

SOUTH WEST WATER FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 MARCH 2026

SOUTH WEST WATER FINANCE PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2026

CONTENTS

Page	
1	Strategic Report
3	Report of the Directors
6	Independent Auditors' Report
13	Statement of Profit and Loss and Other Comprehensive Income
14	Balance Sheet
15	Statement of Changes in Equity
16	Notes to the Financial Statements

SOUTH WEST WATER FINANCE PLC

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 March 2026.

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 five borrowing facilities. A further public bond was issued through the Euro Medium Term Note (EMTN) programme in the year, maturing in 2031 with face value of £300m and a book value of £297 million. The other bonds outstanding are listed in note 13.

The results of the Company for the year show a pre-tax loss of £1,338,000 (2025: £1,245,000 pre-tax loss) with interest receivable and similar income for the year of £77,985,000 (2025: £47,423,000). Interest payable and other charges for the year were £79,323,000 (2025: £48,668,000). The increase in interest payable on external debt and interest receivable from South West Water reflects financing costs on the additional debt raised during the year 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 £1,247,000 (2025: £934,000 loss for the year). The Directors do not recommend the payment of a dividend (2025: £nil). Net assets of the Company were £28,340,000 (2025: £29,587,000 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 financial statements for the year ended 31 March 2026 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:

- Policy and regulation change
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological control or cyber attack 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 2033 and are satisfied there is not a significant risk to South West Water Finance plc's going concern status to 31 October 2027 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. The Company's back-to-back financial instruments represent substantially all 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(1) STATEMENT

The Directors acknowledge and understand their duties under section 172(1) of the Companies Act 2006 (s.172(1)), 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 and has 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 internal control, risk management and governance framework established and maintained by SWW, part of the wider Pennon Group. The Directors of the Company have adopted this framework as appropriate to the nature, scale and activities of the Company. 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 part of 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 15 July 2026.

On behalf of the Board



C P Tregenna, Director, 15 July 2026

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS

DIRECTORS

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

C P Tregenna
L Flowerdew

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for 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 also 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.

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken 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.

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS (continued)

FUTURE DEVELOPMENTS

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

GOING CONCERN

The going concern basis has been adopted in preparing these financials. The Company is in a net asset position of £28,340,000 (2025: £29,587,000).

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 financial statements for the year ended 31 March 2026 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:

- Policy and regulation change
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological control or cyber attack 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. 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 2033 and are satisfied there is not a significant risk to the Company's going concern status or long-term viability.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2025: £nil).

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS (continued)

SIGNIFICANT EVENT SINCE THE YEAR END

On 7 July 2026, the Company announced the successful pricing of £250.0 million 6.000% fixed rate guaranteed notes due 2035 and £100.0 million 3.806% index-linked guaranteed notes due 2041 under its Euro Medium Term Note ("EMTN") programme. The notes are expected to be issued on 16 July 2026, subject to final legal documentation and customary closing conditions.

The notes will be guaranteed by South West Water Limited and the proceeds are expected to be on-lent to South West Water Limited on the same terms.

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. Given that the Company's sole function is to raise borrowings and provide finance for South West Water Limited, and alignment with the activities of South West Water Limited, the Directors consider it appropriate to operate within its internal control framework.

The internal control framework is discussed in the South West Water Limited annual report, which does not form part of this report.

The Directors' report consisting of pages 3 to 5 was approved by the Board on 15 July 2026.

On behalf of the Board



C P Tregenna
Director

15 July 2026

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC

Report on the audit of the financial statements

Opinion

In our opinion, South West Water Finance Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2026 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements for the year ended 31 March 2026 (the "Annual Report"), which comprise:

- the Balance Sheet as at 31 March 2026;
- the Statement of Profit and Loss and Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

as a whole, taking into account the accounting processes and controls and the industry in which the company operates.

Overview

Audit scope

- Our audit was scoped based on our understanding of the company and its environment, our assessment of the risk of material misstatement and the internal control framework. Based on this, a full scope audit has been performed over the complete financial information of the company.

Key audit matters

- Recoverability of amounts owed by the immediate parent company

Materiality

- Overall materiality: £15,800,000 (2025: £12,653,000) based on 1% of Total Assets.
- Performance materiality: £11,850,000 (2025: £9,489,750).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Recoverability of amounts owed by the immediate parent company The proceeds from external borrowings are advanced to the immediate parent undertaking, South West Water Limited through intercompany loan agreements. Judgement is involved in assessing the recoverability of the amounts owed by the immediate parent company.	We have gained an understanding of both the external debt structure and the loan agreements with the immediate parent undertaking and the planned repayment profile. We have considered the immediate parent undertakings' credit rating, covenant compliance and viability in forming our assessment over the recoverability of the balance and no issues were noted from these procedures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

The financial statements of the Company reflect one operation. We have performed an audit of the complete financial information of the operation.

The impact of climate risk on our audit

In planning our audit, we considered the potential impact of climate change on the financial statements. We made enquiries of the directors to understand the process for assessing climate-related risks, opportunities and the extent of the potential impact of climate change risk on the financial statements. Using our knowledge of the business we considered whether the risks identified are consistent with our knowledge of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall company materiality	£15,800,000 (2025: £12,653,000).
How we determined it	1% of Total Assets
Rationale for benchmark applied	The primary purpose of the company is to raise and provide funding to its immediate parent company. As a consequence total assets is considered a key metric for the users of the financial statements and is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2025: 75%) of overall materiality, amounting to £11,850,000 (2025: £9,489,750) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £790,000 (2025: £472,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the company is wholly reliant on capital and interest receipts from South West Water Limited (SWW) to meet its external borrowings obligations, as such our procedures over going concern have considered the future cash flow forecasts of SWW and South West Water Finance plc (SWWF)
- Testing the mathematical integrity of the cash flow forecasts and the models of SWW (which incorporate the cash flow forecasts of SWWF) supporting these forecasts and reconciling them to Board approved budgets. The directors' assessment covered the period from the date of approval of the Annual Report and Accounts to October 2027
- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to obtain assurance of the ability of the directors to prepare accurate forecasts
- Obtaining and understanding the terms of the company's financing and available credit facilities and in particular the financial covenants that the company is subject to. We have verified the existence of the facilities in place on which the directors have based their liquidity forecast
- Reviewing the directors' analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place, and
- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to going concern.

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 at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 March 2026 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 AUDITORS' REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat regulations and the FCA Listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries that improve financial performance and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed
- Testing significant accounting estimates and judgements made by the directors
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITORS' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were first appointed by the company for the financial year ended 31 March 2025. Our uninterrupted engagement covers two financial years.

Colin Bates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 July 2026

SOUTH WEST WATER FINANCE PLC
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE
INCOME
for the year ended 31 March 2026

	Note	2026 £000	2025 £000
Interest receivable and similar income	4	77,985	47,423
Interest payable and other charges	5	(79,323)	(48,668)
Loss before tax		(1,338)	(1,245)
Tax on loss	7	91	311
Loss and total comprehensive expense for the year	15	(1,247)	(934)

The notes on pages 16 to 28 form part of these financial statements.

SOUTH WEST WATER FINANCE PLC
BALANCE SHEET
at 31 March 2026

	Note	2026 £000	2025 £000
Non-current assets			
Loans and other receivables	9	1,529,868	1,221,855
Deferred tax assets	12	9,013	10,509
		<u>1,538,881</u>	<u>1,232,364</u>
Current assets			
Current tax assets	11	22	-
Loans and other receivables	9	42,050	31,415
Cash and cash equivalents		2,400	1,521
		<u>44,472</u>	<u>32,936</u>
Current liabilities			
Borrowings	13	(2,343)	(2,343)
Other liabilities	10	(40,945)	(30,346)
Current tax liabilities	11	-	(668)
		<u>(43,288)</u>	<u>(33,357)</u>
Net current assets/(liabilities)		<u>1,184</u>	<u>(421)</u>
Non-current liabilities			
Borrowings	13	(1,511,725)	(1,202,356)
		<u>(1,511,725)</u>	<u>(1,202,356)</u>
Net assets		<u>28,340</u>	<u>29,587</u>
Equity			
Called up share capital	14	50	50
Retained earnings	15	28,290	29,537
Total equity		<u>28,340</u>	<u>29,587</u>

The notes on pages 16 to 28 form part of these financial statements.

The financial statements on pages 13 to 28 were approved by the Board and authorised for issue on 15 July 2026 and signed on its behalf by:



C P Tregenna
Director

Registered Number: 05722435

SOUTH WEST WATER FINANCE PLC
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2026

	Share Capital (note 14) £000	Retained Earnings (note 15) £000	Total Equity £000
At 1 April 2024	50	30,471	30,521
Loss attributable to owners of the parent	-	(934)	(934)
At 31 March 2025	50	29,537	29,587
Loss attributable to owners of the parent	-	(1,247)	(1,247)
At 31 March 2026	50	28,290	28,340

The notes on pages 16 to 28 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 company limited by shares, 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, Devon, EX2 7HR. The nature of the Company's operations are set out in the Strategic Report on page 1.

2 Material accounting policies

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

The financial statements of South West Water Finance Plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006.

The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore, the recognition and measurement requirements of United Kingdom adopted International Accounting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1,
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (statement of cash flows information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- The requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

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

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Material accounting policies (continued)

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2025 did not have a material impact on the net assets or results of the Company.

IFRS 18 'Presentation and Disclosure in Financial Statements' (effective from 1 April 2027) will replace IAS 1 'Presentation of Financial Statements'. IFRS 18 will not impact the recognition or measurement of items in the financial statements but it is expected to have a significant impact on the presentation and disclosure within the financial statements, in particular on the statement of profit and loss and providing management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Company's financial statements. From the high-level preliminary assessment performed, the following potential impacts have been identified:

- The line items presented on the primary financial statements might change as a result of the application of the concept of 'useful structured summary' and the enhanced principles on aggregation and disaggregation.
- The Company does not expect there to be a significant change in the information that is currently disclosed in the notes because the requirement to disclose material information remains unchanged; however, the way in which the information is grouped might change as a result of the aggregation/disaggregation principles. In addition, there will be significant new disclosures required for management-defined performance measures; and for the first annual period of application of IFRS 18, a reconciliation for each line item in the statement of profit or loss between the restated amounts presented by applying IFRS 18 and the amounts previously presented applying IAS 1.
- Whilst a detailed assessment of the impact of IFRS 18 has not yet been concluded, it is not expected that existing covenants will be impacted by subsequent changes to accounting standards.

The Company will apply the new standard from its mandatory effective date of 1 April 2027. Retrospective application is required, and so the comparative information for the financial year ending 31 March 2027 will be restated in accordance with IFRS 18.

IFRS 20 'Regulatory assets and regulatory liabilities' was published on 29 May 2026 and will be applicable for the year ended 31 March 2030. The Company has not yet assessed the impact of this standard.

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 4. The Company is in a net asset position of £28,340,000 (2025: £29,587,000).

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 financial statements for the year ended 31 March 2026 are as follows:

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Material accounting policies (continued)

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

The Directors note significant risks in relation to:

- Policy and regulation change
- Failure to improve wastewater performance resulting in environmental commitments not being delivered
- Inadequate technological control or cyber attack 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. 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 2033 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 2026 financial statements through to 31 October 2027 and there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

(b) Interest receivable and similar income

Interest receivable and similar income represent 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.

(c) Segmental reporting

The Directors believe that the Company's activities constitute a single segment. Operating

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Material accounting policies (continued)

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 income. 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.

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, including any adjustment to tax payable in respect of previous years. The amount 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 Pennon Group plc. Pennon Group plc comprises a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. 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. Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of temporary differences can be controlled and it is probably that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Material accounting policies (continued)

right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The company measures its tax balances either based on either the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(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 an 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 hedging adjustment is being amortised over the remaining maturity of the 2040 bond and is presented within fixed rate bonds within borrowings.

(iii) Cash and cash equivalents

Cash and cash equivalents 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 the immediate parent undertaking are classified and recorded at amortised cost and reduced by any allowances for expected credit losses (ECLs). Estimated future credit losses, where required, are first recorded on initial recognition of a receivable and are based on estimated probability of default.

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.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (continued)

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. Substantially all funds raised are lent to South West Water Limited under the same terms. As a result, South West Water Finance plc is not sensitive to changes in interest rates.

South West Water Finance plc's interest payable and interest receivable 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.

27% (2025: 33%) of the Company's borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure.

(ii) Liquidity risk

Refinancing risk is managed by the treasury function of Pennon Group plc, the ultimate parent company. Substantially all of the Company's borrowings have been loaned to the parent company South West Water Limited on the same terms. 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.

(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)

4 Interest receivable and similar income

	2026	2025
	£000	£000
Interest receivable and similar income	77,985	47,423

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 Interest payable and other charges

	2026	2025
	£000	£000
Interest payable	81,641	50,990
Other charges	25	21
Unwind of unamortised hedging adjustment	(2,343)	(2,343)
Interest payable and other charges	<u>79,323</u>	<u>48,668</u>

Other charges include auditors' remuneration of £22,000 (2025: £21,000) 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 2026 (2025: £nil).

6 Directors' emoluments and employment costs

The Directors are not directly employed by the Company and it is not practicable to disaggregate the emoluments. The Directors did not receive any remuneration from the Company during the year ended 31 March 2026 (2025: £nil). The Directors also did not receive any remuneration from the parent company in respect of this company (2025: £nil) and no recharges were made from the parent company of Directors salaries or costs (2025: £nil).

The Company had no employees during the year ended 31 March 2026 (2025: none).

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Tax on loss

	2026	2025
	£000	£000
Current tax (credit)/charge	(1,587)	13
Deferred tax charge/(credit)	1,496	(324)
Total deferred tax charge/(credit)	1,496	(324)
Tax credit for year	(91)	(311)

UK corporation tax is calculated at 25% (2025: 25%) of the estimated assessable loss for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £667,956 (2025: £13,132 charge) and a prior year deferred tax charge of £909,700 (2025: £100 credit).

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.

Reconciliation of total tax credit	2026	2025
	£000	£000
Loss before tax	(1,338)	(1,245)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 25% (2025: 25%)	(333)	(324)
Effects of:		
Adjustments to tax (credit)/charge in respect of prior years	242	13
Total tax credit for year	(91)	(311)

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

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023.

Under the legislation, the company is part of a group that will be required to pay, in the UK, top-up tax on profits that are taxed at a Pillar Two effective tax rate of less than 15%. This is the second accounting period where the Group is within scope of the Pillar Two rules.

The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure for 2025/26 has been performed focusing solely on the application of the UK domestic top-up tax rules.

The assessment performed by the Group is based on country-by-country reporting principles and financial statements information for 2025/26. Based on that information, the UK is expected to meet the conditions of the transitional safe harbours such that no top-up tax arises. The Group is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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
31 March 2026		
Financial assets		
Debt instruments at amortised cost	9	1,571,918
Cash and cash equivalents		2,400
		1,574,318
Financial liabilities		
Borrowings	13	(1,514,068)
Other liabilities	10	(40,945)
		(1,555,013)
31 March 2025		
Financial assets		
Debt instruments at amortised cost	9	1,253,270
Cash and cash equivalents		1,521
		1,254,791
Financial liabilities		
Borrowings	13	(1,204,699)
Other liabilities	10	(30,346)
		(1,235,045)

9 Loans and other receivables

	2026 £000	2025 £000
Current		
Other receivables	4	3
Amounts owed by immediate parent company	42,046	31,412
	42,050	31,415
Non-current		
Amounts owed by immediate parent company	1,529,868	1,221,855
Loans and other receivables	1,571,918	1,253,270

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Loans and other receivables (continued)

Current amounts owed by the immediate parent company include accrued income £38,308,000 (2025: £27,774,000) and loan principal repayment due within 1 year with a book value of £3,700,000 (2025: £3,600,000).

Non-current loans comprise the following:

A loan maturing in more than 5 years with a book value of £137,206,000 (2025: £136,685,000) and face value of £150,000,000 at 31 March 2026 (2025: £150,000,000). The effective interest rate at the balance sheet date was 3.10% (2025: 3.10%).

A loan maturing in more than 5 years with a book value of £402,178,000 (2025: £388,507,000). The effective interest rate at the balance sheet date was RPI + 1.99% (2025: RPI + 1.99%).

A loan maturing over the next 15 years with a book value of £48,650,000 (2025: £52,350,000). The effective interest rate at the balance sheet date was 2.35% (2025: 2.35%).

A loan maturing in more than 5 years with a book value of £396,567,000 (2025: £396,375,000) and face value of £400,000,000 at 31 March 2026 (2025: £400,000,000). The effective interest rate at the balance sheet date was 6.44% (2025: 6.50%).

A loan maturing in more than 5 years with a book value of £248,078,000 (2025: £247,938,000) and face value of £250,000,000 at 31 March 2026 (2025: £250,000,000). The effective interest rate at the balance sheet date was 5.87% (2025: 5.90%).

A loan maturing in more than 5 years with a book value of £297,189,000 (2025: £nil) and face value of £300,000,000 at 31 March 2026 (2025: £nil). The effective interest rate at the balance sheet date was 5.42% (2025: nil).

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

10 Other liabilities

	2026	2025
	£000	£000
Accruals	40,945	30,346

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

	2026	2025
	£000	£000
Current Tax asset/(liability)	22	(668)

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.

	2026	2025
	£000	£000
Asset at 1 April	10,509	10,185
Underlying (charges)/gains in the income statement	(1,496)	324
Asset at 31 March	9,013	10,509

	Derivatives	Tax losses	Total
	£000	£000	£000
Asset at 1 April 2024	9,384	801	10,185
Underlying (charges)/gains in the income statement	(586)	910	324
Asset at 31 March 2025	8,798	1,711	10,509
Underlying charges in the income statement	(586)	(910)	(1,496)
Asset at 31 March 2026	8,212	801	9,013

A deferred tax asset of £9.0m (2025: £10.5m) has been recognised in respect of derivatives £8.2m (2025: £8.8m) and post 1 April 2017 losses which are being carried forward £0.8m (2025: £1.7m). 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 £552m (2025: £531m) 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

	2026	2025
	£000	£000
Current		
Fixed rate bonds	2,343	2,343
Non-current		
Fixed rate bonds	1,109,547	813,850
Index linked bonds	402,178	388,506
Total non-current	1,511,725	1,202,356
Total borrowings	1,514,068	1,204,699

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Borrowings (continued)

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

South West Water Finance Plc issued a £300 million fixed rate bond in September 2025 maturing in 2031 with a cash coupon of 5.25%.

South West Water Finance Plc issued a £250 million fixed rate bond in December 2024 maturing in 2032 with a cash coupon of 5.75%.

South West Water Finance Plc issued a £400 million fixed rate bond in July 2024 maturing in 2041 with a cash coupon of 6.375%.

South West Water Finance Plc issued a £150 million fixed rate bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2007 maturing in 2057 with a cash coupon of 1.99%.

The bonds are wholly guaranteed by South West Water Limited.

14 Called-up Share capital

	2026 £000	2025 £000
Authorised: 100,000 ordinary shares of £1 each	100	100
Issued share capital		
Issued and partly paid 50,000 ordinary shares of £1 each, at £0.25p per share, totalling £12,500	50	50
	50	50

At 31 March 2026, of the partly paid up 50,000 ordinary shares of £1 each, £37,500 remains outstanding and is disclosed within amounts owed by immediate parent company.

15 Retained earnings

	2026 £000	2025 £000
At 1 April	29,537	30,471
Loss for year	(1,247)	(934)
At 31 March	28,290	29,537

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 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.

17 Post Balance Sheet Event

On 7 July 2026, the Company announced the successful pricing of £250.0 million 6.000% fixed rate guaranteed notes due 2035 and £100.0 million 3.806% index-linked guaranteed notes due 2041 under its Euro Medium Term Note ("EMTN") programme. The notes are expected to be issued on 16 July 2026, subject to final legal documentation and customary closing conditions.

The notes will be guaranteed by South West Water Limited and the proceeds are expected to be on-lent to South West Water Limited on the same terms.