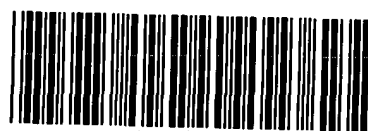


Registered Number:
05722435

SOUTH WEST WATER FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 MARCH 2023

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SOUTH WEST WATER FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 2023

CONTENTS

Page

1	Strategic Report
3	Report of the Directors
5	Independent Auditor's Report
13	Statement of Profit and Loss Account and Other Comprehensive Income
13	Statement of Changes in Equity
14	Balance Sheet
15	Cash Flow Statement
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 2023.

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 indexed linked bond maturing in 2057 with a book value of £357 million (2022: £315 million) and a £150 million loan maturing in 2040.

The results of the Company for the year show a pre-tax loss of £1,109,000 (2022: £1,015,000 pre-tax loss) with revenue for the year of £55,528,000 (2022: £34,619,000). Operating costs for the year were £56,637,000 (2022: £35,634,000). The increase in revenue and operating cost primarily reflects higher RPI during the year increasing 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. There was no non-underlying deferred tax credit in the year (2022: £2,393,000), this is discussed in Note 6. The loss after taxation transferred to reserves for the year was £690,000 (2022: £1,571,000 profit for the year). The Directors do not recommend the payment of a dividend (2022: £nil). Net assets of the Company were £31,413,000 (2022: £32,103,000 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 2023 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:

- The availability of sufficient water resources has been separated from the broader drinking water principal risk and is now included as a standalone Company principal risk
 - The Company's principal risks reflect the delivery of the Company's 2030 Net Zero commitment in mitigating the impact of climate change
 - The delivery of customer and environmental commitments have been combined to form a standalone principal risk
 - Non-recovery of customer debt has been removed as a principal risk reflecting the Company's robust debt management and customer collections processes. With ongoing cost of living challenges for our customers, this continues to be carefully monitored as an operational risk
- 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

SOUTH WEST WATER FINANCE PLC

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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 September 2024 or long-term viability.

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 c.72% 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.

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 27 September 2023.

On behalf of the Board



P M Boote
Director

27 September 2023

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:

P M Boote
L F Rowe (resigned 1 September 2022)
S A F Pugsley (resigned 22 November 2022)
C P Tregenna (appointed 15 December 2022)

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. Under that law the Directors have prepared the Company financial statements in accordance with UK-adopted international accounting standards in conformity with the Companies Act 2006.

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

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS (continued)

GOING CONCERN

The Company is in a net asset position of £31,413,000 (2022: £32,103,000). Current net liabilities result from the unwind of long dated derivatives. 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 2023 financial statements through to 30 September 2024 and there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2021/22: £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 27 September 2023.



P M Boote
Director

27 September 2023

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 2023 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 20, 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 2023 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 the following procedures:

- ▶ We obtained and validated the terms and obligations of the two listed bonds and of the loan receivables due from South West Water Limited.
- ▶ We confirmed there were no covenant requirements relating to the company's own borrowings.
- ▶ We noted 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 had adequate resources to meet cash flows due relating to the bonds.
- ▶ We compared management's cash flow inflows and outflows to the terms of the bond and loan receivable agreements to confirm these were appropriately reflected for both capital and interest receivables and payables.
- ▶ 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 September 2024.
- ▶ We evaluated management's historical accuracy of forecasting.

SOUTH WEST WATER FINANCE PLC

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

- ▶ We have also assessed the ability of South West Water Limited to pay interest and borrowings to the Company in line with the terms of agreements. This included the following procedures specifically on South West Water Limited covering the period to 30 September 2024:
 - We have obtained management's going concern assessment, including the cash forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2023 financial statements through to 30 September 2024, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash forecast and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the company.
 - We have evaluated management's downside scenario and specific risk register probability weighted scenarios, to understand the impact on the company's liquidity and covenant ratios. We have compared the risks identified and modelled in the cash flow forecasts of management's downside scenario to the company's risk register and evaluated the quantification by management. We have considered whether there are other alternative risks that should be taken into consideration based on our knowledge of the business. Our procedures included evaluating management's assessment of the impact of climate change within the going concern period, including the principal risk of availability of sufficient water resources to meet current and future demand.
 - Management has also modelled a reverse engineered scenario (reverse stress test) assuming all the principal risks materialise within the going concern period with no probability weightings attached. We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants, including the impact of controllable mitigating actions where relevant.
 - We have compared facilities assumed in the forecasts to supporting loan documentation and to covenant terms. For a portion of the facilities, where changes to terms are not finalised at the date of approval of the financial statements, we have evaluated the impact on covenants and liquidity headroom based on existing terms.

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 September 2024.

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

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • We identified an inherent risk relating to the complexity of accounting for financial instruments, leading to a heightened risk of error in their valuation
Materiality	<ul style="list-style-type: none"> • Overall materiality of £2.88m which represents 0.5% of total assets.

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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact 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 Penmon Group plc. The disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these 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.

As explained in Note 2, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

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

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

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Accounting for financial instruments and other financial liabilities:</p> <ul style="list-style-type: none"> Listed debt (£493.1m risk, PY comparative £450.2m) Financial liabilities through profit or loss (£37.5m risk, PY comparative £39.8m) <p><i>Refer to the Strategic Report (page 1); Accounting policies (page 16); and Note 14 of the Financial Statements (page 26)</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 valuation.</p>	<p>We have performed the below procedures in relation to the identified inherent risk:</p> <ul style="list-style-type: none"> We have obtained and reviewed the key terms of the agreements for the fixed-rate interest bond (£135.7m) and the index-linked bond (£357.4m) and have tied these through to the client prepared schedules. 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 We have obtained and reviewed the key terms of the documentation for the financial liabilities through profit or loss. We have recalculated the annual amortisation credit and resulting balance sheet valuation of the financial liabilities through profit or loss. 	<p>We concluded that the financial instruments and other financial liabilities have been appropriately classified and 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.

SOUTH WEST WATER FINANCE PLC

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

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.

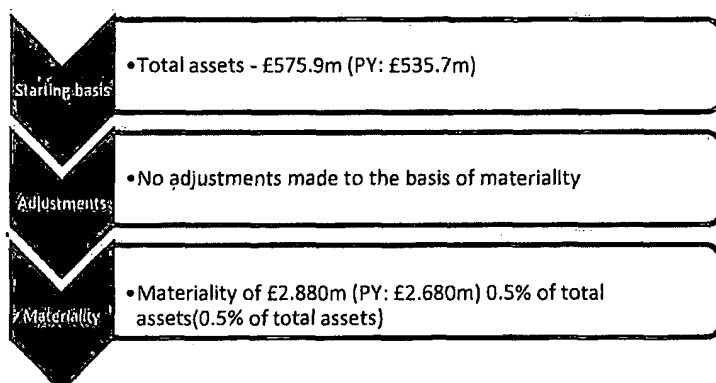
Materiality

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.

We determined materiality for the company to be £2.880 million (2022: £2.680 million), which is 0.5% (2022: 0.5%) of total assets. We believe that total assets provides 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% (2022: 75%) of our planning materiality, namely £2.160m (2022: £2.010m). We have set performance materiality at this percentage due to a past history of few material misstatements indicating a lower risk of misstatement in the financial statements. 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 £0.144m (2022: £0.134m), 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.

SOUTH WEST WATER FINANCE PLC

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

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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

SOUTH WEST WATER FINANCE PLC

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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.

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.

SOUTH WEST WATER FINANCE PLC

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

- 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.

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

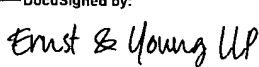
- ▶ Following the recommendation from the audit committee we were appointed by the company on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 31 March 2015 to 31 March 2023.

- ▶ 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.

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
27 September 2023

SOUTH WEST WATER FINANCE PLC
STATEMENT OF PROFIT AND LOSS ACCOUNT AND OTHER
COMPREHENSIVE INCOME
for the year ended 31 March 2023

	Note	Before non- underlying items 2023 £000	Non- underlying items (note 6) 2023 £000	2023 £000	Before non- underlying items 2022 £000	Non- underlying items (note 6) 2022 £000	2022 £000
Revenue	4	55,528	-	55,528	34,619	-	34,619
Operating costs	5	(56,637)	-	(56,637)	(35,634)	-	(35,634)
Loss before tax		(1,109)	-	(1,109)	(1,015)	-	(1,015)
Taxation	8	419	-	419	193	2,393	2,586
(Loss)/profit and total comprehensive income for the year	17	(690)	-	(690)	(822)	2,393	1,571

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2023

	Share Capital (note 16) £000	Profit attributable to equity shareholders (note 17) £000	Total Equity £000
At 1 April 2021	50	30,482	30,532
Profit attributable to owners of the parent	-	1,571	1,571
At 31 March 2022	50	32,053	32,103
Loss attributable to owners of the parent	-	(690)	(690)
At 31 March 2023	50	31,363	31,413

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

SOUTH WEST WATER FINANCE PLC
BALANCE SHEET
at 31 March 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Loans and other receivables	10	552,597	512,630
Deferred tax assets	13	10,835	10,416
		<u>563,432</u>	<u>523,046</u>
Current assets			
Loans and other receivables	10	12,255	11,813
Cash and cash deposits		313	723
Current tax (liabilities)/asset	12	(55)	192
		<u>12,513</u>	<u>12,728</u>
Current liabilities			
Financial liabilities at fair value through profit or loss	15	(2,343)	(2,344)
Other borrowings	11	(11,504)	(11,167)
		<u>(13,847)</u>	<u>(13,511)</u>
Net current liabilities		<u>(1,334)</u>	<u>(783)</u>
Non-current liabilities			
Borrowings	14	(493,148)	(450,280)
Financial liabilities at fair value through profit or loss	15	(37,537)	(39,880)
		<u>(530,685)</u>	<u>(490,160)</u>
Net assets		<u>31,413</u>	<u>32,103</u>
Equity			
Share capital	16	50	50
Retained earnings	17	31,363	32,053
Total equity		<u>31,413</u>	<u>32,103</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 27 September 2023 and signed on its behalf by:



P M Boote
Director
Registered Number: 05722435

SOUTH WEST WATER FINANCE PLC
CASH FLOW STATEMENT
for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Cash flows from operating activities			
Cash generated from operations	18	12,366	11,567
Interest paid		(15,773)	(14,886)
Tax received		247	681
Net cash used in operating activities		<u>(3,160)</u>	<u>(2,638)</u>
Cash flows from investing activities			
Repayment of inter-company borrowings		<u>2,750</u>	<u>2,450</u>
Net cash generated by investing activities		<u>2,750</u>	<u>2,450</u>
Net decrease in cash and cash equivalents		(410)	(188)
Cash and cash equivalents at beginning of year		723	911
Cash and cash equivalents at end of year		<u>313</u>	<u>723</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 Principal accounting policies

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

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items) and in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

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 2022 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 £31,413,000 (2022: £32,103,000). At the balance sheet date, the Company had net current liabilities of £1,334,000, current net liabilities result from the unwind of long dated derivatives.

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 2023 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 Principal accounting policies (continued)

Going concern (continued)

The directors note significant risks in relation to:

- The availability of sufficient water resources has been separated from the broader drinking water principal risk and is now included as a standalone Company principal risk
- The Company's principal risks reflect the delivery of the Company's 2030 Net Zero commitment in mitigating the impact of climate change
- The delivery of customer and environmental commitments have been combined to form a standalone principal risk
- Non-recovery of customer debt has been removed as a principal risk reflecting the Company's robust debt management and customer collections processes. With ongoing cost of living challenges for our customers, this continues to be carefully monitored as an operational risk

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 2023 financial statements through to 30 September 2024 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.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Principal accounting policies (continued)

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.

(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 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.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Principal accounting policies (continued)

(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.

(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 are written off when management deems them not to be collectible.

(f) Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Company's financial performance.

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

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.

72% (2021/22: 70%) of the Company's borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure.

For 2022/23 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 (2021/22: £nil).

For 2022/23 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 £2.5 million (2021/22: £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 3%-7%.

(ii) Liquidity risk

Refinancing risk is managed by the treasury function of Pennon Group plc, the ultimate parent company. 72% (2021/22: 70%) 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.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (continued)

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

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

Note total borrowings includes the RPI element of interest.

Prior year figures have been restated following the identification of an error in the calculation used to determine interest payments on borrowings resulting in a decrease in the amounts disclosed as follows:

31 March 2022					
Non-derivative financial liabilities	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Total borrowings	-	-	-	1,041.3	1,041.3
Prior year: Interest payments on borrowings	34.8	26.1	80.7	1,008.6	1,150.2
Restated: Interest payments on borrowings	15.8	16.0	49.4	486.2	567.4

The above amounts do not represent an error in the actual amounts paid.

(iii) Credit risk

The Credit and counterparty risk of the Company is linked to its 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.

(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.

	2023 £000	2022 £000
Cash and cash deposits	(313)	(723)
Total shareholder's equity	<u>31,413</u>	<u>32,103</u>
Total capital	31,100	31,380

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Revenue and Segmental information

	2023 £000	2022 £000
Revenue	55,528	34,619

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

	2023 £000	2022 £000
Interest payable and similar charges	58,978	37,975
Other operating costs	2	2
Net gain on derivative unwind	(2,343)	(2,343)
Operating costs	<u>56,637</u>	<u>35,634</u>

Operating costs include auditor's remuneration of £2,000 (2022: £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 2023 (2022: £nil).

6 Non-underlying items

	2023 £000	2022 £000
Deferred tax change in rate ^(a)	-	2,393
Net non-underlying credit	-	2,393

(a) Following the Chancellor's Budget on 4 March 2021 and subsequent substantial enactment of the Finance Act on 24 May 2021, the UK's main rate of corporation tax increased to 25% from 1 April 2023. All deferred tax assets and liabilities were therefore reviewed and where they will crystallise after 1 April 2023 recalculated to crystallise at 25%, hence giving a non-underlying deferred tax charge in the year ended 31 March 2022 of £2,393,000. This charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous changes in corporation tax rates.

7 Directors' emoluments and employment costs

The Directors did not receive any remuneration from the Company during the year ended 31 March 2023 (2021/22: £nil). The Directors did not receive any remuneration from the Parent Company in respect of this company (2021/22: £nil) and no recharges were made from the Parent Company of Directors salaries or costs (2021/22: £nil).

The Company had no employees during the year ended 31 March 2023 (2022: none).

SOUTH WEST WATER FINANCE PLC **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

8 Taxation

	Before non-underlying items 2023 £000	Non-underlying items 2023 £000	Total 2023 £000	Before non-underlying items 2022 £000	Non-underlying items 2022 £000	Total 2022 £000
Current tax credit	-	-	-	(638)	-	(638)
Deferred tax – other	-	-	-	445	-	445
Deferred tax arising on change of rate of corporation tax	(419)	-	(419)	-	(2,393)	(2,393)
Total deferred tax charge/(credit)	(419)	-	(419)	445	(2,393)	(1,948)
Tax credit for year	(419)	-	(419)	(193)	(2,393)	(2,586)

UK corporation tax is calculated at 19% (2022: 19%) of the estimated assessable profit for the year.

Reconciliation of total tax charge

	2023 £000	2022 £000
Loss before tax	(1,109)	(1,015)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (2022: 19%)	(211)	(193)
Effects of:		
Underlying impact of changes in UK tax rates	(208)	-
Non-underlying impact of changes in UK tax rates	-	(2,393)
Total tax credit for year	(419)	(2,586)

Reconciliation of current tax charge

	2023 £000	2022 £000
Loss before tax	(1,109)	(1,015)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 19% (2022: 19%)	(211)	(193)
Effects of:		
Other timing differences	211	(445)
Current tax credit for year	-	(638)

SOUTH WEST WATER FINANCE PLC **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

8 Taxation (Continued)

The current tax credit differs from the UK headline rate of 19%, due to the application of tax disregard rules to derivative contracts, with the amortisation of an accrued fair value liability to the income statement not being taxable and losses generated in the year being carried forwards.

Following the Chancellor's budget in March 2021, the rate of UK corporation tax increases from 19% to 25% on 1 April 2023. These changes were substantively enacted on 24 May 2021. Any remeasurements were reflected in the year ended 31 March 2022. These were considered non-underlying in nature due to it arising from a material legislative change, and its treatment is consistent with that applied in relation to previous corporation tax rate changes.

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

9 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	Fair Value Financial liabilities through profit or loss £000	Amortised cost Debt Instruments at amortised cost £000	Total £000
31 March 2023				
Financial assets				
Debt instruments at amortised cost	10	-	564,852	564,852
Cash and cash deposits		-	313	313
		-	565,165	565,165
Financial liabilities				
Borrowings	14	-	(493,148)	(493,148)
Other borrowings	11	-	(11,504)	(11,504)
Financial liabilities at fair value through profit or loss	15	(39,880)	-	(39,880)
		(39,880)	(504,652)	(544,532)
31 March 2022				
Financial assets				
Debt instruments at amortised cost	10	-	524,443	524,443
Cash and cash deposits		-	723	723
		-	525,166	525,166
Financial liabilities				
Borrowings	14	-	(450,280)	(450,280)
Other borrowings	11	-	(11,167)	(11,167)
Financial liabilities at fair value through profit or loss	15	(42,224)	-	(42,224)
		(42,224)	(461,447)	(503,761)

SOUTH WEST WATER FINANCE PLC **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

10 Loans and other receivables

	2023 £000	2022 £000
Current		
Amounts owed by immediate parent company	<u>12,255</u>	<u>11,813</u>
Non-current		
Amounts owed by immediate parent company	<u>552,597</u>	<u>512,630</u>
Loans and other receivables	<u>564,852</u>	<u>524,443</u>

Current amounts owed by immediate parent company include accrued income £9,103,000 (2022: £8,814,000).

Non-current loans comprise the following:

A loan maturing in more than 5 years with a book value of £135,741,000 (2022: £135,313,000) and face value of £150,000,000 at 31 March 2023 (2022: £150,000,000) and fair value of £106,827,000 (2022: £134,096,000). The effective interest rate at the balance sheet date was 3.20% (2022: 3.18%).

A loan maturing in more than 5 years with a book value of £357,407,000 (2022: £314,967,000) and with fair value of £279,870,000 at 31 March 2023 (2022: £416,661,000). The effective interest rate at the balance sheet date was RPI + 1.99% (2022: RPI + 1.99%).

A loan maturing over the next 20 years with a book value of £59,550,000 (2022: £62,350,000) and with a fair value of £51,703,000 at 31 March 2023 (2022: £57,551,000). The effective interest rate at the balance sheet date was 2.35% (2022: 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 have been calculated by discounting expected future cashflows at prevailing interest rates. See note 14 for additional information on the valuation of financial instruments.

11 Other borrowings

	2023 £000	2022 £000
Accruals	11,504	11,167

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

12 Current Tax

	2023 £000	2022 £000
Current Tax liabilities/(asset)	(55)	192

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Deferred tax

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

	2023 £000	2022 £000
Asset at 1 April	10,416	8,468
Underlying charges in the income statement	419	(445)
Other non-underlying credits in the income statement	-	2,393
Asset at 31 March	10,835	10,416

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these will be recovered.

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.

The fiscal statement delivered on 15 March 2023 confirmed the main rate of corporation tax will increase to 25% as of 1 April 2023, therefore the Deferred taxes on the balance sheet have been measured at 25%.

14 Borrowings

	2023 £000	2022 £000
Non-current		
2040 bond	135,741	135,313
Indexed linked bonds	357,407	314,967
Total borrowings	493,148	450,280

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

	2023 Book Value £000	2023 Fair Value £000	2022 Book Value £000	2022 Fair Value £000
2040 bond	135,741	137,759	135,313	181,500
Index linked bonds	357,407	279,870	314,967	416,661
	493,148	417,629	450,280	598,161

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 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:

	2023	2022
2040 bond	6.82%	6.81%
Index linked bonds	RPI + 1.99%	RPI + 1.99%

The bonds are wholly guaranteed by South West Water Limited.

15 Financial liabilities at fair value through profit and loss

	2023 £000	2022 £000
Current	2,343	2,344
Non-current	37,537	39,880
Total financial liabilities at fair value through profit and loss	39,880	42,224

Financial instruments at fair value through profit and loss reflect 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.

SOUTH WEST WATER FINANCE PLC **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

16 Share capital

	2023 £000	2022 £000
Authorised: 100,000 ordinary shares of £1 each	100	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	50	50
	50	50

17 Retained earnings

	2023 £000	2022 £000
At 1 April	32,053	30,482
(Loss)/profit for year	(690)	1,571
At 31 March	31,363	32,053

18 Cash flow from operating activities

Reconciliation of profit before tax for the year to cash generated from operations:

	2023 £000	2022 £000
Loss before tax for the year	(1,109)	(1,015)
Adjustments for:		
Operating costs (interest and other finance costs only)	56,635	35,632
Changes in working capital:		
Increase in loans and other receivables	(43,156)	(23,052)
Increase in trade and other payables	(4)	2
Cash generated from operations	12,366	11,567

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 £5,435,725 (2022: £5,493,300).

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Related party transactions

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

	2023	2022
	£000	£000
<u>Immediate Parent company</u>		
Sale of goods and services:		
Loan interest receivable	55,523	34,614
Administrative charges	5	5
Year end balances		
Financial assets:		
Loan to parent company	555,747	515,630
Accrued interest and other balances due from Parent company	9,066	8,814
Called up share capital not paid	37	37

20 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.