

# **SOUTH WEST WATER FINANCE PLC**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 MARCH 2025**

# **SOUTH WEST WATER FINANCE PLC**

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

### **31 MARCH 2025**

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# **SOUTH WEST WATER FINANCE PLC**

## **STRATEGIC REPORT**

The Directors present their Strategic Report for the year ended 31 March 2025.

### **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 four borrowing facilities. Two public bonds were issued through the Euro Medium Term Note (EMTN) programme in the year, maturing in 2032 and 2041 with book values of £248 million and £396 million respectively. These were issued in addition to an existing index linked bond maturing in 2057 with a book value of £389 million (2024: £376 million) and an existing loan maturing in 2040 with a book value of £137 million.

The results of the Company for the year show a pre-tax loss of £1,245,000 (2024: £1,203,000 pre-tax loss) with other interest receivable and similar income for the year of £47,423,000 (2024: £28,975,000). Operating costs for the year were £48,668,000 (2024: £30,178,000). The increase in revenue and decrease in operating costs primarily reflects financing costs on the additional debt raised during the year, increasing interest payable on external debt and interest receivable from South West Water due to the back-to-back nature of the majority of loan agreements with the Company's immediate parent Company. The loss after taxation transferred to reserves for the year was £934,000 (2024: £892,000 loss for the year). The Directors do not recommend the payment of a dividend (2024: £nil). Net assets of the Company were £29,587,000 (2024: £30,521,000 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 2025 are as follows:

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

The directors note significant risks in relation to:

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

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

The directors have also considered the impact of climate change on SWW to assess whether there is a significant risk to the going concern status of the business as a result. The directors have also had access to South West Water Limited's internal financial viability assessment that covers a period from the balance

# **SOUTH WEST WATER FINANCE PLC**

## **STRATEGIC REPORT (continued)**

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

sheet date to 2032 and are satisfied there is not a significant risk to South West Water Finance plc's going concern status to 31 October 2026 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. The Company's back-to-back financial instruments represent 88% 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 governance structure of the parent company, SWW, as well as the wider Pennon Group. Details of the governance of SWW can be found within its annual report at <https://www.southwestwater.co.uk/about-us/performance/how-we-are-performing>.

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

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

### **FUTURE OUTLOOK**

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

This Strategic Report was approved by the Board on 16 July 2025.

On behalf of the Board



C P Tregenna, Director, 16 July 2025

# **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:

C P Tregenna  
L Flowerdew (appointed 11 July 2024)  
S Buck (appointed 1 January 2024, resigned 11 July 2024)

### **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.

#### **Directors' confirmations**

The directors consider that the Annual Report and Financial Statements and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Report of the Directors confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the company; and

## **SOUTH WEST WATER FINANCE PLC**

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

- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

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.

### **FUTURE DEVELOPMENTS**

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

### **GOING CONCERN**

The Company is in a net asset position of £29,587,000 (2024: £30,521,000). Short term liabilities will be met by a combination of interest receivable and capital repayments from the intercompany loan with South West Water Limited.

Having considered the Company's funding position, the nature of its relationship with its parent South West Water Limited (a regulated company with long-term sustainable business) and financial projections which take into account a range of possible impacts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the period from the date of the approval of the 2025 financial statements through to 31 October 2026 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 (2023/24: £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.

## **SOUTH WEST WATER FINANCE PLC**

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

The Directors' report consisting of pages 3 to 5 was approved by the Board on 16 July 2025.



C P Tregenna  
Director

16 July 2025

# **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 2025 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 (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2025; the Statement of Profit and Loss Account and Other Comprehensive Income and the Statement of Changes 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 Directors' of the South West Water Finance plc and Audit Committee of Pennon Group plc.

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



# **SOUTH WEST WATER FINANCE PLC**

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

### **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 company with all material Balance Sheet and Statement of Profit and Loss Account balances in scope.

#### **Key audit matters**

- Recoverability of amounts owed by the immediate parent company

#### **Materiality**

- Overall materiality: £12,653,000 based on 1% of Total Assets.
- Performance materiality: £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.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<i>Recoverability of amounts owed by the immediate parent company</i> External Borrowings are advanced to the immediate parent undertaking, South West Water Limited through intercompany bond agreements. These agreements match the terms of the external bonds held between the company and the external third parties. Judgement is involved in assessing the recoverability of the amounts owed by the immediate parent company. Details of the loans to group undertakings can be found in Note 9.	<p>We have considered the immediate parent undertaking's credit rating, forecast cash flows and liquidity headroom, forecast covenant compliance and viability in forming our assessment over the recoverability of the balance and no issues were noted during these procedures.</p> <p>We have considered the immediate parent undertaking's credit rating, forecast cash flows and liquidity headroom, forecast covenant compliance and viability in forming our assessment over the recoverability of the balance and no issues were noted during these procedures.</p>

# **SOUTH WEST WATER FINANCE PLC**

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

### **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.

We have performed a full scope audit over the material financial statement line items within the Company financial statements. The company is managed by the one central finance function, based at the registered office of Pennon Group plc, the ultimate parent of South West Water Finance plc.

### **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:

<i>Overall company materiality</i>	£12,653,000
<i>How we determined it</i>	1% of Total Assets
<i>Rationale for benchmark applied</i>	Based on the nature of the company, trading is not the entity's main function. The company has transactions that are there to support the group in its trading and so total assets is considered appropriate 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% of overall materiality, amounting to £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 £632,650 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 that 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 South West Water Limited 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) and supporting these forecasts and reconciling them to Board approved budgets. The directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to October 2026, we focused on this period and also considered the subsequent five months to March 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.

### **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

# **SOUTH WEST WATER FINANCE PLC**

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

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 2025 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.

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

# **SOUTH WEST WATER FINANCE PLC**

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

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.

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](http://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.

## **SOUTH WEST WATER FINANCE PLC**

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

#### **Appointment**

Following the recommendation of the Directors' of the South West Water Finance plc and Audit Committee of Pennon Group plc, we were appointed by the members on 24 July 2024 to audit the financial statements for the year ended 31 March 2025 and subsequent financial periods.

#### **Other matter**

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.



Colin Bates (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol  
16 July 2025

**SOUTH WEST WATER FINANCE PLC**  
**STATEMENT OF PROFIT AND LOSS ACCOUNT AND OTHER**  
**COMPREHENSIVE INCOME**  
**for the year ended 31 March 2025**

	Note	2025 £000	2024 £000
Other interest receivable and similar income	4	<b>47,423</b>	28,975
Operating costs	5	<b>(48,668)</b>	(30,178)
<b>Loss before tax</b>		<b>(1,245)</b>	(1,203)
Tax on loss	7	<b>311</b>	311
<b>Loss and total comprehensive expense for the year</b>	15	<b>(934)</b>	(892)

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

**SOUTH WEST WATER FINANCE PLC**  
**BALANCE SHEET**  
**at 31 March 2025**

	Note	2025 £000	(restated)* 2024 £000
<b>Non-current assets</b>			
Loans and other receivables	9	1,221,855	567,714
Deferred tax assets	12	10,509	10,185
		<u>1,232,364</u>	<u>577,899</u>
<b>Current assets</b>			
Current tax asset	11	-	242
Loans and other receivables	9	31,415	10,303
Cash and cash equivalents		1,521	684
		<u>32,936</u>	<u>11,229</u>
<b>Current liabilities</b>			
Borrowings	13	(2,343)	(2,343)
Other liabilities	10	(30,346)	(9,306)
Current tax liabilities	11	(668)	-
		<u>(33,357)</u>	<u>(11,649)</u>
<b>Net current liabilities</b>			
		<u>(421)</u>	<u>(420)</u>
<b>Non-current liabilities</b>			
Borrowings	13	(1,202,356)	(546,958)
		<u>(1,202,356)</u>	<u>(546,958)</u>
<b>Net assets</b>			
		<u>29,587</u>	<u>30,521</u>
<b>Equity</b>			
Share capital	14	50	50
Retained earnings	15	29,537	30,471
<b>Total equity</b>		<u>29,587</u>	<u>30,521</u>

\* The 2024 balance sheet has been restated, see note 2 for further detail.

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 16 July 2025 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 2025

	Share Capital (note 14)	Retained Earnings (note 15)	Total Equity
	£000	£000	£000
At 1 April 2023	50	31,363	31,413
Loss attributable to owners of the parent	-	(892)	(892)
At 31 March 2024	50	30,471	30,521
Loss attributable to owners of the parent	-	(934)	(934)
<b>At 31 March 2025</b>	<b>50</b>	<b>29,537</b>	<b>29,587</b>

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, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and 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 Financial Reporting 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 accounts.

# **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 2024 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.

#### ***Restatements***

In 2023/24, an 'Unamortised hedging adjustment' of £37.5m was presented within non-current liabilities. This balance has been represented in 2024/25 to show £2.3m of borrowings within current liabilities and non-current borrowings within non-current liabilities of £35.2m. These items relate to an unamortised hedging adjustment following a decision to de-designate a hedging relationship on a bond in a prior year. The unamortised hedging adjustment has been reclassified to be shown as part of borrowings to align with the debt for which the hedge was entered into.

#### ***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 £29,587,000 (2024: £30,521,000).

The Company is wholly reliant on capital and interest receipts from South West Water Limited (SWW) to meet its external borrowings obligations. The terms and conditions of the loan receivable due from South West Water Limited included options to review and amend terms to ensure that South West Water Finance plc has adequate resources to meet cash flows due relating to the bonds. The principal risk for the Company is therefore that SWW does not meet its obligations in respect of its borrowings. A review of the principal risks and uncertainties of SWW, which could result in its inability to meet those obligations, has been undertaken. The categories of principal risks as outlined in SWW's annual report and accounts for the year ended 31 March 2025 are as follows:

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

The directors note significant risks in relation to:

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

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

# **SOUTH WEST WATER FINANCE PLC**

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

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

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 2032 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 2025 financial statements through to 31 October 2026 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) Other interest receivable and similar income**

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

Other interest receivable and similar income 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 Pennon Group companies. Payments for group relief are included within the current tax disclosures.

# **SOUTH WEST WATER FINANCE PLC**

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

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

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.

#### **(e) Derivatives and financial instruments**

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

##### **(i) Debt instruments at amortised cost**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

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

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

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

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

# **SOUTH WEST WATER FINANCE PLC**

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

### **3 Financial risk management**

#### **(a) Financial risk factors**

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

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

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

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

The Company has both interest-bearing assets and interest-bearing liabilities. The principal activity of the Company is to act as a financing company for raising borrowings for its immediate parent Company, South West Water Limited. All funds raised are lent to South West Water Limited under the same terms. As a result, South West Water Finance plc is not sensitive to changes in interest rates.

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.

33% (2023/24: 73%) of the Company's borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure.

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 Financial risk management (continued)

#### (ii) Liquidity risk

Refinancing risk is managed by the treasury function of Pennon Group plc, the ultimate parent company. 88% (2023/24: 73%) 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 9. 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.

### 4 Other interest receivable and similar income

	2025 £000	2024 £000
Other interest receivable and similar income	47,423	28,975

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

	2025 £000	2024 £000
Interest payable and similar charges	50,990	32,471
Other operating costs	21	50
Unwind of unamortised hedging adjustment	(2,343)	(2,343)
Operating costs	<u>48,668</u>	<u>30,178</u>

Operating costs include auditors' remuneration of £21,000 (2024: £50,000) 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 2025 (2024: £nil).

# SOUTH WEST WATER FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 2025 (2023/24: £nil). The Directors also did not receive any remuneration from the Parent Company in respect of this company (2023/24: £nil) and no recharges were made from the Parent Company of Directors salaries or costs (2023/24: £nil).

The Company had no employees during the year ended 31 March 2025 (2024: none).

### 7 Tax on loss

	2025 £000	2024 £000
Current tax charge/(credit)	13	(961)
Deferred tax (credit)/charge	(324)	650
Total deferred tax (credit)/charge	(324)	650
Tax credit for year	(311)	(311)

UK corporation tax is calculated at 25% (2024: 25%) of the estimated assessable profit for the year.

UK corporation tax is stated after a charge relating to prior year current tax of £13,132 (2023/24: £74,425 credit) and a prior year deferred tax credit of £100 (2023/24: £64,116 charge).

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 charge	2025 £000	2024 £000
Loss before tax	(1,245)	(1,203)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 25% (2024: 25%)	(324)	(301)
Effects of:		
Adjustments to tax charge in respect of prior years	13	(10)
<b>Total tax credit for year</b>	<b>(311)</b>	<b>(311)</b>
 Reconciliation of current tax charge	 2025 £000	 2024 £000
Loss before tax	(1,245)	(1,203)
Loss before tax multiplied by the standard rate of corporation tax in the UK of 25% (2024: 25%)	(324)	(301)
Effects of:		
Other timing differences	324	(586)
Adjustments to tax charge in respect of prior years	13	(74)
<b>Current tax credit for year</b>	<b>13</b>	<b>(961)</b>



# **SOUTH WEST WATER FINANCE PLC**

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

### **7 Tax on loss (Continued)**

The current tax credit is higher than the UK headline rate of 25%, due to the application of tax disregard rules to derivative contracts.

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 will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar Two effective tax rate of less than 15%. 2024/25 is the first accounting year where the Group is within scope of the Pillar Two rules.

The UK is the only jurisdiction in which the Company operates therefore an assessment of any potential Pillar Two tax exposure for 2024/25 has been performed focusing solely on the application of the UK domestic top-up tax rules.

The assessment performed by the Company is based on country-by-country reporting principles and financial statements information for 2024/25. 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 Company is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

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

# 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 (Restated) £000
<b>31 March 2025</b>		
<b>Financial assets</b>		
Debt instruments at amortised cost	9	1,253,270
Cash and cash equivalents		1,521
		<b>1,254,791</b>
<b>Financial liabilities</b>		
Borrowings	13	(1,204,699)
Other liabilities	10	(30,346)
		<b>(1,235,045)</b>
<b>31 March 2024</b>		
<b>Financial assets</b>		
Debt instruments at amortised cost	9	578,017
Cash and cash equivalents		684
		<b>578,701</b>
<b>Financial liabilities</b>		
Borrowings*	13	(549,301)
Other liabilities	10	(9,306)
		<b>(558,607)</b>

\*Borrowings at 31 March 2024 has been restated to include a £37.5m unamortised hedging adjustment which was previously presented as a separate item, see note 2.

### 9 Loans and other receivables

	2025 £000	2024 £000
<b>Current</b>		
Other receivables	3	-
Amounts owed by immediate parent company	31,412	10,303
	<b>31,415</b>	<b>10,303</b>
<b>Non-current</b>		
Amounts owed by immediate parent company	1,221,855	567,714
	<b>1,221,855</b>	<b>567,714</b>
<b>Loans and other receivables</b>	<b>1,253,270</b>	<b>578,017</b>

# 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 £27,774,000 (2024: £6,755,000) and loan principal repayment due within 1 year with a book value of £3,600,000 (2024: £3,500,000).

Non-current loans comprise the following:

A loan maturing in more than 5 years with a book value of £136,685,000 (2024: £136,198,000) and face value of £150,000,000 at 31 March 2025 (2024: £150,000,000). The effective interest rate at the balance sheet date was 3.10% (2024: 3.10%).

A loan maturing in more than 5 years with a book value of £388,507,000 (2024: £375,567,000). The effective interest rate at the balance sheet date was RPI + 1.99% (2024: RPI + 1.99%).

A loan maturing over the next 15 years with a book value of £52,350,000 (2024: £59,550,000). The effective interest rate at the balance sheet date was 2.35% (2024: 2.35%).

A loan maturing in more than 5 years with a book value of £396,375,000 (2024: £nil) and face value of £400,000,000 at 31 March 2025 (2024: £nil). The effective interest rate at the balance sheet date was 6.50% (2024: nil).

A loan maturing in more than 5 years with a book value of £247,938,000 (2024: £nil) and face value of £250,000,000 at 31 March 2025 (2024: £nil). The effective interest rate at the balance sheet date was 5.90% (2024: nil).

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

### 10 Other liabilities

	<b>2025</b>	2024
	<b>£000</b>	£000
Accruals	<b>30,346</b>	9,306

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

### 11 Current Tax

	<b>2025</b>	2024
	<b>£000</b>	£000
Current Tax (liability)/asset	<b>(668)</b>	242

# 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.

	2025 £000	2024 £000
Asset at 1 April	10,185	10,835
Underlying gains/(charges) in the income statement	324	(650)
<b>Asset at 31 March</b>	<b>10,509</b>	<b>10,185</b>

	Derivatives £000	Tax losses £000	Total £000
Asset at 1 April 2023	9,970	865	10,835
Underlying charges in the income statement	(586)	(64)	(650)
Asset at 31 March 2024	9,384	801	10,185
Underlying (charges)/gains in the income statement	(586)	910	324
<b>Asset at 31 March 2025</b>	<b>8,798</b>	<b>1,711</b>	<b>10,509</b>

A deferred tax asset of £10.5m (2023/24: £10.2m) has been recognised in respect of derivatives £8.8m (2023/24: £9.4m) and post 1 April 2017 losses which are being carried forward £1.7m (2023/24: £0.8m). A deferred tax asset has been recognised on the basis that the company surrenders its losses as group relief for payment and the Pennon group will generate suitable future taxable profits, by virtue of its net deferred tax liability position of £531m (2023/24: £548m) and taxable profit forecasts.

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

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

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

### 13 Borrowings

	2025 £000	2024 (restated) £000
<b>Current</b>		
Fixed rate bonds	2,343	2,343
<b>Non-current</b>		
Fixed rate bonds	813,850	171,392
Index linked bonds	388,506	375,566
<b>Total non-current</b>	<b>1,202,356</b>	<b>546,958</b>
<b>Total borrowings</b>	<b>1,204,699</b>	<b>549,301</b>

# 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.

An unamortised hedging adjustment has been reclassified from unamortised hedging adjustment to borrowings in the current year and the prior year restated, see note 2 for further information. The unamortised hedging adjustment is included within fixed rate bonds in current and non current borrowings above. The hedged item was the £150 million bond issued by South West Water Finance Plc in 2010 which matures in July 2040. The hedging relationship was de-designated in a previous period at which point the fair value amount recognised at that point ceased to be revalued. The fixed financial liability at the point of de-designation is released to the income statement over the remaining life of the debt.

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 2008 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

	2025 £000	2024 £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

### 15 Retained earnings

	2025 £000	2024 £000
At 1 April	30,471	31,363
Loss for year	(934)	(892)
At 31 March	29,537	30,471

# **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.