SOUTHERN WATER (GREENSANDS) FINANCING PLC

ANNUAL REPORT

AND FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 2016

Registered number: 07581353

SOUTHERN WATER (GREENSANDS) FINANCING PLC

Annual Report and Financial Statements for the year ended

31 March 2016

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COMPANY INFORMATION

The company is a private company limited by shares.

Directors
M Nagle
A Truscott
B Somes
B Goodwin (Alternate to A Truscott)
J Woodard (Alternate to B Somes)
R Daniels
H de Run

Company Secretary
J Statton

Registered office
Southern House
Yeoman Road
Worthing
West Sussex
United Kingdom
BN13 3NX

Bankers
Natwest
15 Bishopsgate
London
United Kingdom
EC2N 3NW

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Registered number
07581353

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

Southern Water (Greensands) Financing Plc (Registered No. 07581353) is incorporated in the United Kingdom and was established to complement the activities of the other companies in the Greensands Holdings group. The company continues to act as a financing company for Greensands Senior Finance Limited.

The company did not trade during the year, and there is no intention for it to trade in the future. The company's activity was in relation to financing the Greensands Holdings group.

Given the limited activity of the company, additional information including a review of the company's business, future developments 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.

M Nagle
Director
20 July 2016

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016

The directors of Southern Water (Greensands) Financing Plc (Registered No. 07581353) present their annual report and audited financial statements for the year ended 31 March 2016.

PRINCIPAL ACTIVITIES

The company provides financing to Greensands Senior Finance Limited.

REVIEW OF THE BUSINESS, RESULTS AND DIVIDENDS

During the year the company provided financing to Greensands Senior Finance Limited.

The company did not trade during the year, and there is no intention for it to trade in the future. The company's activity was in relation to financing the Greensands Holdings group.

The company paid interest of £30.2m (2015: £36.3m) and received interest of £30.2m (2015: £36.3m).

The company generated neither a profit nor loss before taxation for the year ended 31 March 2016 (2015: £nil).

There were no dividends charged in the financial statements in the year (2015: £nil).

The directors have not declared a final dividend for the year ended 31 March 2016 (2015: £nil per share).

The company has net assets of £0.1m (2015: £0.1m) comprising largely of amounts owed by group undertakings of £458.4m (2015: £459.1m), loans and other borrowings of £445.1m (2015: £449.2m) and £13.3m (2015: £9.8m) interest payable.

KEY PERFORMANCE INDICATORS

Southern Water (Greensands) Financing Plc acts as a financing company for the overall group and as such does not have any KPIs as an individual company. KPIs are monitored at the group level and are disclosed in the consolidated financial statements of Greensands Holdings Limited which may be obtained from the Company Secretary at Southern House, Yeoman Road, Worthing, BN13 3NX.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk that the company is exposed to, is the occurrence of events that would result in the impairment of its loan to Greensands Senior Finance Limited.

GOING CONCERN

The directors have received confirmation that its ultimate parent undertaking, Greensands Holdings Limited, intends to support the company for at least one year after these financial statements are signed and accordingly believe that preparing the financial statements on the going concern basis is appropriate.

FINANCIAL RISK MANAGEMENT

See note 13 to the financial statements for details on the financial risk management.

FUTURE DEVELOPMENTS

The directors expect the general level of activity to remain consistent with 2016 in the forthcoming year.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

One of the major shareholders of Greensands Holdings Limited (GSH), being The Northern Trust Company, sold their shares in GSH, the ultimate parent company, after the reporting date. The shares were acquired by existing shareholders under the pre-emption arrangements on 19 May 2016.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2016 (continued)

DIRECTORS

The directors who held office during the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

M Nagle	
A Truscott	
P Ryan	(Resigned as alternate to A Truscott 23 February 2016)
B Goodwin	(Appointed as alternate to A Truscott 23 February 2016)
P Moy	(Resigned 20 July 2016)
B Somes	(Appointed as director and resigned as alternate to P Moy 20 July 2016)
K Budinger	(Resigned 4 August 2015)
C McAllister	(Resigned as alternate to K Budinger 4 August 2015)
J Woodard	(Resigned as director 19 May 2016 and appointed alternate to B Somes 20 July 2016)
H de Run	(Appointed 28 June 2016)
R Daniels	(Appointed 28 June 2016)

DIRECTORS' INDEMNITIES

The company maintains liability insurance for its directors and officers. Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

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; 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.

RESPONSIBILITIES 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 management report, which is incorporated into 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.

STATEMENT OF PROVISION OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
(2) each director has taken all the steps that he/she ought to have taken as a director in order to make him/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 Section 418 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 forthcoming annual general meeting.

Approved by the Board of Directors and signed by order of the Board.

J Statton
Company Secretary
20 July 2016

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	Notes	**2016 £m**	2015 £m
Continuing operations			
Finance income	4	**30.2**	36.3
Finance costs	5	**(30.2)**	(36.3)
Net finance income		**-**	-
Result before taxation	7	**-**	**-**
Tax on result	8	**-**	-
Result for the financial year		**-**	**-**

There were no other comprehensive income or losses for the years ending 31 March 2015 and 31 March 2016, accordingly no separate statement of other comprehensive income is presented.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Derivative financial instruments	13	**-**	3.5
Other non-current assets	9	**445.1**	248.0
		445.1	251.5
Current assets			
Trade and other receivables	10	**13.4**	211.1
Cash and cash equivalents		**0.5**	0.6
		13.9	211.7
Total assets		**459.0**	463.2
Current liabilities			
Borrowings: amounts falling due within one year	11	**(13.3)**	(211.0)
		(13.3)	(211.0)
Non-current liabilities			
Borrowings: amounts falling due after one year	12	**(445.6)**	(248.6)
Derivative financial instruments	13	**-**	(3.5)
		(445.6)	(252.1)
Total liabilities		**(458.9)**	(463.1)
Net assets		**0.1**	0.1
Equity			
Called up share capital	14	**0.1**	0.1
Retained earnings		**-**	-
Total equity		**0.1**	0.1

The financial statements of Southern Water (Greensands) Financing Plc (Registered No. 07581353) were approved by the Board of Directors and authorised for issue on 20 July 2016.

Signed on behalf of the Board of Directors:

M Nagle
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	**0.1**	**-**	**0.1**
Result for the financial year	-	-	-
Balance at 31 March 2015	**0.1**	**-**	**0.1**
Result for the financial year	-	-	-
Balance at 31 March 2016	**0.1**	**-**	**0.1**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

1 Accounting policies

Basis of preparation

The company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the directors' report on page 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 this 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 16.

The financial statements have been prepared on a going concern basis under the historical cost convention.

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.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a statement of cash flows, 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.

1 Accounting policies (continued)

Going concern
The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Greensands Holdings Limited. The directors have received confirmation that Greensands Holdings Limited intends to support the company for at least one year after these financial statements are signed.

Related party disclosure
The company has taken advantage of the exemption under FRS 101 paragraph 8(j) from the requirements of IAS 24, ‘Related Party Disclosures’, on the grounds that it is a wholly owned subsidiary of a group headed by Greensands Holdings Limited, whose financial statements are publicly available from the address in note 15.

Investments
Investments held as non-current assets are stated at cost, less provision, if appropriate, for any impairment in value other than a temporary impairment in value. The carrying values of non-current asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Interest income is accrued on a daily basis. Dividends and other investment income is accounted for when it becomes receivable.

Taxation
The taxation charge in the income statement represents the sum of the tax currently payable and deferred tax.

Current taxation is based on the profit for the year as adjusted for disallowable and non-taxable items and items of income or expense which are taxable or deductible in other years. The company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

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 statement of financial position 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.

Interest income, interest payable and similar income and charges
Interest income, interest payable and similar income and charges are accrued on a time basis, where applicable by reference to the principal outstanding and at the relevant effective interest rate. The policy for interest income and expense is detailed in the financial instruments policy.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

1 Accounting policies (continued)

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.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position 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.

1 Accounting policies (continued)

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 income statement in the year in which it arises.

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

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. 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) Taxation
The tax charge is based on the profit for the year 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.

(ii) Impairment
Impairment is recognised in the income statement when there is evidence that the value of an investment is higher than the recoverable amount. Recoverable amount is the lower of, value in use or net realisable value. An impairment review requires management to make subjective judgements regarding the recoverable amount of the investment under review.

(iii) 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.

3 Employee information

The company has no employees (2015: £nil).

The services of the directors are deemed to be wholly attributable to their services to Greensands Holdings Limited, with only one director receiving payment for their services in the year. The total sum has been recorded in the consolidated financial statements of Greensands Holdings Limited, which are available to the public and can be obtained from the address in note 15. Therefore, the directors received no emoluments during the year or the prior year in respect of their services to the company.

4 Finance income

	2016 **£m**	2015 £m
Interest receivable from group companies	**30.2**	36.3

5 Finance costs

	2016 **£m**	2015 £m
Interest payable on loans	**30.2**	36.3

6 Fair value gains/(losses) on derivative financial instruments

On 15 April 2015 the company closed out its financial derivative contract, incurring a cost equal to the fair value position at settlement of £3.4m. The corresponding intercompany asset was settled as part of this transaction.

7 Result before taxation

In 2016 and 2015 audit fees of £1,000 were borne by Greensands Holdings Limited and not recharged to the company.

8 Tax on result

No UK tax charge arises in respect of the result for the year (2015: £nil).

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

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 during the year and any deferred tax balances have been calculated using these reduced rates.

On 16 March 2016 the UK government announced a further reduction in the future main rate of corporation tax from the planned 18 per cent, to a rate of 17 per cent, effective from 1 April 2020, although this reduction was not substantively enacted at the statement of financial position date.

9 Other non-current assets

	2016 £m	2015 £m
Amounts due from group undertakings (note (i) and (ii) below):		
- £250m 8.500% Guaranteed Secured Fixed Rate Notes 2019	**248.2**	248.0
- £125m Facility Agreement 2022 – Libor plus 3.5%	**123.1**	
- £75m Facility Agreement 2025 – Libor plus 4%	**73.8**	-
	445.1	248.0

Notes

(i) Of amounts due from group undertakings, the £250m 8.500% Guaranteed Secured Fixed Rate Notes 2019, the £125m Facility Agreement 2022 – Libor plus 3.5% and the £75m Facility Agreement 2025 – Libor plus 4% all relate to debt advanced to Greensands Senior Finance Limited (GSSF) at the same interest rates and terms of the external agreements and are stated at amortised cost.

(ii) The fair value of the associated swaps as at 31 March 2015 was a liability of £3.5m. On 15 April 2015 the company closed out its financial derivative liabilities and its corresponding intercompany position. See note 13 (ii) for further details.

10 Trade and other receivables

	2016 £m	2015 £m
Amounts due from parent company (note (i) below)	**0.1**	0.1
Amounts owed by other group undertakings		
- £200m Facility Agreement 2016 – Libor plus 4% (notes (ii), and (iii) below)	**-**	201.2
Interest receivable from group undertakings	**13.3**	9.8
	13.4	211.1

Notes

(i) Amounts owed by parent company relate to unpaid share capital.

(ii) Amounts owed by other group undertakings refers to unsecured debt on-loaned to GSSF. Under the loan agreement between the company and GSSF, the company advances an amount equal to debt raised at the same interest rates as the external agreements, mirroring any related swap agreements.

(iii) On 15 April 2015, the company completed the refinance of the £200m Facility Agreement referred to above. Further details surrounding the transaction are given in note 13 and the corresponding debtor has been disclosed in trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016 (continued)

11 Borrowings: amounts falling due within one year

	2016 £m	2015 £m
Loans and other borrowings		
- £200m Facility Agreement 2016 – Libor plus 4.0% (note (i) and (ii) below)	**-**	201.2
Interest payable	**13.3**	9.8
	13.3	211.0

Notes

(i) Of the £225m Facility Agreement, £200m had been drawn as at 31 March 2015, with the remaining £25m providing a liquidity facility for future interest payments. In November 2014, the remaining undrawn £25m of the facility was cancelled and a new, separate, £40m facility was taken out by the company.

(ii) The company entered into swap agreements that converted £150m of the £200m Facility Agreement from a floating rate of Libor plus 4.0% (4.69% from 1 April 2015), to a fixed rate of 2.91% until March 2016. On 15 April 2015, the swap agreements were cancelled.

(iii) On 15 April 2015 the company completed the refinance of the £200m Facility Agreement above with a £125m Facility Agreement and a £75m Facility Agreement. Both these facility agreements have been disclosed as borrowings due after one year. Further details surrounding the transaction are given in note 13.

12 Borrowings: amounts falling due after one year

	2016 £m	2015 £m
Amounts owed to group undertakings	**0.5**	**0.6**
Loans and other borrowings (note (i) below)		
- £250m 8.50% Guaranteed Secured Fixed Rate Notes 2019	**248.2**	**248.0**
- £125m Facility Agreement 2022 – Libor plus 3.5%	**123.1**	-
- £75m Facility Agreement 2025 – Libor plus 4%	**73.8**	-
	445.6	**248.6**

Notes

(i) The £250m 8.50% Guaranteed Secured Fixed Rate Notes 2019 was issued on 21 April 2011. Both the £125m Facility Agreement 2022 – Libor plus 3.5% and the £75m Facility Agreement 2025 – Libor plus 4% were issued on 15 April 2015. All three facilities are stated at amortised cost. The facilities are guaranteed under a group Security Agreement. The agreement is over the entire property, assets, rights and undertakings of each of Southern Water Services Limited, Southern Water (Finance) Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of Southern Water Services Limited, this is to the extent permitted by the Water Industry Act 1991 and License.

	2016 £m	2015 £m
Repayments fall due as follows:		
Between two and five years	**248.2**	248.0
After five years not by instalments	**197.4**	0.6
	445.6	248.6

In addition to the borrowings disclosed above, the company has an unutilised banking facility of £40m at 31 March 2016 (31 March 2015: £40m unutilised facility).

13 Derivative financial instruments

(i) Financial risk management objectives and policies

The principal financial risks to which the company is exposed are interest rate and liquidity. The company intends to at least maintain its present risk profile, as measured by its credit rating. The company does not enter into treasury transactions for the purpose of speculation, but only to manage risk inherent in the business or funding on a prudent basis. The Board has approved policies for the management of these risks.

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 can be used to manage the overall interest rate profile within the company.

Liquidity risk
The company has an undrawn liquidity facility. Furthermore, the Greensands group of companies will retain a sufficient level of cash reserves in order to manage liquidity risk.

Sensitivity analysis
The principal market risks are movements in interest rates. Interest rate derivates can be used to manage this risk.

13 Derivative financial instruments (continued)

(ii) Fair values of derivative financial instruments

The fair values of derivative financial instruments at the statement of financial position date were:

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
External interest rate swap	-	-	-	(3.5)
Intercompany interest rate swaps	-	-	3.5	-

On 15 April 2015, the swap agreements above were cancelled, incurring a cost equal to the fair value position at settlement of £3.4m.

On 15 April 2015, the company completed the refinance of the £200m (previously £225m prior to November 2014) Facility Agreement disclosed in note 10. The £200m refinanced funds were drawn down on 5 May 2015 and the costs associated with this facility amounted to £3.6m (including £3.4m of break costs relating to the cancellation of the related swap agreements). The refinanced funds were on-loaned to Greensand Senior Limited on the same terms as the external agreement.

The funds have been split into two facilities with the terms stated in the table below.

Facility	Value	Term	Rate	Interest Due
Facility A	£125m	7 years	3.25% plus Libor	6 monthly
Facility B	£75m	10 years	4.0% plus Libor	6 monthly

(iii) Fair values of non derivative financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. The carrying amounts of short-term borrowings approximate to book value.

	Book amount 2016 £m	Fair value 2016 £m	Book amount 2015 £m	Fair value 2015 £m
Short term borrowings	**-**	**-**	201.2	200.0
Long term borrowings	**445.1**	**477.7**	248.0	281.3
Short term debtors	**-**	**-**	201.2	200.0
Long term debtors	**445.1**	**477.7**	248.0	281.3

The company on-lends to Greensand Senior Finance Limited an amount equal to each bond or other debt raised externally at the same interest rate.

13 Derivative financial instruments (continued)

(iv) Interest rate risk

In respect of income earning financial assets and interest bearing financial liabilities, the following tables indicate their effective interest.

Weighted average effective interest rates by class

	Loans & Receivables 2016 %	Financial Liabilities 2016 %
£250m 8.50% Guaranteed Secured Fixed Rate Notes 2019	**8.67**	**8.67**
£125m Facility Agreement 2016 – Libor plus 4.0%	**4.54**	**4.54**
£75m Facility Agreement 2016 – Libor plus 4.0%	**4.97**	**4.97**

(v) Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 March 2016 is disclosed within notes 11 and 12.

(vi) Fair value measurements recognised in the statement of financial position

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL*				
Derivative financial assets	-	3.5	-	3.5
Financial liabilities at FVTPL*				
Derivative financial liabilities	-	(3.5)	-	(3.5)

There were no transfers between Level 1 and 2 during the period.

* Fair value through profit and loss

14 Called up share capital

	2016 £m	2015 £m
Authorised:		
50,000 ordinary shares of £1 each	**0.1**	0.1
Allotted and part paid:		
49,999 ordinary shares of £1 each paid up as to £0.25p	**0.1**	0.1
Allotted, called up and fully paid:		
1 ordinary share of £1 each	**-**	-

The shares were issued at par on 28 March 2011.

15 Ultimate parent and controlling party

The immediate parent undertaking is Greensands (UK) Limited. The ultimate parent and controlling company is Greensands Holdings Limited (Registered Number: Jersey 98700), was incorporated in Jersey and is itself owned and controlled by a consortium of investors. At 31 March 2016, the major shareholders in Greensands Holdings Limited were a consortium including IIF International SW UK Investments Limited (managed 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 (Greensands) Financing Plc. 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.

16 Transition from UK GAAP to FRS 101

This is the first year 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, where appropriate, to reflect the company's adoption of FRS 101, except where otherwise required or permitted by IFRS 1.

Preparation of the opening statement of financial position as at 1 April 2014 under FRS 101 was consistent with that under UK GAAP therefore there are no financial adjustments on transition from UK GAAP to FRS 101. As part of this process consideration was also given to the income statement and statement of financial position disclosed within these financial statements and no differences have been identified.

17 Events after the statement of financial position date

One of the major shareholders of Greensands Holdings Limited (GSH), being The Northern Trust Company, sold their shares in GSH, the ultimate parent company, after the reporting date. The shares were acquired by existing shareholders under the pre-emption arrangements on 19 May 2016.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER (GREENSANDS) FINANCING PLC FOR THE YEAR ENDED 31 MARCH 2016

We have audited the financial statements of Southern Water (Greensands) Financing Plc for the year ended 31 March 2016 which comprise the Income statement, statement of financial position, statement of changes in equity and the related notes 1 to 17. 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, 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 the 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 on financial statements

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;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER (GREENSANDS) FINANCING PLC FOR THE YEAR ENDED 31 MARCH 2016 (continued)

Matters on which we are required to report by exception

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

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

James Leigh (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
29 July 2016