciliation of total tax charge</b>	<b>2024 £000</b>	<b>2023 £000</b>
Loss before tax	<u>(1,203)</u>	<u>(1,109)</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK of 25% (2023: 19%)	(301)	(211)
Effects of:		
Underlying impact of changes in UK tax rates	-	(208)
Adjustments to tax charge in respect of prior years	<u>(10)</u>	<u>-</u>
<b>Total tax credit for year</b>	<u>(311)</u>	<u>(419)</u>

<b>Reconciliation of current tax charge</b>	<b>2024 £000</b>	<b>2023 £000</b>
Loss before tax	(1,203)	(1,109)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 25% (2023: 19%)	(301)	(211)
Effects of:		
Other timing differences	(586)	211
Adjustments to tax charge in respect of prior years	<u>(74)</u>	<u>-</u>
<b>Current tax credit for year</b>	<u>(961)</u>	<u>-</u>

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 7 Taxation (Continued)

The current tax credit is higher than the UK headline rate of 25%, due to the application of tax disregard rules to historical derivative contracts, on which a deferred tax asset is unwinding.

Pillar Two legislation has been enacted in the UK which is the only jurisdiction in which the Company operates. The legislation will be effective for the Company's financial year beginning 1 April 2024. The Company has performed an assessment of the Company's potential exposure to Pillar two income taxes.

This assessment is based on the most recent tax filings, country-by-country reporting and financial statements of the constituent entities in the Company. Based on the assessment performed, the Pillar Two effective tax rates in all jurisdictions in which the Company operates are above 15% and management is not currently aware of any circumstances under which this might change. Therefore, the Company does not expect a potential exposure to Pillar Two top-up taxes.

No tax amounts were recognised directly in other comprehensive income or equity during the year.

### 8 Financial instruments and other financial liabilities

The accounting policies for financial instruments and other financial liabilities have been applied to the line items as below:

	Note	Amortised cost Debt Instruments at amortised cost £000
<b>31 March 2024</b>		
<b>Financial assets</b>		
Debt instruments at amortised cost	9	578,017
Cash and cash deposits		684
		<u>578,701</u>
<b>Financial liabilities</b>		
Borrowings	13	(511,764)
Other liabilities	10	(9,306)
Unamortised hedging adjustment	14	(37,537)
		<u>(558,607)</u>
<b>31 March 2023</b>		
<b>Financial assets</b>		
Debt instruments at amortised cost	9	564,852
Cash and cash deposits		313
		<u>565,165</u>
<b>Financial liabilities</b>		
Borrowings	13	(493,148)
Other liabilities	10	(11,504)
Unamortised hedging adjustment	14	(39,880)
		<u>(544,532)</u>

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9 Loans and other receivables

	<b>2024</b>	2023
	<b>£000</b>	£000
<b>Current</b>		
Amounts owed by immediate parent company	<u>10,303</u>	<u>12,255</u>
<b>Non-current</b>		
Amounts owed by immediate parent company	<u>567,714</u>	<u>552,597</u>
<b>Loans and other receivables</b>	<u>578,017</u>	<u>564,852</u>

Current amounts owed by the immediate parent company include accrued income £6,755,000 (2023: £9,103,000) and loan principal repayment due within 1 year with a book and fair value of £3,500,000 (2023: £3,150,000).

Non-current loans comprise the following:

A loan maturing in more than 5 years with a book value of £136,198,000 (2023: £135,741,000) and face value of £150,000,000 at 31 March 2024 (2023: £150,000,000) and fair value of £103,356,000 (2023: £106,827,000). The effective interest rate at the balance sheet date was 3.10% (2023: 3.20%).

A loan maturing in more than 5 years with a book value of £375,567,000 (2023: £357,407,000) and with fair value of £311,890,000 at 31 March 2024 (2023: £279,870,000). The effective interest rate at the balance sheet date was RPI + 1.99% (2023: RPI + 1.99%).

A loan maturing over the next 16 years with a book value of £55,950,000 (2023: £59,550,000) and with a fair value of £45,722,000 at 31 March 2024 (2023: £51,703,000). The effective interest rate at the balance sheet date was 2.35% (2023: 2.35%).

None of the loans to related parties are past due, and no material expected credit loss provision has been recognised.

The fair values of the loans have been determined to be level 3 due to having been calculated by discounting expected future cashflows at prevailing interest rates. See note 13 for additional information on the valuation of financial instruments.

### 10 Other liabilities

	<b>2024</b>	2023
	<b>£000</b>	£000
Accruals	<b>9,306</b>	11,504

Other liabilities predominantly relate to interest accruals on borrowings. The Directors consider that the carrying amount of other liabilities approximates to their fair values.

### 11 Current Tax

	<b>2024</b>	2023
	<b>£000</b>	£000
Current Tax asset/(liability)	<b>242</b>	(55)

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

	<b>2024</b>	2023
	<b>£000</b>	£000
Asset at 1 April	<b>10,835</b>	10,416
Underlying charges in the income statement	<b>(650)</b>	419
<b>Asset at 31 March</b>	<b><u>10,185</u></b>	<u>10,835</u>

A deferred tax asset of £10.2m has been recognised in respect of derivatives (£9.4m) and post 1 April 2017 losses which are being carried forward (£0.8m). A deferred tax asset has been recognised on the basis that the company surrenders its losses as group relief for payment and the Pennon group will generate suitable future taxable profits, by virtue of its net deferred tax liability position of £548m and taxable profit forecasts.

The majority of the deferred tax asset is expected to be recovered over more than one year.

All deferred tax assets and liabilities within the same jurisdiction are offset.

Deferred taxes on the balance sheet have been measured at the UK headline corporation tax rate of 25%.

### 13 Borrowings

	<b>2024</b>	2023
	<b>£000</b>	£000
<b>Non-current</b>		
2040 bond	<b>136,198</b>	135,741
Index linked bonds	<b>375,566</b>	357,407
<b>Total borrowings</b>	<b><u>511,764</u></b>	<u>493,148</u>

The book and fair value of the non-current borrowings were:

	<b>2024</b>	<b>2024</b>	2023	2023
	<b>Book</b>	<b>Fair</b>	Book	Fair
	<b>Value</b>	<b>Value</b>	Value	Value
	<b>£000</b>	<b>£000</b>	£000	£000
2040 bond	<b>136,198</b>	<b>145,248</b>	135,741	137,759
Index linked bonds	<b>375,566</b>	<b>311,890</b>	357,407	279,870
	<b><u>511,764</u></b>	<b><u>457,138</u></b>	<u>493,148</u>	<u>417,629</u>

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 13 Borrowings (continued)

Fair values of these borrowings have been determined using level 2 measures as set out below.

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation techniques:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, using prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows are used to determine fair values for the financial instruments.

Where market values are not available, the fair value of borrowings have been calculated by discounting expected future cashflows at prevailing interest rates.

The maturity of all non-current borrowings at book and fair value at the balance sheet date is over 5 years.

The effective interest rates at the balance sheet date were:

	2024	2023
2040 bond	6.81%	6.82%
Index linked bonds	RPI + 1.99%	RPI + 1.99%

The bonds are wholly guaranteed by South West Water Limited.

### 14 Unamortised hedging adjustment

	2024	2023
	£000	£000
Current	-	2,343
Non-current	37,537	37,537
<b>Unamortised hedging adjustment</b>	<b>37,537</b>	<b>39,880</b>

The unamortised hedging adjustment reflects the fair value movement of the hedged risk on a hedged item which had been designated in a fair value hedging relationship. At 1 October 2015 hedge accounting was discontinued and the hedged item ceased to be adjusted for changes in its fair value attributable to the hedged risk. This adjustment is being amortised over the remaining maturity of the 2040 bond.

In the current year, amortisation expected to be recognised in the next financial year has been included within the non-current liabilities balance. The prior year has not been adjusted due to materiality.

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15 Share capital

	<b>2024</b>	2023
	<b>£000</b>	£000
Authorised: 100,000 ordinary shares of £1 each	<b>100</b>	100
Issued share capital		
Issued and fully paid 2 ordinary shares of £1 each	-	-
Issued and partly paid 50,000 ordinary shares of £1 each, at £0.25p per share, totalling £12,500	<b>50</b>	50
	<b>50</b>	50

### 16 Retained earnings

	<b>2024</b>	2023
	<b>£000</b>	£000
At 1 April	<b>31,363</b>	32,053
Loss for year	<b>(892)</b>	(690)
At 31 March	<b>30,471</b>	31,363

### 17 Interest received and other cash generated from operating activities

Reconciliation of loss before tax for the year to interest received and other cash generated from operating activities:

	<b>2024</b>	2023
	<b>£000</b>	£000
Loss before tax for the year	<b>(1,203)</b>	(1,109)
Adjustments for:		
Operating costs (interest and other finance costs only)	<b>30,128</b>	56,635
Changes in working capital:		
Increase in loans and other receivables	<b>(16,315)</b>	(43,156)
Increase/(decrease) in other liabilities	<b>50</b>	(4)
Interest received and other cash generated from operating activities	<b>12,660</b>	12,366

Loss before tax for the year includes Revenue, which wholly relates to interest receivable as described in note 2. Cash flows from interest received in the year were £5,371,100 (2023: £5,435,725).

Cash flows from interest received also includes £7,290,600 relating to interest received in respect of an index linked bond maturing in 2057 (2023: £6,923,600).

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18 Related party transactions

During the year, the Company entered into the following transactions with related parties:

	<b>2024</b>	2023
	<b>£000</b>	£000
<b><u>Immediate Parent company</u></b>		
Sale of goods and services:		
Loan interest receivable	<b>28,970</b>	55,523
Administrative charges	<b>5</b>	5
Year end balances		
Financial assets:		
Loan to parent company	<b>571,214</b>	555,747
Accrued interest and other balances due from Parent company	<b>6,761</b>	9,066
Called up share capital not paid	<b>37</b>	37

### 19 Ultimate Parent Company

The Company is a wholly owned subsidiary of South West Water Limited, which is incorporated in England and which is a wholly owned subsidiary of Pennon Group plc. No consolidated financial statements are prepared by South West Water Limited as it is exempt under the provisions of the Companies Act 2006 from the requirement to produce group financial statements as it is a wholly-owned subsidiary of Pennon Group plc which is registered within the United Kingdom and which itself produces consolidated financial statements.

The ultimate parent and controlling party is Pennon Group plc, a company incorporated in England. Group consolidated financial statements are included in the annual report of Pennon Group plc. Pennon Group plc is the largest and smallest group of undertakings to consolidate these financial statements. The annual reports for both South West Water Limited and Pennon Group plc are available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.