Southern Water Services (Finance) Limited

Annual report

and

Financial statements for the year ended

31 March 2016

Southern Water Services (Finance) Limited

Directors' report and Financial statements
for the year ended 31 March 2016

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Strategic report

For the year ended 31 March 2016

Southern Water Services (Finance) Limited ('SWSF') (Registered No. CR 112331) was incorporated in the Cayman Islands and has no requirements to prepare statutory financial statements. However under the Disclosure and Transparency Rules (DTR) 4.1, and the Common Terms Agreement, which governs the company's banking arrangements, financial statements are required to be produced. The company continues to provide financing to Southern Water Services Limited, and enters into swap transactions to manage the cash flow exposures of these borrowings.

The company did not trade during the year, and there is no intention for it to trade in the future. The company is an integral part of the financing structure of the Southern Water Services Limited group, and the finance income and costs reflect the performance of this activity.

Given the limited activity of the company, additional information including a review of the company's business and information of the principal risk and uncertainties facing the company is presented in the directors' report, but no further information is included in this strategic report.

Approved by the Board and signed on its behalf by:

W Lambe
Director
28 June 2016

Directors' report

For the year ended 31 March 2016

The directors of Southern Water Services (Finance) Limited ('SWSF') (Registered No. CR 112331) present their annual report and the audited financial statements for the year ended 31 March 2016.

Principal activities

The company provides financing to Southern Water Services Limited (SWS), and enters into swap transactions to manage the cash flow exposures of these borrowings.

Review of the business

During the year the company has transitioned to FRS 101 Reduced disclosure framework (FRS 101) from previously reported UK Financial reporting standards. The key changes and their financial impact are disclosed in note 19. The result after tax for the year amounted to £0.8m (2015: £1.6m loss) and has been directly affected by the adoption of FRS 101. As explained in note 19 the company has applied IAS 39 'Financial Instruments: Recognition and Measurement' and as such is now required to carry debt at amortised cost, which has altered the amount of effective interest charged to the income statement. The directors do not recommend the payment of a final dividend (2015: £nil).

The company has net assets of £36.3m (2015: £36.3m) comprising largely of amounts owed by group undertakings of £3,383.5m (2015: £3,375.9m), amounts owed externally of £3,351.4 (2015: £3,336.6m) and cash balances of £0.8m (2015: £15.1m). The decrease in cash is largely due to accrued indexation paid down in the year totalling £362.9m, offset by intercompany cash receipts from SWS and interest received.

The company is a subsidiary of SWS who recorded profits of £119.9m (2015: £93.6m) after tax for the year ended 31 March 2016 and has net assets of £1,359.8m (2015: £1,357.6m). The directors consider the results for the year to 31 March 2016 for SWS are sufficient to support the company and its activities for the foreseeable future.

Financial risk management objectives and policies

The principal financial risks to which the company is exposed are interest rate, liquidity and RPI risks. The Board has approved policies for the management of these risks. The company does not use derivative financial instruments for speculative purposes.

The company also notes that the result of the recent referendum will increase uncertainty around these risk areas in the short-term.

Interest rate risk

The company's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile within the company policy, which is to maintain a higher proportion of net debt at fixed rates of interest having regard to the prevailing interest rate outlook.

Liquidity risk

The company raises funds, as required, to ensure that it has sufficient cash and/or facilities to fund the business of SWS for the next twelve months.

RPI risk and sensitivity analysis

The principal market risks are interest rates and movements in RPI. Interest rates are currently either fixed or fully effective swap instruments are in place to swap floating rates for fixed. RPI impacts indexation, however annual indexation credited to interest income is the same as that charged to interest expense, so there is no impact on the company's profit or loss.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

Directors' report (continued)
For the year ended 31 March 2016

Future developments

The directors expect the general level of activity to remain consistent with 2016 in the forthcoming year. This is as a result of the fact that there are no debt instruments due for refinancing and no new loans planned at the date of signing these financial statements. However, interest charged to the income statement is susceptible to changes in inflation, which does create some volatility in relation to index linked debt, which is outside of the control of the company.

Events after the balance sheet date

There were no significant events after the balance sheet date.

Directors

The Directors who served during the year and up to the date of signing, unless otherwise stated, were:

M Wright	
M Carmedy	(Resigned as Director 31 March 2016)
W Lambe	(Appointed as Director 25 May 2016)

The company secretary in the year and at the date of signing was Joanne Statton.

Director's indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

Directors' report (continued)
For the year ended 31 March 2016

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the directors' 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 they face.

Provision of information to independent auditor
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

Deloitte LLP have indicated their willingness to continue in office. A resolution that they be reappointed will be proposed at the annual general meeting.

Approved by the Board of Directors and signed on behalf of the Board.

Joanne Statton
Company Secretary
28 June 2016

Registered office
Ugland House
P O Box 309
George Town
Grand Cayman, Cayman

Financial statements

Income statement

For the year ended 31 March 2016

	Notes	**2016 £m**	2015 £m
Continuing operations			
Administrative expenses		**-**	-
Loss before interest and taxation		**-**	-
Finance income	4	**178.0**	190.3
Finance costs	5	**(177.9)**	(191.8)
Fair value gains and losses on derivative financial instruments	5	**-**	-
Net finance costs		**0.1**	(1.5)
Profit/(loss) before taxation	3	**0.1**	(1.5)
Tax	6	**(0.1)**	(0.1)
Result for the financial year	15	**-**	(1.6)

The above results relate entirely to continuing operations.

The Notes on pages 8 to 19 form part of these financial statements.

There have been no recognised gains or losses for the current or the prior financial year other than as stated in the income statement and, accordingly, no separate statement of total comprehensive income is presented.

Statement of financial position
As at 31 March 2016

	Notes	**2016 £m**	2015 £m
Non-current assets			
Financial assets			
- Derivative financial instruments - group	13	**923.7**	1,151.7
- Derivative financial instruments - external	13	**12.4**	13.8
Other non-current assets	8	**3,346.0**	3,338.7
		4,282.1	4,504.2
Current assets			
Other receivables	7	**45.6**	45.3
Cash and cash equivalents	9	**0.8**	15.1
		46.4	60.4
Total assets		**4,328.5**	4,564.6
Current liabilities			
Other payables	10	**(11.5)**	(11.4)
Borrowings	11	**(0.9)**	(15.2)
		(12.4)	(26.6)
Non-current liabilities			
Borrowings	12	**(3,343.7)**	(3,336.2)
Derivative financial instruments	13	**(936.1)**	(1,165.5)
		(4,279.8)	(4,501.7)
Total liabilities		**(4,292.2)**	(4,528.3)
Net assets		**36.3**	36.3
Equity			
Called up share capital	14	**-**	-
Retained earnings	15	**36.3**	36.3
Total equity	16	**36.3**	36.3

The financial statements of Southern Water Services (Finance) Limited (Registered No. CR 112331) were approved by the Board on 28 June 2016. They are signed on its behalf by:

William Lambe
Director

Statement of changes in equity

For the year ended 31 March 2016

	Called up share capital £m	Retained earnings £m	Total £m
Balance at 1 April 2014 (UK GAAP)	**-**	**33.2**	**33.2**
Effect of restatement due to change in accounting framework (note 19)	-	4.7	4.7
As restated	**-**	**37.9**	**37.9**
Loss for the financial year	-	(1.6)	(1.6)
Total comprehensive loss for the year	-	(1.6)	(1.6)
Balance at 31 March 2015	**-**	**36.3**	**36.3**
Result for the financial year	-	-	-
Total comprehensive result for the year	-	-	-
Balance at 31 March 2016	**-**	**36.3**	**36.3**

Notes to the financial statements
For the year ended 31 March 2016

1 Accounting policies

The principal accounting policies, which have been applied consistently throughout the current and preceding year, are set out below.

Basis of preparation

Southern Water Services (Finance) Limited is a company incorporated in the Cayman Islands. The address of the registered office is given on page 4. The nature of the company's operations and its principal activities are set out in the business review on pages 2 to 3.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). Accordingly, in the year ended 31 March 2016 the company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 'Reduced Disclosure Framework' as issued by the FRC and has, in doing so, applied the requirements of IFRS 1 'First Time Adoption of International Financial Reporting Standards' paragraphs 6-33 and related appendices. The principal accounting policies adopted are set out in Note 1.

These financial statements were prepared in accordance with FRS 101 incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016. The prior year financial statements were re-stated for material adjustments on adoption of FRS 101 in the current year. For more information see note 19.

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of financial instruments. Financial instruments are measured at their fair value at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about Southern Water Services (Finance) Limited (SWSF) as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is included in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group financial statements of Greendsands Holdings Limited are available to the public and can be obtained from our website.

Notes to the financial statements (continued)

For the year ended 31 March 2016

1 Accounting policies (continued)

Basis of preparation (continued)

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited, the group accounts are available to the public and can be obtained from our website.

Adoption of new and revised Standards

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

As explained above, the company has adopted FRS 101 for the first time in the current year. As part of this adoption, the following new and revised Standards and Interpretations have been adopted in the current year. The application of these specific Standards and Interpretations has not had a material effect on the company

Amendments to IAS 1 *Presentation of Financial Statements*	In May 2012 the Annual Improvements to IFRSs 2009 - 2011 made a number of amendments to IFRSs. Subsequent to this in July 2015 the FRC issued further amendments to FRS 101. The principal amendments made were: a) A company transitioning to FRS 101 for the first time and applying IFRS 1 First-time adoption of International Reporting Standards, will no longer be required to present an opening balance sheet at the date of transition (although a reconciliation of equity is still required); and b) There is now greater flexibility in the format of the profit and loss account and balance sheet, such that entities can choose to adopt a presentation as if preparing ‘IAS accounts’. These amendments have been adopted in preparation of these financial statements and therefore no opening statement of financial position at the date of transition being 1 April 2014 has been presented. A reconciliation of equity is provided in note 19 reflecting the impact of FRS 101 adoption.
Annual Improvements to IFRSs: 2011-2013	The Company has adopted the various amendments to a number of standards. IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property. The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements.

Notes to the financial statements (continued)

For the year ended 31 March 2016

1 Accounting policies (continued)

Going concern

These financial statements have been prepared on a going concern basis. This basis is appropriate as the structure of the inter company loans and swap arrangements in place are such that the company is expected to continue to make a profit over the term of the current debt arrangements and benefits from group securitisation arrangements such that it should be “made whole” if required.

Interest income, interest payable and similar income and charges

Interest income, interest payable and similar income and charges are recognised on an accruals basis. The policy for interest income and expense is detailed in the financial instruments policy.

Taxation

The taxation charge in the profit and loss account is based on the company being considered a securitisation company under the UK ‘Taxation of Securitisation Companies Regulations 2006’ (SI 2006/3296). Therefore, the company does not calculate its UK corporation tax based on its accounting profit or loss. Instead the company applies current tax rates to its retained profits as specified in the documentation governing the securitisation transaction into which the company has entered.

Deferred taxation is tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated but not reversed by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Notes to the financial statements (continued)
For the year ended 31 March 2016

1 Accounting policies (continued)

Financial Instruments

Financial assets and financial liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

(i) Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

(iii) Derecognition of financial assets
The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities

Fixed rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the profit and loss account in the year in which it arises.

Premiums and proceeds from gilt lock agreements received on issue of debt instruments are credited to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Notes to the financial statements (continued)
For the year ended 31 March 2016

1 Accounting policies (continued)

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 13.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately.

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting and as such, the company does not currently apply hedge accounting.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Intercompany derivative assets/liabilities held with SWS are set-off against each other with the net position being presented as either a financial liability or financial asset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The following are the critical judgements that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

(i) Financial instruments
The fair value of the financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques.

The company uses its judgement to select the most appropriate valuation method for each instrument to estimate expected future cash flows, and apply discount rates that reflect counterparty credit risk. The valuation techniques are described in note 13.

(ii) Taxation
The tax charge is based on the profit for the period and the tax rates in force at the end of the reporting period. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items, which will only be resolved once finally agreed with the tax authorities.

Notes to the financial statements (continued)

For the year ended 31 March 2016

3 Result for the year

The company had no employees, other than the directors, during the year ended 31 March 2016 (2015: nil).

In 2016 and 2015 audit fees of £1,000 were borne by Southern Water Services Limited ('SWS').

The services of the directors are deemed to be wholly attributable to their services to SWS. Accordingly no details in respect of the emoluments paid to the directors are included here as they are fully disclosed in the financial statements of SWS.

4 Finance income

	2016 £m	2015 £m
Interest on loans to group undertakings	**124.7**	116.5
Interest on swaps	**43.7**	51.9
Amortisation of gilt lock proceeds (see note (i) below)	**0.1**	0.1
Indexation	**9.5**	21.8
	178.0	190.3

5 Finance costs

	2016 £m	2015 £m
Loan interest and facility fee charges	**168.3**	169.9
Indexation	**9.5**	21.8
Amortisation of gilt lock proceeds (see note (i) below)	**0.1**	0.1
	177.9	191.8

Movements in the fair value of derivative liabilities through the profit and loss account in the period amount to a charge of £70.4m (2015: £130.3m) within interest payable and similar charges. This is offset by the movements in the fair value of derivative assets which amount to the equivalent opposite value within the same caption.

The derivative liability has also reduced by a further £298.4 million (2015: £5.0 million) due to payment of accrued indexation associated with the swaps. Therefore the net reduction in the derivative liability was £228.0m (2015: £125.3m).

(i) The company entered into an agreement prior to the issue of a £300m bond in 2007, whereby the proceeds of the loan were fixed, resulting in a 'gilt lock'. The loan was issued at a discount with compensating proceeds under the gilt lock of £6.3m. This receipt has been deferred to the balance sheet and will be released to the profit and loss account on an effective interest rate basis (see note 11 and 12). These proceeds have been on-lent to SWS.

Notes to the financial statements (continued)

For the year ended 31 March 2016

6 Tax on profit on ordinary activities

	2016 **£m**	2015 £m
Tax		
UK corporation tax	**0.1**	0.1
Tax charge on profit/(loss)	**0.1**	0.1

No deferred tax arose during the year to 31 March 2016 (2015: nil).

The tax assessed for the year is different to the standard rate of corporation tax in the UK due to the following factors:

	Year ended 31 March 2016 £m	Year ended 31 March 2015 £m
Profit/(loss) before taxation	**0.1**	(1.5)
UK corporation tax rate at standard rate of tax of 20% on loss for the year (2015: 21%)	**-**	-
Adjustments in accordance with securitisation tax rules (see note (i) below)	**0.1**	0.1
Tax charge for year	**0.1**	0.1

(i) For UK corporation tax purposes, the company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006' (SI 2006/3296). Therefore, the company is not required to pay corporation tax on its accounting profit or loss. Instead the company is required to pay tax on its retained profits as specified in the documentation governing the securitisation transaction into which the company has entered. This has not had a significant effect in either 2015 or 2016.

Factors that may affect future tax charges:

On the 8 July 2015 the UK government announced reductions in the main rate of corporation tax from 20 per cent to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020. These rate changes were enacted in the Finance Bill 2015.

Notes to the financial statements (continued)

For the year ended 31 March 2016

7 Other receivables

	2016 £m	2015 £m
Loan to parent undertaking (see note (i) below)	**30.3**	30.3
Group relief surrendered	**0.8**	0.8
Prepayments	**3.0**	3.0
Accrued interest receivable	**7.7**	7.7
Other borrowings	**3.8**	3.5
	45.6	45.3

Notes

(i) The amounts due from the parent undertaking is a balance of £30.3m (2015: £30.3m). This amount is unsecured, interest free, and is repayable in whole or part upon demand at any time, provided that:

   (a) on the date of such demand, no class A, B or mezzanine debt is outstanding (see note 12); or
   (b) it is done with the consent of the security trustee.

8 Other non-current assets

Under the loan agreement between SWS and SWSF, SWSF on-lends to SWS an amount equal to each bond or other debt raised externally at the same interest rate plus 0.01%. These loans have the same repayment terms as the external loans disclosed in note 12.

	2016 £m	2015 £m
Loans and receivables from parent undertaking	**3,346.0**	3,338.7

Loans and receivables are measured at amortised cost using the effective interest rate method.

9 Cash

Cash of £0.8m (2015: £15.1m) is held in a designated bank account in order to meet certain interest requirements on loan finance.

10 Other payables

	2016 £m	2015 £m
Receipts in advance from parent undertaking	**3.0**	3.0
Corporation tax creditor	**0.1**	0.1
Accruals and deferred income	**7.7**	7.7
Amounts owed to parent company	**0.7**	0.6
	11.5	11.4

11 Current borrowings

	2016 £m	2015 £m
Deferred gilt lock proceeds (note 12 (i) below)	**0.1**	0.1
Loans and other borrowings	**0.8**	15.1
	0.9	15.2

Notes to the financial statements (continued)
For the year ended 31 March 2016

12 Non-current borrowings

Loans and other borrowings	**2016 £m**	2015 £m
Class A £350m 6.192% fixed rate 2029	**380.4**	381.9
Class A £150m 3.706% index linked 2034	**253.9**	251.1
Class A £35m 3.706% index linked 2034	**58.5**	57.9
Class A £350m 6.640% fixed rate 2026	**377.4**	379.4
Class A £150m 3.816% index linked 2023	**232.0**	230.8
Class A £350m 5.000% fixed rate 2021	**347.8**	347.4
Class A £150m 5.000% fixed rate 2041	**145.6**	145.5
Class A £200m 4.500% fixed rate 2052	**197.1**	197.1
Class A £300m 5.125% fixed rate 2056	**292.6**	292.6
Class A £300m 6.125% fixed rate 2019	**298.8**	298.4
Artesian £165m 4.076% index linked 2033	**285.0**	282.1
Artesian £156.5m 3.635% index linked 2032	**221.7**	219.4
Total Class A debt	**3,090.8**	3,083.6
Class B £250m 4.500% fixed rate 2038	**247.8**	247.4
Deferred gilt lock proceeds (note (i) below)	**5.2**	5.3
Other loans from SWS	**0.8**	15.1
Total loans and other borrowings	**3,344.6**	3,351.4
Current borrowings	**(0.9)**	(15.2)
Non-current borrowings	**3,343.7**	3,336.2

These loans are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertaking of each of SWS, SWSF, SWS Holdings Limited, and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

Notes in respect of the specific instruments above:

(i) Prior to the issue of the £300m Class A bond, the company entered into a gilt lock agreement, resulting in the receipt of £6.3m.The proceeds have been deferred and are being released to the profit and loss account over the life of the loan.

Repayments fall due as follows:	**2016 £m**	2015 £m
Between two and five years	**646.6**	298.4
After five years not by instalments	**2,697.1**	3,037.8
	3,343.7	3,336.2
On demand or within one year not by instalments	**0.9**	15.2
	3,344.6	3,351.4

Notes to the financial statements (continued)

For the year ended 31 March 2016

13 Financial Instruments

Categories of financial instruments at fair value

	2016 £m	2015 £m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Interest rate swaps – not hedge accounted (Group)	**923.7**	1,151.7
Interest rate swaps – not hedge accounted (External)	**12.4**	13.8
Total derivative financial assets	**936.1**	1,165.5

	2016 £m	2015 £m
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Interest rate swaps – not hedge accounted (External)	**(936.1)**	**(1,165.5)**
Total derivative financial liabilities	**(936.1)**	**(1,165.5)**

Changes in value of financial instruments at fair value	2016 £m	2015 £m
Profit for the year has been arrived at after charging/(crediting):		
Financial assets at fair value	**69.0**	**134.6**
Designated as FVTPL		
Financial liabilities at fair value	**(69.0)**	**(134.6)**
Designated as FVTPL		
	-	**-**

The derivative liability and corresponding derivative asset held with SWS reduced by a further £298.4 million (2014-15: £5.0 million) due to payment of accrued indexation associated with the swaps.

The fair values of derivative instruments (interest rate swaps) at the reporting date are determined using quoted prices adjusted for credit risk.

The regulatory framework, under which revenues and the Regulatory Capital Value (RCV) are indexed, exposes the securitised group to inflation risk. The company enters into derivative financial instruments to manage the groups exposure to that risk.

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

Notes to the financial statements (continued)
For the year ended 31 March 2016

14 Share capital

	2016	2015
Authorised:	**£**	£
Equity shares		
25,000 Ordinary Shares of £1 each	**25,000**	25,000
	25,000	25,000

	2016	2015
Allotted, issued and fully paid:	**£**	£
Equity shares		
1,000 Ordinary Shares of £1 each	**1,000**	1,000
Called up share capital	**1,000**	1,000

15 Reserves

	Profit and loss account £m
At 1 April 2015	**36.3**
Result for the year	**-**
At 31 March 2016	**36.3**

	Profit and loss account £m
At 1 April 2014	37.9
Loss for the year	(1.6)
At 31 March 2015	36.3

16 Reconciliation of movement in shareholder's funds

	2016 £m	2015
Opening shareholder's funds	**36.3**	37.9
Result for the year	**-**	(1.6)
Closing shareholder's funds	**36.3**	36.3

17 Ultimate holding company and related party transactions

The immediate parent undertaking is Southern Water Services Limited.

The ultimate parent and controlling company is Greensands Holdings Limited, a company incorporated in Jersey. As at 31 March 2016, the major shareholders in Greensands Holdings Limited were a consortium including IIF International SW UK Investments Limited (advised by JP Morgan Investments Inc.) and The Northern Trust company.

Greensands Holdings Limited is the only group company that prepares consolidated financial statements, which contain the financial statements of Southern Water Services (Finance) Limited. Copies of Greensands Holdings Limited's consolidated financial statements may be obtained from the company Secretary of Greensands Holdings Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX.

18 Capital instruments

The company's objective when managing capital is to maintain a positive value of capital employed to safeguard the company's ability to continue as a going concern, so that it can continue to provide finance for its parent company, Southern Water Services Ltd.

No specific value of capital, or capital ratio, is required to be maintained.

Notes to the financial statements (continued)
For the year ended 31 March 2016

19 Explanation of transition to FRS 101

This is the first period the company has presented its financial statements under FRS 101 issued by the Financial Reporting Council. The last financial statements prepared under the previous UK accounting framework were for the year ending 31 March 2015. The date of transition was 1 April 2014 and all comparative information in these financial statements has been restated to reflect the company's adoption of FRS 101, except where otherwise required or permitted by IFRS 1.

The following disclosures are required in the period of transition.

Reconciliation of equity at 1 April 2014:

	Profit and loss account £m
Balance at 1 April 2014 (UKGAAP)	33.2
Adjust treatment of debt	4.7
Restated under FRS 101	**37.9**

Reconciliation of equity at 31 March 2015:

	Profit and loss account £m
Balance at 31 March 2015 (UKGAAP)	33.5
Adjust treatment of debt	2.8
Restated under FRS 101	**36.3**

Notes to the reconciliations

Under FRS 101, the company must apply IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39). Under IAS 39, the general treatment of debt is for it to be carried at amortised cost, such that borrowings are stated at net proceeds received after the deduction of issue costs. Under UK GAAP, the issue costs of debt instruments are amortised at a constant rate over the life of the instrument, whereas under IFRS, the costs are amortised using the 'effective interest rate' method.

<u>Impact</u>

As a result of applying IAS 39 receivables have reduced by £25.3m (31 March 2014: £23.0m), borrowings have decreased by £28.1m (31 March 2014: £27.7m).

Independent auditor's report to the directors of Southern Water Services (Finance) Limited for the year ended 31 march 2016

We have audited the financial statements of Southern Water Services (Finance) Limited for the year ended 31 March 2016 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Disclosure and Transparency Rules (DTR) 4.1. 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.

Respective responsibilities of the directors and auditors

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its result for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
30 June 2016