Greensands

Annual Report and Accounts 2014–15

Contents

Introduction

Greensands Holdings Limited (GSH or “the company”) is the ultimate parent company of Southern Water Services Limited (Southern Water) and all other group companies, with no minority interests.

The only operating company in the group is Southern Water and the information contained in this Strategic Report is therefore mainly based upon the activities of this company only. This information is fully supported by GSH and has been adopted from the Southern Water annual report. Sections 1 and 2 that follow contain reviews of GSH and Southern Water for the year to 31 March 2015, respectively.

The Board of GSH has approved this Strategic Report, from pages 2 to 5 covering GSH and pages 8 to 44 covering Southern Water.

M Nagle
Director

1) Greensands Holdings Limited

Strategic Report:
The Business

GSH acts as a holding company, with the only trading subsidiary being Southern Water.

This section sets out financial performance and structure of the group as well as the corporate governance in place at GSH. The activities, performance and corporate governance of Southern Water are described in section 2 from page 8.

Financial KPIs

Under the group financial structure there is a comprehensive set of covenanted financial ratios. Of these, two are key ratios by reference to Southern Water, namely the ratio of consolidated net debt to Regulatory Capital Value (RCV) and the ratio of consolidated EBITDA to consolidated net cash interest cost.

The net debt used in the net debt to RCV ratio is calculated as consolidated secured short and long-term borrowings less cash and short-term deposits. The RCV of Southern Water is set by Ofwat for five year periods at periodic reviews and reflects forecast growth in the asset base. It is adjusted at each periodic review for any out-performance, shortfalls in outputs or permitted additional investment and for certain asset disposals. The target for the current five year regulatory period ending March 2015 was to reduce the ratio of consolidated net debt to RCV to below 90 per cent, at 31 March 2015 it was 88 per cent. Lock-up is defined as a restriction on all dividend payments.

The consolidated EBITDA to consolidated net cash interest is targeted to be maintained comfortably above the 2.0 times covenanted level.

Net debt: RCV	%
2013–14 performance:	88
2014–15 performance	88
Covenanted lock-up level	<93
Covenanted default level	<95

Consolidated EBITDA to cash interest cover	Times
2013–14 performance	3.2
2014–15 performance	3.4
Covenanted default level	2.0

Group financial performance

The accounting policies of the group, including any changes in accounting policies in the period, are set out on pages 58 to 61.

Consolidated profit and loss account

The consolidated profit and loss account of GSH is summarised in Table 1 below:

Table 1	Years ended 31 March		Change
	2015 £m	2014 £m	%
Turnover	**828.6**	806.2	*2.8*
Operating costs before exceptional items	**(532.3)**	(510.4)	*4.3*
Other income	**0.2**	0.2	-
Operating profit before exceptional items	**296.5**	296.0	*0.2*
Exceptional items	**2.4**	(18.8)	-
Operating profit	**298.9**	277.2	*7.8*
Profit on disposal of fixed assets	**1.3**	0.5	*160.0*
Net interest	**(293.5)**	(323.8)	*(9.4)*
Profit/(loss) before tax	**6.7**	(46.1)	*(114.5)*
Tax	**(24.1)**	41.2	-
Loss after tax	**(17.4)**	(4.9)	*269.4*

Operating profit largely reflects the trading results of Southern Water for the year (further details on pages 31 to 44) and additional depreciation from the revaluation of assets on acquisition.

The loss after taxation for the year amounted to £17.4 million (2013–14: loss of £4.9 million).

Balance sheet

As at 31 March 2015 the group had tangible fixed assets of £5,637.0 million (2013–14: £5,607.5 million), an increase of £29.5 million from 31 March 2014. This increase largely results from the capital investment programme of Southern Water, of £323.1 million, offset by depreciation of £281.9 million and grants and contributions received of £11.8 million. Total fixed assets as at 31 March 2015 includes goodwill arising on acquisition of £78.8 million (2013–14: £85.1 million).

Creditors falling due within one year totalled £417.8 million (2013–14: £250.2 million) as at 31 March 2015. This increase mainly relates to the reclassification of a £200 million loan facility from creditors falling due after one year, offset by a reduction in the level of capital creditors resulting from the lower capital investment at Southern Water in the year.

The loan facility of £200 million was due for repayment on March 2016 and was refinanced in April 2015 as described in note 29 to the accounts.

Creditors falling due after one year reduced by £76.9 million to £4,758.2 million at 31 March 2015. This reduction principally resulted from the facility referred to above being classified as due within one year (book value £200 million), offset by inflation on index-linked bonds of £48.5 million and an increase in the accrued interest liability on the Eurobonds of £85.2 million.

As at 31 March 2015, net assets of the group were £507.5 million (2013–14: £559.2 million).

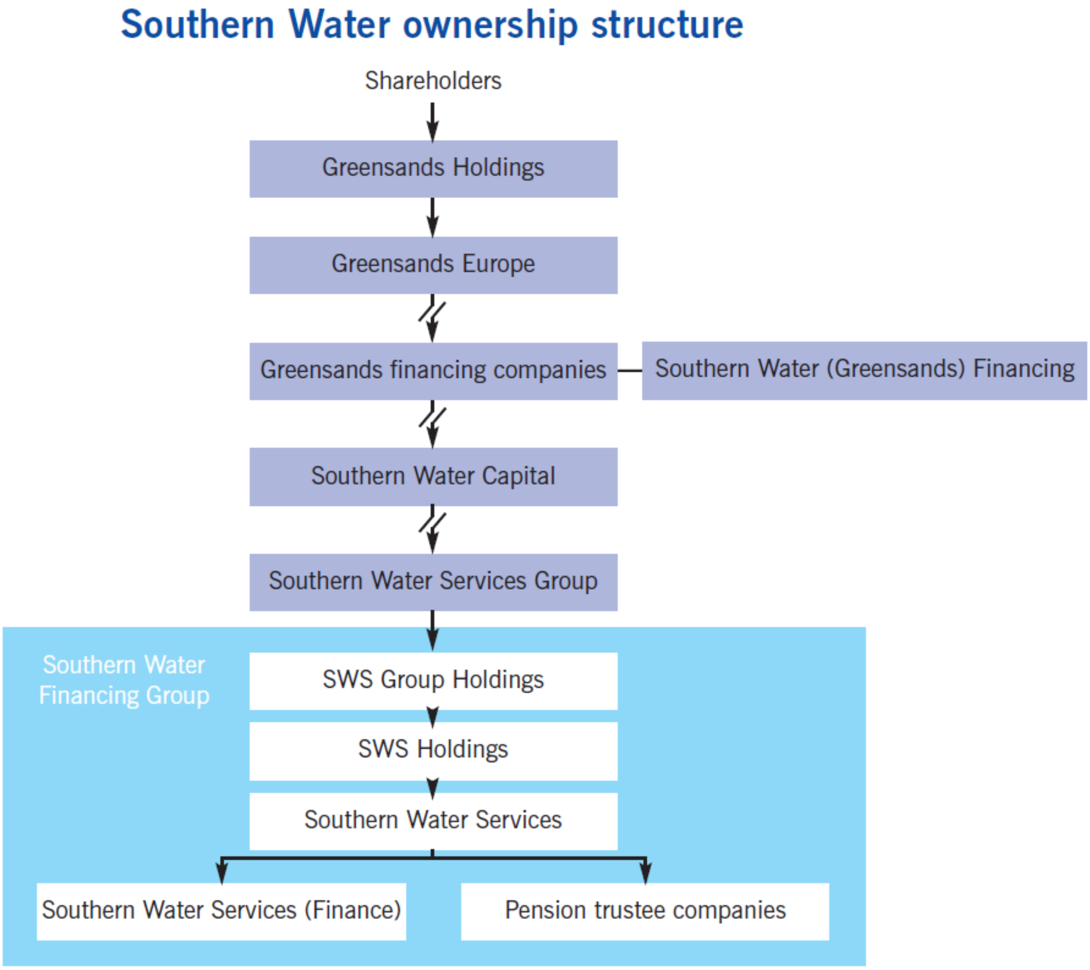
Cash flow

During the period, the group had a net cash inflow of £36.7 million (2013–14: inflow of £364.2m). With the exclusion of interest, tax and dividend payments, and issue of long-term debt, the cash flow of the group largely reflects the cash-flow of Southern Water.

Capital structure, liquidity and other financial matters

Capital structure and borrowing covenants

In September 2007, a consortium of infrastructure investors established the Greensands group of companies for the purpose of the acquisition of 100 per cent of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water (See ownership chart below).



The acquisition was financed by £1.9 billion of equity and debt and the group debt structure comprises two Euro Medium-term Note Programmes.

In April 2011, the acquisition borrowing at the Greensands debt companies was refinanced. A new company, Southern Water (Greensands) Financing Plc, was incorporated into the group and a new long-term covenanted financing structure put in place. Southern Water (Greensands) Financing Plc issued a £250.0 million listed bond, out of a £1.0 billion Euro Medium-Term Note programme, and a new £225.0 million bank facility, from which £200 million is drawn. The proceeds were used to refinance the £441.2 million of acquisition debt at Greensands debt holding companies and to provide a £25 million liquidity facility at the holding company level. In addition, £47.8 million of accrued inflation on index-linked swaps to 31 March 2011 was paid out of existing cash balances.

Southern Water carried out a refinancing of its regulated business in 2003 with the aim of reducing its cost of capital through a substantial increase in the proportion of debt finance. At the same time a Common Terms Agreement (the CTA) between the members of the Southern Water Financing Group and its debt investors was entered into. The CTA sets out the arrangements for the ongoing management of Southern Water's debt issuance programme, including a set of financial covenants, trigger events and events of default. Further details can be found on pages 39 to 41.

Interest rate, liquidity and cash management risk

Southern Water (Greensands) Financing Plc has hedged its exposure to floating rate interest risk on 75 per cent of the £200 million drawn bank facility by fixing its LIBOR based interest rate.

Southern Water hedges its exposure to interest rate risk on at least 85 per cent of its outstanding debt liabilities in respect of Class A and Class B debt for the period to the next periodic review and at least 70 per cent in the next period (on a rolling basis) into either index-linked or fixed rate obligations.

Additional funds are raised as required, to ensure that sufficient cash and/or facilities are available to fund the business for at least the next twelve months and both Southern Water (Greensands) Financing plc and Southern Water have debt covenants to this effect.

The group sets exposure and minimum credit rating limits for deposits of cash balances.

The regulatory framework, under which revenues and the RCV are indexed, exposes the group to inflation risk. This risk is managed through the use of index-linked instruments within the overall debt portfolio.

An analysis of net debt is included in note 22 to the financial statements.

Credit risk

For Southern Water, 82 per cent of the water and wastewater services revenue is received from household customers. The Water Industry Act 1999 prohibits the disconnection of domestic customers for failure to pay water and wastewater charges. An extensive range of collection and recovery methods is employed, as appropriate to the individual circumstances of the customer, to minimise the risk of non-payment. For non-domestic customers, the right to disconnect supplies for non-payment remains and is exercised as appropriate.

The level of provision against non-collection of charges is reviewed on an annual basis, based on the age profile of the debt and the likelihood of recovery. A material increase in uncollected revenue, compared with that assumed in the setting of price limits, may provide grounds for an interim price determination by Ofwat.

Financing Risk

See page 42.

Rating

Credit ratings for both Southern Water (Greensands) Financing and Southern Water Services are as follows:

Credit rating	Southern Water (Greensands) Financing	Southern Water Services
Standard & Poor's	BB-	Class A debt: A- Class B debt: BBB
Fitch	BB-	Class A debt: A- Class B debt: BBB
Moody's		Class A debt: Baa1 Class B debt: Ba1 Corporate family rating: Baa2

Fitch have also rated Greensands UK Ltd long term issuer default rating at B+.

The group is fully in compliance with all of its covenants and the company has an internal business plan which is expected to stabilise the overall credit rating position.

Corporate Governance

Overview

GSH is essentially a single-purpose entity, being the ultimate holding company for the only operating business in the group, Southern Water. Accordingly, the GSH Board shares and supports the aims of the Board of Southern Water for the long-term success of that company and also its commitment to maintaining high standards of corporate governance. Details of the governance of GSH are listed below, and those of Southern Water are summarised on pages 45 to 49.

Chairman

Our independent non-executive Chairman, Robert Jennings was appointed on 28 May 2014 and is also the Chairman of Southern Water. His role is to unify and lead the Boards in their respective responsibilities, to encourage and facilitate the contributions of Board members and to ensure adherence to the governance principles and processes of the respective Boards.

Board membership

The GSH Board comprises five members in addition to the Chairman. Two of those members are appointed by a shareholder represented by JP Morgan Asset Management, two are appointed by shareholders represented by UBS Global Asset Management and one is appointed by a grouping of Australasian and Canadian pension funds (the Access Group). Another shareholder is entitled to appoint an observer to attend and take part, but not vote, at Board meetings. Further details of the Board members can be found on page 50.

Board operation

GSH is party to the shareholder agreement between the shareholders in the Greensands consortium. Under that agreement, the GSH Board members, apart from the Chairman, also comprise the Boards of the six subsidiaries down to Greensands Investments. Two of those directors comprise the Board of Southern Water Capital. Apart from the Chairman, no director of GSH is also a director of Southern Water, although two are alternate directors for the shareholder-nominated directors on the Southern Water Board.

The GSH Board meets at least four times a year on its own. The normal business at such meetings is to agree formally any changes in membership, to note any relevant shareholder activity and to approve formally any transfers of shareholdings. The GSH Board is present with the Southern Water Board at the regular monthly meetings of that Board, to consider the operational and financial performance reports of that company. That financial performance does, of course, represent the principal financial performance of the group.

The GSH Board members are very mindful of the independence of the directors of Southern Water, but can bring additional knowledge, skills and resources of their nominating shareholders and employers, as well as their own personal skills, experience and knowledge of businesses and business sectors similar to that of Southern Water.

For compliance with Condition P of Southern Water's Licence, the shareholders who are considered to be the Joint Ultimate Controllers of Southern Water have given undertakings to provide all necessary information to that company, not to cause Southern Water to breach any of its obligations and to ensure that there are not less than three independent non-executive directors on the Southern Water Board. Copies of those undertakings are published on Southern Water's website.

GSH does not have any executive directors nor dedicated management employees. Apart from the director appointed by the Access Group, the GSH directors are not remunerated by GSH for their appointments.

Role of the Company Secretary

The Company Secretary is Kevin Hall, who is also Company Secretary of Southern Water. All directors have access to the advice and services of the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with its governance framework and that there are good information flows to the Board. The appointment and removal of the Company Secretary is reserved to the GSH Board.

Director induction, training and development

GSH directors take advantage of the induction and training opportunities available to Southern Water directors as appropriate. On appointment to the Board, a director will discuss and agree induction coverage and then an appropriate comprehensive and individualised induction pack is provided, which will include information on Southern Water and the holding group structure, the regulatory framework of Southern Water, customer service and the operation of assets, strategic plans, financial reports, business plans and the governance framework. This and further relevant information is summarised in a directors' handbook.

Board meetings

The Board held five scheduled meetings and one additional meeting during the year. The agenda and papers are sent to the Board members in advance of each meeting. The Board generally holds its meetings where the Board of Southern Water is meeting that month.

The Board has no standing committees.

Table of attendance at Board meetings

Attendance at scheduled Board meetings in 2014–15			
Robert Jennings (appointed 28 May 2014)	6/6	Michael Nagle	6/6
Paul Ryan (resigned 7 January 2015) Peter Antolik (as alternate)	2/4 1/1	Bronte Somes (appointed as alternate 1 April 2015) Paul Moy (as alternate, appointed director 1 April 2015)	4/6 2/2
Keith Budinger	6/6	Andrew Truscott (appointed 7 January 2015)	2/2
Jeff Woodard (appointed 28 May 2014)	6/6		

Colin Hood resigned as independent non-executive Chairman with effect from 1 April 2014, and Robert Jennings was appointed to the position on 28 May 2014.

At the Board meeting on 28 May 2014 Jeff Woodard was appointed to the Board, replacing Martin Roughead who resigned with effect from 30 April 2014.

On 7 January 2015 Andrew Truscott was appointed as a director, replacing Paul Ryan who was nominated as his alternate.

With effect from 1 April 2015 Paul Moy was appointed as a director, replacing Bronte Somes who was nominated as his alternate.

Annual General Meeting

As ultimate holding company for the group, GSH holds an AGM, and in 2014–15 this was held on 15 October 2014.

2) Southern Water Services Limited

Strategic Report:
The next five years

Business Plan

Our Business Plan for 2015 to 2020 sets out the improvements we will make to deliver better water and wastewater services to 4.6 million people across Kent, Sussex, Hampshire and the Isle of Wight.

It is based on detailed discussions with more than 34,000 customers and stakeholders and includes 26 promises about what we will achieve for them. These promises represent clear performance commitments that centre on what our customers told us they wanted. They will result in a wide range of improvements over this five-year period while average bills will drop by eight per cent before inflation.

Our promises align to six customer priorities: responsive customer service, a constant supply of high-quality drinking water, removing wastewater effectively, looking after the environment, providing customers with better information and advice and affordable bills.

During the next five-year period, AMP6, we will be spending £3.2 billion on improving performance in these areas, supporting thousands of jobs and boosting the local economy.

We are confident that delivery of our Business Plan will ensure we are among the leaders in the industry for customer service, operational performance and efficiency.

To find out more, visit our website at www.southernwater.co.uk/businessplan.

Responsive customer service

- Quick and effective resolution of your queries – 90 per cent resolved first time by 2020
- Improved service to you and your community – increase the number of customers who feel our service meets their individual needs and those of their community
- Improved ranking in our regulator's league table for customer satisfaction – be among the best by 2020
- Direct compensation paid if we let you down – this will be linked to the service standards set out in our updated Customer Charter

A constant supply of high-quality drinking water

- No restrictions on water use, such as hosepipe bans, unless there are at least two dry winters in a row
- Reduce leakage by 2020 – target of 86 million litres a day by 2020, equating to a reduction of almost two million litres a day
- No increase in the average time you are without water, for example because of a burst water main
- Aim for 100 per cent compliance with drinking water quality standards – at least maintain performance of 99.93 per cent then 99.95 per cent from 2017–18
- No increase in the number of households suffering from persistent low water pressure
- Help reduce the effect of hard water in homes and businesses – increased customer understanding through better information and advice

Removing wastewater effectively

- No increase in the number of blockages in our sewer network
- Significant reduction of 25 per cent in sewer flooding inside your homes and businesses by 2020
- No increase in the number of incidents of sewer flooding affecting outside areas
- Reduction of five per cent in complaints about smells from our wastewater treatment works and pumping stations by 2020

Looking after the environment

- No ‘serious pollution incidents’ affecting local rivers, streams and beaches caused by our operations by 2020
- Aim for 100 per cent compliance by our wastewater treatment works with required standards – at least maintain performance at 98.6 per cent (2014–15 target level)
- Increase by seven the number of beaches with ‘excellent’ bathing water quality by 2020
- Increase the proportion of renewable energy we use to 16.5 per cent by 2020
- Reduce the amount of water we take from the environment by 1.4 per cent, despite predicted population growth of four per cent

Better information and advice

- Ten per cent reduction (15 litres per person, per day) in average water use by 2020 with better advice on saving water, energy and money – we will reduce average water use from 148 litres (2012–13) to 133 litres per person, per day *
- Improved advice on how to prevent blocked drains to help reduce blockages – increase the number of customers who know how to help prevent blockages in drains and sewers
- A 50 per cent reduction in bill queries by 2020
- Customers provided with better information about what we do, why we do it and what it costs – increase the number of customers who understand how we use the money they pay us

Affordable bills

- Efficiency savings made during 2015–2020 to help keep bills as low as possible
- Ten per cent reduction (15 litres per person, per day) in average water use by 2020 with better advice on saving water, energy and money – this will reduce average water use from 148 litres (2012–13) to 133 litres per person, per day *
- Customers in genuine financial hardship provided with improved support – increase the proportion of customers who take up the support we offer around bills
- Customers provided with better information on how we are providing value for money – increase the number of customers who feel our services provide value for money

*Note this promise contributes to both better information and advice and affordable bills

Our performance in AMP6 will also be measured against the delivery of 15 performance commitments specified by Ofwat:
Water service:

- Mains bursts – no more than 2,383 bursts per year
- No less than 99.82 per cent compliance on levels of turbidity (cloudiness), iron and manganese
- Coliform bacteria compliance, water supply works – no less than 99.92 per cent compliance
- Coliform bacteria compliance, water service reservoirs – no less than 99 per cent compliance
- No more than six sites per year breaching turbidity (cloudiness) limits
- Discoloration – no more than 0.86 customer reports per 1,000 properties per year

Wastewater service:

- Sewer collapses – no more than 368 collapses per year
- Wastewater treatment works compliance – no less than 99.9 per cent of population served by works meeting discharge consents
- External flooding (other causes, including blockages and collapses) – no more than 10,974 incidents a year
- A reduction of minor (Category 3) pollution incidents to 158 per year by 2017–18
- At least maintain the number of beaches with ‘excellent’ water quality, as defined by the Environment Agency, at 54 each year
- Return any money not spent on the delivery of our planned bathing waters scheme to customers

Specified schemes:

- Thanet sewers scheme – an £80 million upgrade of the area's sewer network
- Woolston Wastewater Treatment Works – a £63 million redevelopment which will ensure treated wastewater meets stringent new Environment Agency standards
- Millbrook sludge scheme – an £11 million scheme to provide additional sludge treatment capacity at our Millbrook Wastewater Treatment Works.

Getting ready

As part of our commitment to keep bills low for our customers, we are promising more than £200 million in efficiency savings by 2020. This represents a saving of £20 a year for each household we serve.

To do this, and keep the promises made in our Business Plan, we have invested heavily over the past 12 months to improve our capability, our tools and systems and to change the relationship with our supply chain partners to bring greater skills and capability back in house.

During the past year we consolidated 16 initiatives into a coherent change programme and put in place formal management and review structures to enable us to deliver the efficiencies and improvements required in the next five-year period.

We have:

- Updated our frontline systems, for instance by providing field staff with new handheld devices which allow them to carry out administration on site and on the move
- Updated our billing and customer service system to enable customers to manage their accounts online
- Supported our workforce by improving our workspaces, updating the computer desktop and ensuring we have the necessary skills and tools to do the job
- Improved the resilience of our systems which provide real-time monitoring of our operational sites.

This work will continue into AMP6 and there will be a major focus on realising the benefits from our investment in these business improvements.

A new delivery model and new partners have put us in a strong position as we move into the next five-year period. Significant changes have included reinstating our in-house engineering force, creating a multi-disciplinary skilled team. We took on 40 new people during the year and this number will increase to 100 within the first year of AMP6, further strengthening the department's capability.

We have mobilised the Southern Water partnership that will be the 'delivery vehicle' for the majority of our planned capital investment. A successful procurement exercise resulted in the appointment of partners who share our vision and aspirations for the next five years and beyond.

MWH joined us as our 'strategic solutions partner' to support our in-house engineering team on planning and designing capital projects and helping define what we need to build. We also appointed three delivery partners, all joint ventures involving leading suppliers in the water industry:

- CMDP (MWH and Costain) will maintain and improve our water supply and wastewater treatment works in Kent and East Sussex
- GTM (Galliford Try and Imtech) will do the same in West Sussex, Hampshire and the Isle of Wight
- MGJV (Morrison Utility Services and Galliford Try joint venture) will expand and maintain our network of water mains and sewers.

We also appointed three 'react and maintain' partners, Clancy Docwra, Cappagh Browne and BTU. They will be looking after the day-to-day repair and maintenance of our network of water mains and sewers and our water supply and wastewater treatment works.

Market reform

In May 2014, the Water Act 2014 became law, signalling significant change for water companies. Its purpose is to reform the industry to ‘make it more innovative and responsive to customers and to increase the resilience of water supplies to natural hazards such as drought and floods’ and also to ensure a smooth transition to a competitive retail market.

The Act provides for the introduction of retail competition for water and sewerage services to non-household customers in England. The market will open in April 2017, allowing these customers to choose where they buy their water and sewerage services. Some 90,000 of our customers will be affected.

Water companies will have to separate their wholesale and retail businesses and new retailers will be able to enter the market. When the market opens, Southern Water will continue to operate and maintain the water and sewerage networks in the region.

We have an extensive market readiness programme under way, with full executive management engagement. This will deliver the business change required to meet the challenge of the new market while remaining focused on keeping our promises to customers.

Customers

Responsive customer service

Our performance

	2014–15		2013–14
	Target	Achieved	Achieved
SIM score*	81	**78.7**	75.2
Quantitative score	38	**34.6**	32.6
Qualitative score	43	**44.1**	42.6

* This measure is based on the methodology used last year for comparative purposes. The calculation method changed during 2014–15 and under this new method, our score for 2014–15 was 72.

We continued to improve our service to customers in 2014–15. However, we had set ourselves a more challenging target to enhance our standing in the Ofwat league tables for customer service and, despite our best endeavours, this was not achieved. Our SIM score of 78.7 represents a five per cent increase on the previous year but we did not hit the 81 we hoped to achieve.

SIM – the Service Incentive Mechanism – is the measure Ofwat uses to assess how well we serve our customers. It is made up of two elements – quantitative and qualitative. The former takes into account written complaints and phone calls.

In total during the year we received almost two million phone calls and 400,000 letters and emails from customers. The number of written complaints dropped by 13 per cent compared with the previous year and unwanted phone calls by 21 per cent. These are calls that are unwanted from the customer's point of view, for example about an event that has caused them frustration, and also repeat or chase calls.

The qualitative score is based on the results of surveys conducted four times a year on behalf of Ofwat. Each survey asks 200 customers who have contacted us with a query or complaint what they thought of our service. This year, our average score based on 'resolved' contacts was 4.53 out of 5.0, an improvement on last year's score of 4.41.

We operate a Guaranteed Standards Scheme (GSS) which guarantees the minimum standard of service customers should receive from us. If we fail to provide an appropriate service we compensate customers accordingly. The number of failures and the value of payments recorded under the GSS and our own voluntary Customer Charter in 2014–15 are shown below. We conducted specific research to find out what customers found most frustrating in terms of service failure and, as a result, some financial redress payments are being enhanced from April 2015.

	2014–15	2013–14
Statutory GSS – number of events	**3,680**	4,380
Statutory GSS – number of payments made	**3,604**	4,315
Statutory GSS – payments made £k	**379**	433
Company Customer Charter – number of payments made	**107**	77
Company Customer Charter – payments made £k	**3**	4

Customer improvements

We continued to work hard in 2014–15 to provide the high-quality, responsive customer service people told us they expected.

We carried out a major review of every aspect of our work with customers and have made some key changes, including putting in place a new management team led by a newly appointed Chief Customer Officer.

To date we have:

- Invested in a £13 million upgrade of our billing system to make it more efficient and effective and allow customers to manage their accounts online
- Gathered the views of hundreds of customers to help shape our new online services which are due to go live in 2015. We have been testing the services with 100 of these customers prior to roll-out. Once live, they will allow people to do things such as check their balances, set up direct debits, submit meter readings and notify us of changes, for example new bank details
- Set up a dedicated phone line to manage customer complaints. Complaints dropped by 13 per cent in the past year, though we acknowledge we have more work to do to reduce this figure further.

Our Live Chat initiative, which enables customers to discuss their queries online with a member of our dedicated team, had its first full year and has proved hugely popular. Numbers have grown dramatically – we had more than 30,000 chats during the year, with a record of over 4,500 in March following the expansion of the Live Chat team.

We continued to use the Your Voice customer forum, which we set up more than a year ago, to seek views on our services and ask how we can improve. We have more than 100 customers from across our region involved in the forum and they have their say via focus groups, online questionnaires and email surveys. We ask them for their views on things such as the design of leaflets and other customer materials, their preferred method of contact and how often they like to be billed.

Affordable bills

Helping customers who struggle to pay their water bills continued to be an important area for us. During the year we strengthened our focus on affordability, giving practical support and advice to those in difficulties. We achieved this through our debt assistance schemes and tariffs.

Overdue bills and bad debt are a significant issue for the water industry as they have an impact on every customer's bill. Our work in this area means we help those in need, reduce the burden of non-payment on other customers and manage our costs.

The schemes and tariffs are:

- NewStart – when qualifying customers pay their current water charges, we clear the same amount from their arrears. We broadened the qualifying criteria and this more inclusive approach increased the overall number of customers that we are helping this way to 12,502

- WaterSure – this provides financial help to metered households that use large amounts of water for essential purposes, for example certain medical conditions. We helped 8,582 customers through this tariff

- Water Direct – this scheme, where payments are taken directly from customers' benefits, helped 10,835 people reduce their debt.

Social tariff

We also developed a new social tariff – the Essentials Tariff – for customers who have genuine financial difficulty paying their water bills. During 2014–15 we ran a small pilot scheme in partnership with the Citizens Advice Bureau, aimed at testing the design of the tariff, customer communications and customer acceptability. There was further customer research and consultation with the Consumer Council for Water in the last half of 2014 and, in January, Ofwat approved our proposals. We have already seen a 79 per cent payment sustainability rate, which is the measure of customers adhering to an agreed payment plan.

Under the Essentials Tariff, introduced from 1 April 2015, customers spending at least five per cent of their household income on water services charges are eligible for a reduction in bills ranging from 20 to 90 per cent. When coupled with our NewStart scheme, this gives our most financially vulnerable customers a way out of debt while ensuring they make a contribution for the cost of water services.

In addition, the Southern Water Charitable Trust Fund, a registered charity set up to help customers in financial hardship, awarded grants worth a total of £165,000 to 342 people this year.

Our Debt Advice Team answered 68,489 calls from customers seeking help and more than 55,000 people visited the advice pages on our website, an increase of some 3,000 on the previous 12 months.

We worked with The Samaritans to train and support our staff who talk to customers who are in difficult and sometimes emotional circumstances. Sussex and South Central Citizens Advice Bureau provided further expert training for us on how to ask customers sensitive questions about income and expenditure. We also worked with StepChange, a national debt charity, to help people struggling with wider debt than their water bills. We referred these customers to the charity for more assistance.

Metering support

We continued to support customers who had a water meter fitted as part of our pioneering five-year universal metering programme to reduce consumption and secure water resources for the future.

To date, an impressive 63 per cent of households that have changed to metered charges have benefited from lower bills, significantly more than predicted, and the average annual saving is £176, also more than predicted.

Customers whose bills rise after having a meter installed are offered our Changeover Tariff, which introduces the increase gradually over three years. More than 29,617 households have taken this up.

Those who are unable to pay the increased charges are also offered our Support Tariff and are put in touch with IncomeMAX, an independent social enterprise which helps people claim their full benefit entitlements. In the past year, 350 people were assisted in this way, bringing the total to date to 3,191. We have now secured a total of more than £3 million in benefits and tax credits for our customers.

We always offer help to those in genuine financial difficulty through our Debt Advice Team and support tariffs. However, we sometimes share information about non-paying customers with credit reference agency Experian and the defaults we register can affect personal credit ratings. Registering defaults has encouraged more customers to pay their outstanding bills in full, resulting in the collection of almost £7 million since September 2012.

Working more efficiently

We are working more efficiently to achieve cost savings that will help us keep customers' bills as low as possible. For example, we:

- Set up a specialist energy team in Operations to look at our top 30 energy-consuming wastewater sites – those that use the most chemicals and power – and consider how to optimise the way they were run. The resulting changes meant we saved £1.2 million during the year. They included installing timers on machinery that prevent it running continuously, thus saving energy, and using recycled chemicals in our treatment process. The team came up with 300 initiatives and will continue to monitor and review our sites for further efficiencies.

- Use large volumes of power and are trying to find ways to keep the costs as low as possible. Our energy team monitors the energy markets to find the best time to buy power at the lowest price. We have also investigated the types and costs of installing additional renewable energy capacity to find investments that quickly pay for themselves and keep energy bills lower. We are looking again at the feasibility of installing solar cells on our sites to provide power for site processes such as pumping.

- Also regulate energy costs by managing the times we use power and avoiding times of expensive tariffs. For example, we pump water at night when energy is cheaper and switch off non-critical plant when the power network raises the price of energy during peak winter demand.

- Are redesigning some of the processes that support the core business. We want to make them more effective and efficient and remove duplication. Some of these business services had become too complex. We have already launched pilot studies into streamlining data capture and the way we monitor our investments.

- Have improved the way we work with colleagues and partners by redeveloping the workspace in our Falmer office. The new environment aims to encourage collaboration and innovation and includes contemporary features such as space for stand-up meetings and walls that can be written on. There are break-out areas so teams can resolve queries efficiently as they arise instead of having to arrange a formal meeting.

Better information and advice

Our customers have told us they want better information and advice about what we do, how we are performing and how we spend their money.

We promised a range of improvements to achieve this and during the year we made substantial progress. More than 1.1 million people visited our website and benefited from a variety of changes we carried out to make information easier to access.

We updated the website to make it mobile friendly, recognising the fact more people use tablets and other mobile devices to look at it on the move. The display adjusts to suit the device, meaning it is easier to see and read.

We integrated some of our microsites, including Learn to Swim, climate change and the Brighton sewer tours, into the main website, making it more streamlined and clearer. It is now easier to manage and, in the case of the latter, has saved money as we no longer have to run a separate server for it.

We also redesigned our popular Waterwise plant guide, which helps customers create water-efficient gardens by picking the right plants for their soil and location.

We expanded our social media team, which uses Twitter and Facebook to answer customer queries. We now have more than 3,500 followers on Twitter. The number of customers contacting us via social media has trebled in the past year.

Water efficiency

Water efficiency continues to be a top priority for us and during the year we devised additional ways to save water, energy and money and provided information and advice to thousands of customers.

As part of our metering programme, more than 14,000 customers had water and energy audits in their homes conducted by trained advisers called Green Doctors from the charity Groundwork. The Green Doctors fitted water-saving showerheads and tap aerators and gave customers simple tips to help them save money on their water and energy bills.

In the western part of our region we began innovative work with Eastleigh Borough Council and the Environment Agency on a voluntary watermark to encourage the highest water-efficiency standards for new housing. The award of a watermark will ensure future occupants of these homes will have lower consumption and cheaper water and energy bills.

We took the lead in promoting the European Water Label, which aims to label products such as showers, taps and toilets according to their water efficiency. Our water efficiency manager chairs the UK steering group, consisting of manufacturers, retailers, regulators and Government. In this role, he represents all the UK water companies as well as Southern Water. The group is expanding the label to include products such as garden hoses and pressure washers.

During the year we worked with the Green Alliance on a landmark UK report on the importance of water efficiency in aiding lower bills for customers and helping to maintain a more resilient service. Our Chief Executive was among the high-profile speakers at the launch in February where they discussed the report’s findings and recommendations, including better use of the water label.

Pain in the drain

We reached thousands of customers with our award-winning Pain in the Drain campaign, which aims to prevent sewer blockages, flooding and pollution.

This year we teamed up with Waitrose and Sainsbury’s in our drive to stop people pouring fat, oil and grease down their drains which can lead to blockages in our sewers. The supermarkets gave out 20,000 fat traps and funnels to customers as they bought their Christmas turkeys.

We worked with Brighton and Hove Food Festival to raise awareness among hotels, restaurants and other hospitality businesses of the consequences of putting fat down the sink. As part of this, we took a group of chefs and hoteliers underground for a tour of the Victorian sewers in Brighton.

In addition, we gave away thousands more funnels and informative ‘fat packs’ to the public, many of them at our mobile Water Café events. The café takes to the road each spring and summer to visit community events where our staff talk about our services, water efficiency and Pain in the Drain.

We also introduced Bruce, our sewer monster, to reinforce the message in a fun way. The large orange stuffed toy was found in our sewers at Peacehaven and became a campaign mascot. He has his own Twitter account to spread important Pain in the Drain news.

Most sewer blockages are caused by items that should not be put down sinks or toilets such as wet wipes, nappies and cooking fat. During the first half of the year alone we cleared more than 6,000 tonnes of debris from our sewer network – the equivalent in weight of 2,000 hippos.

ConnectRight

We continued our partnership with other water companies and the Environment Agency on the ConnectRight campaign. The campaign highlights the risk of pollution when sewers are wrongly connected to the surface water network, which is designed to carry only clean rainwater directly to rivers and the sea.

ConnectRight has a website, www.connectright.org.uk, which gives customers guidance on how to check for misconnections. It carries information and advice on how to rectify problems and gives links to plumbers.

Services

A constant supply of high-quality drinking water

Water quality

	2014		2013
	Target	Achieved	Achieved
Overall drinking water quality index	99.97%	**99.97%**	99.94%
Disinfection control index	99.99%	**99.98%**	100%
Process control index	99.97%	**99.94%**	99.96%
Taste and odour sample pass rate	-	**99.98%**	99.81%

Our water quality performance in 2014 was our best for four years.

We achieved an overall rating of 99.97 per cent, which is among the best levels of compliance in the industry. This is excellent news for our customers who expect a constant supply of the highest-quality water from their taps.

We carried out more than 222,000 tests of water quality to meet the requirements of the Drinking Water Inspectorate. In addition, we conducted another 216,000 tests to measure samples against our own standards, which are more stringent than those set by our regulator. Combined, this is more than 1,000 separate tests every day to ensure our customers' drinking water supply is wholesome.

Taste and odour

The number of samples that passed our stringent tests regarding taste and odour improved significantly this year following the investment in new treatment facilities at our water supply works in Hastings. Our scores rose from 99.81 per cent to 99.98 per cent.

We have other investments planned which will further protect the water we provide to our customers. These include:

- Additional treatment systems in Hastings to protect drinking water against pesticides
- New systems to remove nitrate from water sources in Sussex and Kent
- Working in partnership with others, including farmers, to try to reduce the level of pesticides and nitrates entering some of the rivers and aquifers from which we abstract.

We achieved a near-perfect performance in the disinfection control index rating, a measure of the effectiveness of disinfection at our treatment works. Our 2014 rating of 99.98 per cent was marginally down on the previous year's 100 per cent success due to a few single detections of bacteria at some of our works.

Water supply

	2014–15		2013–14
	Target	Achieved	Achieved
Performance water non-infrastructure	Stable	**Stable**	Stable
Performance water infrastructure	Stable	**Stable**	Stable
Distribution maintenance index (2014 calendar year)	99.96%	**99.96%**	99.94%
Security of supply index (critical period)	100	**100**	100
Security of supply index (annual average)	100	**100**	100

It was another successful year during which we continued to drive down consumption. This allowed us to keep abstraction levels at a similar low to those of the early 1970s, despite the population increase over the past 40 years.

Our universal metering programme entered its final stages and continued to surpass the benefits we had anticipated. A major study by economists at Southampton University found the initial impact of our programme on consumption has been significant, with our customers using, on average, 16.5 per cent less water, vastly better than the national average of ten per cent. We are working hard to help customers sustain these savings.

We are the first company in the country to develop a universal metering programme to install water meters for almost 90 per cent of our customers as part of our long-term work to secure water resources for the future.

The number of meters fitted as part of the programme and in use reached 392,061 in the past year. The programme is due to be completed in 2015 and by then we expect more than 20 million litres of water to be saved each day thanks to customers being more water efficient. At the start of the programme in 2010–11, the average consumption was 154 litres per person, per day. By the end of 2014–15, it had dropped to 135 litres. This reduction of 19 litres per person, per day would be enough to fill 12 Olympic-sized swimming pools.

Thanks to our investment and strategic planning, water resources across our region remained in a healthy position with no restrictions in place and none expected.

In September, our Water Resources Management Plan was approved by Defra. The plan sets out how we intend to secure healthy, reliable drinking water supplies for homes and businesses from 2015 to 2040. It was developed using an innovative modelling technique to help us plan for the more severe droughts of the future and was the culmination of more than two years' engagement with customers and stakeholders.

Burst mains

We maintained a stable performance on burst mains, recording 1,770 which was consistent with our target of 1,901 bursts per year.

However, we put in a very strong performance regarding the average time customers were without water because of bursts – the figure this year was about six minutes. It was our best result in the five years of AMP5, significantly better than the AMP target of 18 minutes and well down on the 11 minutes we averaged in 2013–14.

During the year we completed our five-year water mains replacement programme, bringing the total to some 250 kilometres of new mains. This work brings significant long-term benefits to customers in terms of a reduction in the number of bursts.

We also maintained our good performance on low water pressure. We manage pressure in our network because if it is too high, it can cause burst mains and increase leakage. However, we have a duty to customers to maintain a certain pressure so they can use their appliances easily. Once again, we kept the number of households experiencing low water pressure down. During the year just 254 properties experienced low pressure.

Leakage

	2014–15		2013–14
	Target	Achieved	Achieved
Leakage (million litres of water per day)	88	**82**	85

We continued to lead the UK water sector on leakage control, achieving a level of 82 million litres of water per day and beating our target of 88 million litres.

Last year we had the lowest leakage level of any of the water and sewerage companies based on the percentage lost from total supply. Our performance was 24 per cent better than the average for these companies.

For the fourth year running, we beat the leakage levels set by Ofwat, even during the key winter period.
Our excellent performance was thanks to hard work by our leakage teams, who worked around the clock to find and repair leaks on our network of water mains, which exceeds 13,700km. We repaired some 21,500 leaks, more than 14,500 of which were found by the leakage teams.

The effort was supported by our new water meters which automatically detect leaks in customers' pipes. This year, leaks were found in 1,519 properties where meters were installed. In many cases, free repairs were carried out.

Removing wastewater effectively

	2014–15		2013–14
	Target	Achieved	Achieved
Performance wastewater infrastructure	Stable	**Stable**	Deteriorating
Internal flooding (number of properties)	235	**283**	389
Properties on flood register	276	**252**	363

Note - Serviceability performance for wastewater infrastructure in 2013–14 was self-assessed by the Board as stable and reported as such in our Annual Report for 2013–14. Ofwat, in its final determination, assessed performance as deteriorating, which is the view reflected in the table above.

Our multi-million pound investment in our wastewater assets proved its worth during the year.

Despite many parts of the region having high groundwater levels for the third year running, there was significantly less impact on our customers. High groundwater can affect service to customers if it infiltrates the sewer network, which is more likely during prolonged heavy rainfall. This year we had only two tankers and one pump in use to remove excess wastewater from sewers inundated with groundwater compared with 40 tankers in the winter of 2012–13 when levels were similar.

Our customers saw the benefits of our carefully targeted maintenance programme. We spent more than £40 million on our pumping stations, manholes and sewers and, as a result, there was a reduction of 27 per cent (106 properties) in flooding from sewers inside homes and businesses and in customers' gardens.

Flood protection

We used our experiences from the previous challenging winter to develop robust contingency plans to deal with groundwater flooding.

During the year we delivered the latest phase of our £12 million programme to survey and seal sewers across our region, preventing rising groundwater, river and surface water from forcing its way into our pipework.

Despite a wetter than usual winter, our investment in the sewer network meant that we only needed to overpump in one of the 60 towns and villages affected by groundwater flooding the previous year.

We became the first company in the UK to develop dedicated infiltration reduction plans for the areas worst affected by groundwater flooding. These plans set out the local strategies for effective management of groundwater infiltration of the sewers and what we are doing to reduce it.

In addition, we continued investment to improve the reliability and resilience of our wastewater network. Our work included the refurbishment of 142 pumping stations and renovation or replacement of sewers, notably a £15 million project to reline chalk tunnels in Ramsgate.

We continued to work in partnership with the Environment Agency and local authorities in our area to protect homes and businesses from flooding. Though we are not a flood relief agency, we believe this multi-agency approach is the best way to solve flooding problems in the worst-hit areas. We worked with all the lead flood authorities in our region and contributed to these strategies
.
Investment also continued in long-term initiatives to mitigate sewer flooding, including a £20 million flood alleviation scheme in Portsmouth to divert rainwater away from some of the city's sewers.

A significant amount of rainwater – more than 6,000 litres per second – which would normally go into the existing sewers is now diverted straight to the sea through surface water outfalls, easing the pressure on the sewers during storms and greatly reducing the risk of sewer flooding.

This scheme was part of wider investment in our wastewater assets in Portsmouth where, to date, we have spent more than £70 million to improve the resilience of the network and reduce the risk of sewer flooding for our customers.

Across our region, we were able to remove 111 properties from the At Risk Flood Register. This represents a reduction of 31 per cent in the number of properties on the register at the start of the year.
Ground-breaking mobile biological treatment tanks we developed to minimise the impact of the wettest winter on

record won top honours at the Institute of Water regional innovation awards.

We designed the innovative tanks, a UK first, to treat wastewater pumped out of flooded sewers to a much higher quality than could previously be achieved on site, keeping environmental impact to a minimum. The tanks mean much higher volumes of wastewater can be removed from overloaded sewers – 20 litres per second compared with two litres a second by tanker.

Preventing smells

Tackling smells is always a priority for us and long-term prevention work continues to pay off.

We received fewer complaints about smells during the year, 359 compared with 472 in 2013. This continues a long-term trend in which complaints about smells have dropped by more than half in the past ten years. We have made a commitment in our Business Plan to reduce the figure by a further five per cent in the next five years.

During this five-year period, we completed four large schemes to significantly reduce smells from our Aylesford, Goddards Green, Paddock Wood and Peel Common wastewater treatment works, a total investment of some £10 million. The schemes reduced the number of complaints about these works dramatically – in Aylesford's case to nil.

We worked hard to prevent smells from all our 365 wastewater treatment works and 2,375 pumping stations and during 2014–15 we spent in excess of £500,000 on planned and reactive maintenance to keep complaints as low as possible.

When we needed to carry out essential maintenance at sites close to properties, we wrote to residents to warn them about the possibility of smells for short periods. In all cases we react to complaints as quickly as possible.

Environment

Looking after the environment

Our relationship with the environment is a vital element of our business. Ensuring we act in a responsible, sustainable way is an essential part of how we work.

Bathing water quality

In 2014, every beach in our region once again met European standards for bathing water quality. All 83 bathing waters achieved the European 'mandatory' standard during weekly sampling carried out by the Environment Agency between May and September. Eighty per cent also passed the 'guideline' standard, which is 20 times tighter.

This was the last year bathing waters will be assessed against the standards detailed in the original 1975 Bathing Water Directive. A revised Bathing Water Directive came fully into force on 24 March 2015, which sets out more stringent standards and the 2015 bathing season will be the first where compliance is assessed against these. The new classifications are excellent, good, sufficient or poor. Our customers have told us high-quality bathing water is extremely important to them and we have promised a 15 per cent increase in the number of beaches with 'excellent' bathing water quality by 2020.

Bathing waters around the UK initially predicted to be at risk of non-compliance with the new, tighter standards include Hastings and we have been working in partnership with the Environment Agency, Hastings Borough Council and other stakeholders to improve the water quality there. A significant programme of work is in progress to ensure our infrastructure does not compromise bathing water quality at Hastings in the forthcoming bathing season. We have spent £3 million on this, part of some £10 million worth of investment in Hastings to address issues with the sewerage system and identify misconnections.

During 2014, we continued to take part in a voluntary trial to alert local authority beach managers when we release storm water from combined sewer overflows (CSOs) during heavy rain. CSOs are sometimes needed because the water would otherwise back up in our sewers and flood customers' homes and gardens. The alerts allow beach managers to publicise the information for beach users. We are providing alerts for 22 beaches as part of the Cleaner Seas Forum Bathing Water Trials, which are led by the Government. The trials are in preparation for the new Bathing Water Directive and its higher quality standards.

The quality of bathing water can be affected by factors outside our control such as pollution in water running off roads and land or sewers wrongly connected to drains carrying rainwater. However, our environmental improvement programmes, including efforts to meet tighter discharge standards at our wastewater treatment works, continue to benefit the water along our coastline.

Preventing pollution

	2014		2013
	Target	Achieved	Achieved
All pollution incidents (wastewater), Category 1-3	267	**292**	320
Serious pollution incidents (wastewater), Category 1-2	7	**12**	9
Environmental Discharge permit compliance	98.6%	**99.0%**	95.9%

We have seen another strong improvement in pollution performance, with the number of incidents falling to 292 from 320 in 2013. Of these, 12 were serious.

Pollutions are monitored on a calendar year basis. One third of our pollution incidents in 2014 happened in the first three months of the year because of the severe weather – it was the wettest winter on record with rainfall in southern England more than 200 per cent above the long-term average.

In spite of these extreme conditions, we recorded 292 wastewater pollution incidents, missing our target of 267 but still 28 lower than the previous year. This was thanks to continued efforts by our Operations teams in improving the sewerage network and, in particular, our pumping stations.

Pollution incidents for the first three months of 2015 were nearly 60 per cent fewer than a year previously, reflecting both the level of improvement in the business and the more benign weather.

Wastewater treatment

	2014–15		2013–14
	Target	Achieved	Achieved
Performance wastewater non-infrastructure	Stable	**Stable**	Deteriorating

Note - Serviceability performance for wastewater non-infrastructure in 2013–14 was self-assessed by the Board as stable and reported as such in our Annual Report for 2013–14. Ofwat, in its final determination, assessed performance as deteriorating, which is the view reflected in the table above.

We began the year still feeling the effects of the 2013–14 winter's unprecedented torrential rain and storms yet, despite this, our wastewater compliance performance was strong. We recorded our best performance for 15 years with only one wastewater treatment works not meeting the requirements – Lidsey in Sussex. This beat our target of four and was the result of focused operations and continued targeted investment. Due to insufficient samples being taken, we also had two other 'technical' fails, at Sittingbourne and Eastchurch, both in Kent. Even so we still achieved 99 per cent compliance with standards, our best performance for a number of years and better than the industry average.

The performance of our wastewater treatment works is critical to ensure the water we recycle to rivers, streams and the sea is of the highest quality. To this end, we spent more than £41 million to improve wastewater treatment and more than £38 million on maintenance.

Several major schemes contributed to our best results since 1999:

- During the year, our £13 million revamp of Ashford Wastewater Treatment Works in Kent was officially opened by the town's MP. In a two-year scheme we expanded the works, upgraded filter beds and installed new treatment tanks and screens.

- We also completed a £25 million improvement of Millbrook Wastewater Treatment Works in Southampton, one of our largest schemes in the 2010 to 2015 investment period. A new treatment tank, settlement tanks and nearly a mile of pipeline are bringing major environmental benefits and helping protect the water quality of the Solent.

- In September 2014, we began work on a £63 million redevelopment of Woolston Wastewater Treatment Works, also in Southampton. This scheme will ensure treated wastewater leaving the site meets stringent new standards set by the Environment Agency.

- We continued our improvements at East Worthing Wastewater Treatment Works where we are spending almost £20 million. In January, we installed a £200,000, ten-tonne storm pump which is capable of pumping 2,500 litres of water every second and will be used to protect homes and businesses from flooding during storms.

During the wastewater process, sludge is produced. This is solid matter which is treated and usually recycled to the environment – we work with farmers who use it as a source of fertiliser. We produce about 240,000 tonnes annually and sometimes it is necessary to send it to landfill, which is costly and means we lose the nutrient benefit of sludge applied to land.

Last year we sent 808 tonnes of sewage to landfill. This year, for the first time, we did not need to dispose of sewage sludge in this way.

Our success in reducing this to zero in 2014–15 was thanks to improved reliability of our sludge treatment centres and the operational performance by our contractor MTS.

We had similar success with grit and screenings, which is the debris removed from wastewater. Investment in a new composting plant to treat our grit and screening waste allowed all of it to be recycled to reclamation sites rather than sent to landfill.

Water abstraction

We beat our already strong performance in water abstraction, taking even less water from the environment to supply our customers than we did in the previous year.

We abstracted 206,829 million litres in 2014–15, most of it from underground aquifers and the rest from rivers and reservoirs. This figure is 3,009 million litres less than in 2013–14, which was already the lowest since the water industry was privatised in 1989.

This record low is thanks to customers using less water as a result of our metering and water-efficiency programmes and to our continued efforts to keep leakage below our target.

Conservation

Caring for the environment is important to us and to our customers, who told us it was one of their top priorities. Our efforts to protect the environment were recognised this year when we once again achieved ISO 14001.

This internationally recognised standard for effective environmental management lasts three years. We have held it since 2008 and, in May 2014, we underwent a full recertification audit with inspectors visiting seven sites over six days to check our performance in environmental matters such as managing waste, avoiding pollution and maintaining effluent quality.

Sites of Special Scientific Interest

As a large landowner in the South East, we own ten Sites of Special Scientific Interest (SSSIs) of about one hectare or more plus many smaller sites.

We have been compiling conservation management plans for the ten bigger sites with the aim of winning a ‘favourable condition’ rating for them from Natural England. This demonstrates they are being adequately conserved and is the highest rating for an SSSI. One of them, Southampton Common, has already been approved.

Some of the sites offer protection to rare plants and animals, have a unique geology or are important wildlife habitats.

Biodiversity

We have been tackling invasive plant species such as Himalayan balsam at sites across our region. We needed to stop these weeds affecting the variety of plant and animals found there and keep them from spreading to neighbouring land. This was the first year of an initial three-year eradication and control programme at 17 important sites including Brede Water Supply Works, Powdermill Reservoir, Ashford Water Treatment Works and Bewl Water.

We also:

- Continued to manage Groombridge Lagoons where we have important populations of rare animals, protected species such as great crested newts, grass snakes and adders and a healthy colony of frogs and toads
- Completed surveys of Ringmer Lagoons and found significant numbers of great crested newts and grass snakes and confirmed the presence of water shrew, a protected mammal
- Confirmed for the first time the presence of the rare and protected hazel dormouse at Brede Lagoons.

Confirmation of these species at these three East Sussex sites was important for conservation plans that will protect and enhance important wildlife habitats on our land.

We have also continued orchid conservation at many of our sites and adopted sympathetic management practices to protect the flower.

Many of our staff volunteering days this year were spent helping conservation projects, including clearing Himalayan balsam from the RSPB’s Pulborough Brooks nature reserve in West Sussex. Others involved cleaning beaches in Southampton, Brighton, Worthing and Margate and helping with gardening projects, for example at Chestnut Tree House children’s hospice near Arundel.

Climate change

Carbon performance

	2014–15		2013–14	
	Target	Achieved	Target	Achieved (restated)
Greenhouse gas emissions – $ktCO_2e$	386	**281**	377	293
$KgCO_2e$ per person supplied with treated water	-	**28.6**	-	28.6
$KgCO_2e$ per person supplied with wastewater services	-	**41**	-	44

Note - The prior year figures have been restated to reflect annual changes in carbon reporting and emission factors.

We are proud of our continued excellent work to measure, manage and improve our carbon efficiency. We are a Carbon Trust Standard accredited company, which is recognition of our excellence in monitoring and managing our carbon emissions.

Our drive to be more efficient in the production and use of power helped us achieve a reduction in greenhouse gases from our operations.

During the year we produced carbon dioxide and other greenhouse gases equivalent to 281 kilotonnes of carbon dioxide. These emissions result from our consumption of grid electricity and natural gas, our transport and from our wastewater and sludge treatment processes. There was a reduction of four per cent on 2013–14 reflecting our increased generation and use of biogas for renewable energy.

This success was also helped by the better weather. We did not experience the heavy rainfall and flooding of the previous year which had an impact on power consumption from pumping and treating high levels of storm water.

We worked hard in 2014–15 to develop the most economic way to reduce carbon emissions during the coming five-year period. This included studying asset efficiency and prioritising those assets that need to be refurbished or replaced.

We also focused on renewable energy generation. Increased capacity for generating renewable energy has contributed to emitting lower levels of greenhouse gases. Our renewable energy represents more than 15 per cent of the volume of power we consume and it is a customer promise to maintain this during 2015–20, despite requirements for enhanced treatment standards which use more energy. We also considered new renewable energy opportunities such as solar and wind energy and how we will use these in the coming five years.

Low carbon design

Our in-house engineering team is challenged with reducing the use of materials that produce high levels of greenhouse gases when they are manufactured. This can be achieved by using innovative design and it means we are responsibly addressing greenhouse gas emissions for the whole life of our engineering assets.

Managing energy costs

We use large volumes of power and our specialist energy team ensures we buy it at the best value by monitoring the energy markets. It also seeks new cost-effective ways to buy and generate power.

Our energy team monitors power performance at all our sites to ensure efficiency and meet performance targets. We are investigating methods of achieving greater insight into energy performance, for example sub-metering, which is monitoring consumption of individual pieces of equipment, energy auditing, energy modelling and analysis dashboards. These tools will allow our operational teams to become increasingly energy efficient.

About us

Our workplace

Health and safety

We continued to lead the industry with our excellent health and safety performance and achieved one of the lowest numbers of reportable injuries in our history.

Our total of 0.24 reportable injuries per 100 full-time employees/contractors beat our target of 0.35 and was the result of commitment and focus on safety. Our employee-only total was 0.19, beating the industry average (based on available data) of 0.31.

For the 16th consecutive year, we achieved the Royal Society for the Prevention of Accidents gold award and were again presented with an Order of Distinction, the first water company to receive such an accolade twice.

Our Aim For Zero Injuries campaign played a vital part in our exemplary performance. Its initiatives included a two-day health and safety conference for more than 500 staff and contractors, which is now an annual event.

We continued our campaign to encourage staff to report hazards at work, donating £2 to charity for each one. This added up to more than £6,000 for the Air Ambulance Trusts in our region.

This year we increased the focus on health and wellbeing. We worked closely with our contractors and together produced our first Wellbeing Promise, which states clear joint aims for staff wellbeing.

During the year we:

- Surveyed our staff to establish their key concerns. We had more than 700 responses and based our programme on the results, focusing on healthy eating and weight loss, stress and fitness
- Ran two wellbeing weeks attended by hundreds of staff and contractors. One was run by the British Heart Foundation and raised awareness of health issues, the other offered practical advice on finding help locally
- Toured our sites with mobile health monitoring kiosks which allowed all staff to measure information such as their BMI and blood pressure
- Had more than 2,000 staff and supply chain partners take part in our pedometer challenge to see how many steps they were taking each week
- Worked with the Amateur Swimming Association to promote swimming among adults, complementing our long-running Learn to Swim programme for children.

Our people

We directly employed 2,125 people in Kent, Sussex, Hampshire and the Isle of Wight as of 31 March 2015 and many more through our suppliers. This included more than 400 in our UK-based contact centres.

We actively promote diversity among our workforce and are pleased that during the year the number of women on our Board and Executive Management Team increased significantly. We now have three women directors on the ten-strong EMT. Also, nearly 40 per cent of our business lead roles are now filled by women, which is above the national average of 33 per cent.

People development

We are committed to expanding and building on our workforce's skills and experience and this year we continued to implement our Leadership Development Roadmap, an initiative to develop talented employees. In addition, 34 first-line managers completed the Leaders For Tomorrow scheme and 27 middle managers completed the Inspired Leader Programme. We also introduced an induction programme specifically for new managers.

Sixty-four people took part in our Employee Development Programme, a five-day residential course which allows some of our most talented employees to put forward their business ideas. This year, four of the suggested projects were sponsored by the Executive Management Team and pursued.

In our Operations team, eight apprentices graduated from our award-winning water and wastewater operations, mechanical, electrical and ICA (instrumentation control and automation) apprenticeships programme. In addition, we continued to increase the knowledge of our operators in wastewater processes and 43 of them completed an NVQ Level 2 in wastewater operations.

We also delivered our Ambassador Programme to Operations staff – 153 employees attended during the year. This scheme provides training in customer service skills and continues to contribute significantly to our customer service improvements in Operations.

Our initiative to improve processes across the business resulted in a further 28 people enrolling in the Business Improvement Techniques NVQ, which is recognised as best practice in the UK.

We continued our commitment to develop employees' potential during the year, with four talent pools initiated and sponsored by the Executive Management Team. We held a Skills Journey workshop with 78 employees to identify their development needs to further their careers. This culminated in a personal development plan for each of them.

Working with a leading training provider, we developed a new Level 4 qualification in water and wastewater management. This is now being used across the industry. Five of our operational graduates are more than halfway through the 18-month diploma course, which has been incorporated into our Graduate Development programme. We are working with the provider and universities to develop a Level 5 qualification, which is degree level.

We also had coaching, mentoring and secondments along with speaking opportunities at industry conferences including the Institute of Water's summer school.

Employee engagement

During the year we continued to focus on improving employee engagement and becoming an employer of choice. We want to make Southern Water a better place to work and aim to achieve 'Ones to watch' status in The Sunday Times' 100 Best Companies to Work For annual survey.

We had an excellent response rate to our own annual engagement survey this year with 77 per cent of the workforce having their say, up five per cent on the previous year. The results were largely positive. Our biggest directorate, Operations, showed a significant increase in its overall engagement score and its members provided more than 1,000 written comments that described why they considered Southern Water a good place to work.

In response to feedback from the engagement survey we introduced a development process for managers focusing on how they motivate, care for, consider and converse with their teams.

Once again we held our Staff Thanks And Recognition (STAR) awards and received more than 300 nominations for 15 honours. Staff are nominated by their colleagues and the award categories align with the company's principles: customers first; everyone matters; always improving; local pride; taking ownership and succeeding together.

Our suppliers

This has been an important year during which we put in place major changes in the way we work with our suppliers.

Led by our new Procurement Director, we focused on establishing our supply chain for the next five-year period. The new appointment emphasised the important role our supply chain plays in delivering our commitments.

Our aim was to become true partners with our contractors and work collaboratively with them rather than them simply providing us with a service. The procurement team changed the way it works so it looks at managing the whole contract from its inception to its end.

This fresh approach means we have a much closer relationship with our supply chain and they work with us rather than for us.

We approach the next five-year period with confidence that together we will provide excellent services for our customers and maintain our outstanding health and safety record.

Our community

Community and education

We pride ourselves on being rooted in and contributing to the communities where our customers live and work and we do so through a variety of initiatives.

Our efforts in the past year were recognised by the Business In The Community charity, which uses a detailed survey to measure companies on their contributions in the community, workplace and marketplace. We scored an outstanding 98 per cent, surpassing our target of 90 per cent and, along with one other company, beating all the other utilities that took part. We also beat most of the big household names including Marks & Spencer.

Learn to Swim

Our region includes 700 miles of coastline so helping children learn to swim is important to us. Our award-winning Learn to Swim programme has been running for 23 years and in the past 12 months it helped another 25,000 youngsters secure this life-saving skill. Former Olympic gold medallist Duncan Goodhew continued as a scheme ambassador and in February he joined TV doctor Hilary Jones at our annual instructors' seminar where they spoke about the benefits of swimming for health and wellbeing.

Learn to Swim now operates at 85 pools and clubs across the South East and seven of our staff volunteer as co-ordinators. They helped host our two annual achiever of the year events where nearly 50 youngsters were honoured for their success and efforts in the pool.

South and South East in Bloom

Once again we sponsored the annual South and South East in Bloom competition and it was a record year with 400 entries from across our region, including 131 in the Blooming Schools section.

Our awards ceremony at Brighton and Hove Albion's American Express Stadium was hosted by celebrity gardeners Jim Buttress and Chris Collins. Our winners included public parks, a nature reserve and a memorial garden. Winners were judged on their horticulture and gardening, environmental responsibility and community participation.

Education programmes

We are committed to educating youngsters about how to use water wisely and our mime show The Drips continued to spread the word in an entertaining way. It visited 29 schools and reached more than 4,400 children, with additional messages this year around flushing only the three Ps – pee, poo and paper. More than 350 youngsters attended a special performance at Brighton's Theatre Royal in July.

In addition we:

- Devised a 45-minute interactive presentation called Sewerwise about the history of the sewerage and wastewater systems which complements our established Waterwise talks about water efficiency. During the year our team of volunteer community speakers gave nearly 100 talks to more than 4,600 children and adults
- Worked in partnership with Hampshire Wildlife Trust, which manages our Testwood Lakes reserve in Hampshire. We donated interactive education materials so it could include water efficiency and wastewater messages to visiting school groups
- Continued our Aqua Innovation competition which encourages secondary school pupils to come up with water-saving ideas and campaigns. Ten schools from Kent, Sussex and Hampshire took part and 2014–15's winner was The St Leonards Academy in East Sussex
- Supported the STEM ambassadors' programme. Our staff volunteered to go into schools to help engage pupils in science, technology, engineering and maths. We helped run ten STEM days for 400 pupils across Sussex and Kent. Students worked with our team to devise a method of separating non-disposable materials from liquid – reflecting our Pain in the Drain initiative.

Community campaigns

Other community campaigns included our Sporting Chance programme, which engaged more than 6,200 young people through football and cricket. We worked with Gillingham Football Club in Kent to help children in Medway primary schools with basic literary and number skills while putting over our key messages in fun, accessible ways. We linked up with Kent Cricket Club to deliver Pain in the Drain messages to schools and with Portsmouth FC and Sussex County Cricket Club to run water-efficiency and Sewerwise workshops for students.

Our Water Café hit the road during the summer, visiting 22 community events where we spoke to more than 12,000 people about water and wastewater. We gave away advice literature and water-saving devices such as save-a-flush bags, shower timers and fat traps and funnels for used cooking fat and oil.

Charity support

We continued our long-standing tradition of giving back to communities in our area through charity work and fundraising. A record number of staff volunteering days and a focus on the centenary of the outbreak of the First World War made it a memorable year during which we distributed a quarter of a million pounds to good causes.

Our staff picked the organisations to benefit and they included national charities such as WaterAid and Macmillan Cancer Support. They also chose regional charities such as Chestnut Tree House children's hospice in West Sussex, The Rainbow Centre in Hampshire for children with cerebral palsy, Air Ambulance Trusts in Kent, Sussex, Hampshire and the Isle of Wight and Chailey Heritage School in Sussex for youngsters with complex needs.

Annual events

The three biggest charity events of the year were our annual ball, golf day and race day. The ‘winter wonderland’ ball raised £71,000 for WaterAid, Macmillan and the Air Ambulance while our golf day brought in another £10,500 for WaterAid. Our military-themed race day at Fontwell in West Sussex raised £54,000 for the Queen Alexandra Hospital Home in Worthing, which cares for disabled ex-servicemen and women. It was the region’s biggest event marking 100 years since the Great War broke out and guests included past and present members of the Armed Forces.

Staff took part in all kinds of other fundraisers including a sponsored bike ride across the South Downs, Santa Suit Day and the WaterAid 200 Mountain Challenge. In total, we helped raise more than £100,000 for WaterAid during the year.

For the second year running, each of our directorates chose its own charity to support and the company matched the first £1,000 they raised. The result was more than £15,000 donated to causes including the Teenage Cancer Trust, The Royal Marsden, Heart of Kent Hospice, The Martlets Hospice in Hove, Marie Curie and Ferring Country Centre in West Sussex, which offers training and work experience for people with learning difficulties.

We also made smaller donations totalling £12,000 through our Community Chest programme. The money went to schools, residents’ groups and other organisations for projects related to aspects of our business, for example water efficiency.

Volunteering

Our staff are allowed two days’ paid leave every year to work for causes close to their hearts. The past 12 months were a record breaker with more than 600 days spent helping worthy projects ranging from clearing a woodland garden for disabled children to picking up litter. Some staff used their days for raising funds through sponsored activities such as skydives and cycle rides. We set another record when 54 members of one team – our largest group to date – gave a day’s labour to a country centre which works with adults with learning disabilities.

Access and recreation

Our region includes many beaches, reservoirs and important natural habitats, many of which attract thousands of visitors.

We own four reservoirs – Darwell, Powdermill and Weir Wood in East Sussex and Bewl Water on the Kent/Sussex boundary – and they all offer outdoor activities such as fishing and sailing. Bewl is the biggest stretch of open water in the South East and our largest reservoir. Each year it attracts an estimated 98,000 visitors who take part in windsurfing, sailing, fishing, cycling, walking and boat trips.

We have a long-standing partnership with the Hampshire and Isle of Wight Wildlife Trust which manages our Testwood Lakes site, near Southampton, on our behalf. It was previously used for extracting gravel but is now a 130-acre nature reserve. This year the trust has been building a small-scale wetland complex there for insects such as dragonflies and damselflies. The area is also important for birds, including wildfowl and waders.

Testwood Lakes has a purpose-built education centre and more than 3,800 children, many of them on school visits, benefited from environmental activities there during 2014–15. These include Bronze Age recreation days, which use the wealth of archaeological finds and social history stories from the area to immerse the children in day-to-day life 3,500 years ago. The education team has also been promoting forest school activities at the site. These lessons are based on a Scandinavian approach to outdoor teaching and allow youngsters to develop their own way of completing tasks.

Other visitor attractions in our region include the historic steam pumping engines at our water treatment works in Brede, East Sussex, which are cared for and displayed by Brede Steam Engine Society.

Sewer tours

Our tours of the Victorian sewer network in Brighton remained highly popular and during the year we accompanied more than 1,600 visitors underground. Guests included the Orchestra of the Age of Enlightenment, who took their baroque instruments with them, and music hall singer-turned-rapper Ida Barr. We used the tours to give out information and advice about our Pain in the Drain campaign. The sewers were also the setting for a filmed appearance by our singing sewermen performing their latest Christmas carol, which reinforced the campaign message.

Southern Water Financial performance

Financial performance

Accounting policies

The accounting policies of the company, which are consistent with the prior year, are set out on pages 93 to 97 of Southern Water's financial statements.

Profit and loss account

The Southern Water profit and loss account is summarised in Table 1 below.

Table 1	Years ended 31 March		Change
	2015 £m	2014 £m	%
Turnover	**828.6**	806.2	*2.8*
Operating costs before exceptional items	**(245.5)**	(246.5)	*(0.4)*
Depreciation, net of amortisation	**(257.4)**	(234.9)	*9.6*
Other income	**0.2**	0.2	-
Operating profit before exceptional items	**325.9**	325.0	*0.3*
Exceptional item	**2.4**	(18.8)	-
Operating profit	**328.3**	306.2	*7.2*
Profit on disposal of fixed assets	**1.3**	0.5	*160.0*
Net interest	**(125.7)**	(167.2)	*(24.8)*
Profit before tax	**203.9**	139.5	*46.2*
Tax	**(36.7)**	30.3	-
Profit after tax	**167.2**	169.8	*(1.5)*

Turnover increased by 2.8 per cent to £828.6 million (2013–14: £806.2 million) principally because of the average tariff increase on metered and unmetered income of 2.5 per cent. This increase was applied from 1 April 2014 and was based on the annual RPI of 2.6 per cent at November 2013 offset by a negative K factor (price limit) of 0.1 per cent.

Operating costs before exceptional items decreased by 0.4 per cent to £245.5 million (2013–14: £246.5 million) and the major reasons for this movement of £0.9 million are described below and in Table 2.

Following the completion of the £300 million scheme at Peacehaven, operating costs are now being incurred. These amounted to £3.3 million in 2014–15 (2013–14: £1.6 million), the increase over the prior year reflecting the fact that this was the first full year of operation of the site.

Overall efficiencies totalling £11.4 million have been achieved through business process reviews, contract renegotiations and a focus on maintaining tight budgetary controls. These include initiatives to reduce power consumption and increase our energy generation through the use of Combined Heat and Power (CHP) plants at the treatment works. We have also reduced the amount of chemicals used and the work issued to external contractors through more efficient use of internal resources.

Table 2 Increase/(decrease) in operating costs	£m
Inflation	5.9
Increased bad debt charge (including inflation £0.6m)	2.2
Peacehaven – operating costs of new site	1.7
Power efficiencies	(0.7)
Contract renegotiations	(1.9)
Process improvements	(8.8)
Other	0.7
Movement in operating costs	**(0.9)**

Depreciation increased by 9.6 per cent to £257.4 million (2013–14: £234.9 million) as a result of the continuing significant capital investment programme. This included the first full year of depreciation on the new wastewater treatment works at Peacehaven, which increased the annual charge for this scheme by £5.4 million. As we reached the end of the five-year capital investment programme a large number of schemes were commissioned during the year, adding a further £14.8 million to the depreciation charge. In addition, there was an increase in the infrastructure renewal charge of £1.9 million, reflecting the greater level of capital expenditure on private sewers.

Operating profit before exceptional items for 2014–15 increased to £325.9 million (2013–14: £325.0 million), a 0.3 per cent improvement as a result of the factors set out above.

During the period from December 2013 to February 2014, the South of England experienced a series of storms and heavy rainfall. The areas most affected included Hampshire, Sussex and Kent, which all fall within our operational area. As a result of this exceptional weather, significant additional costs were incurred during 2013–14 for pumping and tankering to alleviate the flooding and to ensure we continued to serve our customers. These costs were reported in the accounts for 2013–14 as an exceptional item of £18.8 million. During 2014–15 insurance proceeds totalling £2.4 million were received in relation to this event and these are recorded as an exceptional item in the results for this year.

The operating profit for 2014–15 increased to £328.3 million (2013–14: £306.2 million), reflecting the impact of the exceptional costs on the results from last year.

The profit on disposal of fixed assets of £1.3 million (2013–14: £0.5 million) mainly relates to the sale of land and buildings surplus to operational requirements.

Net interest payable of £125.7 million decreased by 24.8 per cent (2013–14: £167.2 million). This is largely driven by lower indexation on the inflation-linked bonds as a result of lower RPI in 2014–15, which accounted for £23.6 million of the reduction and lower net interest payable of £16.3 million following the repayment of a £250 million bond at March 2014.

Southern Water recognised a total tax charge to the profit and loss account of £36.7 million (2013–14: £30.3 million credit). This differs from the charge that may be expected of £42.8 million, based on the profit before tax of £203.9 million and the current period tax rate of 21 per cent, as described in note 8 of the Southern Water accounts, and is primarily the result of the company paying for tax losses of other group companies at the reduced rate of ten pence in the pound. The current tax charge for the period is also reduced by £25.2 million largely as a result of capital allowances arising from our capital investment programme.

The profit after taxation for the year amounted to £167.2 million (2013–14: £169.8 million).

Cash flow statement

The Southern Water cash flow statement is summarised in Table 3 below:

Table 3	Years ended 31 March	
	2015	2014
	£m	£m
Net cash inflow from operating activities	**544.4**	543.3
Net cash outflow from returns on investment and servicing of finance	**(81.8)**	(90.4)
Taxation	**(36.9)**	(22.9)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(348.6)**	(382.0)
Receipt of grants and contributions	**12.3**	9.9
Sale of tangible assets	**0.3**	0.3
Movement on loan to subsidiary	**(1.7)**	(15.9)
Net cash outflow for capital expenditure and financial investment	**(337.7)**	(387.7)
Equity dividends paid	**(44.9)**	(43.8)
Net cash inflow/(outflow) before financing	**43.1**	(1.5)
Net cash outflow from financing	**(5.1)**	(2.9)
Increase/(decrease) in net cash	**38.0**	(4.4)

Net cash inflow from operating activities is broadly in line with last year, increasing marginally to £544.4 million for 2014–15 from £543.3 million in 2013–14. The impact of the improvement in operating performance in 2014–15 is masked by the timing of payments associated with the exceptional weather experienced at the end of the last financial year, a one-off benefit in 2013–14 arising from a change in payment terms for maintenance contracts and a reduction in the level of unmeasured receipts in advance as more customers have been switched to a metered supply.

The net cash outflow from returns on investment and servicing of finance decreased to £81.8 million for 2014–15 from £90.4 million in 2013–14. This decrease results from a reduction of net interest payable following the repayment of a £250.0 million bond in March 2014 offset by additional interest payable, which arises from the impact of inflation on the underlying nominal values of a number of loans.

In total, tax payments of £36.9 million were made during 2014–15 (2013–14: £22.9 million). These relate to payments for group relief for taxable losses across the Greensands group. Of this, a payment of £12.0 million (2013–14: £13.1 million) was made to Southern Water Services Group (SWSG). This, together with the interim dividend of £44.9 million (2013–14: £43.8 million), is offset by interest received from SWSG of £56.9 million (2013–14: £56.9 million).

The outflow of cash relating to the purchase of tangible fixed assets was £348.6 million (2013–14: £382.0 million). The decrease in cash outflow results from the decrease in the overall capital programme during the year as we came to the end of our five-year programme.

Overall these resulted in a net cash inflow before financing in 2014–15 of £43.1 million (2013–14: outflow £1.5 million).

The net cash outflow from financing of £5.1 million (2013–14: £2.9 million) relates to the repayment of accrued indexation on some of the bonds.

Balance sheet

The Southern Water balance sheet is summarised in Table 4 below:

Table 4	Years ended 31 March	
	2015	2014
	£m	£m
Fixed assets		
Tangible assets	**4,483.0**	4,432.0
Investments	**29.2**	29.2
	4,512.2	4,461.2
Current assets		
Stocks	**2.2**	2.0
Debtors falling due within one year	**216.8**	198.0
Debtors falling due after more than one year	**812.3**	812.3
Cash at bank and in hand	**173.5**	135.5
	1,204.8	1,147.8
Creditors falling due in one year	**(246.5)**	(300.6)
Net current assets	**958.3**	847.2
Creditors falling due after one year	**(3,872.7)**	(3,836.4)
Provisions for liabilities and charges	**(337.3)**	(314.7)
Grants and contributions	**(41.4)**	(43.8)
Pension deficit	**(89.9)**	(72.3)
Net assets	**1,129.2**	1,041.2
Capital and reserves	**1,129.2**	1,041.2

At the end of the year to 31 March 2015, fixed assets totalled £4,512.2 million (2013–14: £4,461.2 million), an increase of £51.0 million from March 2014. This increase largely results from capital investment of £323.1 million offset by depreciation of £260.3 million and grants and contributions of £11.8 million.

Debtors falling due within one year increased to £216.8 million (2013–14: £198.0 million). This increase largely arises from the metering programme which results in customers being billed in arrears rather than in advance and having an element of accrued income at the year end. The impact of metering accounted for £9.0 million of the increase in the debtor balance with new connections £4.8 million and the effect of the tariff increase £5.4 million covering the rest.

Creditors falling due within one year decreased to £246.5 million (2013–14: £300.6 million). This reduction was expected and results from lower capital expenditure in the year, which in turn reduced the level of capital creditors at March 2015, the payment of accruals made at March 2014 for costs associated with the flooding events over the winter of 2013–14 and lower unmeasured receipts in advance as more customers have been switched to a metered supply.

As at 31 March 2015 creditors falling due after one year increased by £36.3 million to £3,872.7 million. This increase principally resulted from RPI on inflation-linked bonds of £48.5 million.

The net pension deficit increased in value to £89.9 million (2013–14: £72.3 million) following the latest actuarial valuation, as described in note 23.

Overall net assets increased from £1,041.2 million to £1,129.2 million.

Dividend policy

We aim to deliver a sustainable long-term capital structure, taking into account the interests of all stakeholders. Our shareholders are long-term investors and fully support the strategy adopted.

Our dividend policy is to propose dividends having given due consideration to the following financial and performance criteria:

1. Assessment of headroom under debt covenants
2. Assessment of the impact on the company's credit rating
3. Assessment of the liquidity position and ability to fulfil licence conditions
4. Assessment of key areas of business risk
5. Assessment of current year and cumulative distributable reserves
6. Directors' duties under law and Ofwat-administered regulatory arrangements

Distribution proposals submitted to the Board will also include an assessment of our performance against the Business Plan, including expected performance over the balance of the regulatory period.

Our dividend policy and the associated financial and performance criteria are intended to support the credit ratings of the business and ensure continued access to diversified sources of finance.

These tests are not applied to the interim dividends paid to SWSG as the dividend payment is instantly offset by a corresponding interest receipt from SWSG.

The shareholders continue to support the business and no other ordinary dividend was paid or declared in relation to 2014–15 (2013–14: nil) and no dividends were paid to the shareholders of Southern Water's ultimate parent company, Greensands Holdings Limited.

Over the past five years, our shareholders have supported us in strengthening our financial position and in delivering improved operational performance by adopting a flexible dividend policy. This places us in a stronger position for the start of the next five-year period to resume dividend payments from 2015–16.

Taxation

We manage our tax affairs in an open and transparent way and contribute materially to the Exchequer each year.

All companies within the Southern Water and wider Greensands groups are UK tax resident, ensuring that each company is subject to UK tax. Tax planning is always aligned with our commercial and economic activity. This practice continues to be recognised by HMRC, which assesses us as a low-risk company.

Our rate of corporation tax against accounting profits – our effective tax rate – is less than the statutory rate of corporation tax published by HMRC because of differences in the way in which some items of expenditure are treated for accounting and tax legislation. This is especially the case with regard to capital investment expenditure, where the UK taxation system recognises the benefit to the economy of investment in UK infrastructure. Since privatisation in 1989, the water industry has been required to make significant capital investment to improve environmental performance and resilience to drought and flooding, maintain existing assets and, in particular for us, accommodate population growth in the South East. Our taxable profits are lower than our accounting profits as a result of our capital expenditure, with capital allowances being recognised at a faster pace than the depreciation charge for our assets. This has the effect of reducing the amount of tax we pay, the benefit of which is passed to our customers through reduced bills.

Another aspect of our significant capital investment programme is that we borrow money to finance our capital investment. The interest associated with this borrowing is recognised as both an accounting and tax expense, so reducing profit and further reducing the amount of tax we pay. Again, the benefit of this is passed to our customers through reduced bills.

Our contributions to the Exchequer amounted to £60.5 million. These are explained below:

- Business rates of £25.1 million paid to local authorities (2013–14: £24.4 million) and payments to the Environment Agency of £8.4 million (2013–14: £8.2 million), which reduce profits chargeable to corporation tax

- Employment taxes of £23.3 million (2013–14: £21.5 million) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

- Carbon Reduction Commitment of £3.7 million (2013–14: £3.0 million) levied on our power cost, which reduces profits chargeable to corporation tax.

Payments have also been made to other group companies of £36.9 million for tax losses surrendered to the company. Of these, £12.0 million was paid to SWSG and then repaid to us as interest, with the remainder paid to the Greensands financing companies.

In addition, we will have paid a significant amount of indirect taxation, such as fuel excise duty relating to transport costs and landfill tax in connection with the disposal of waste product from our wastewater treatment processing.

Southern Water financial KPIs

Within our financial debt structure is a comprehensive set of covenanted financial ratios. Of these, there are two key ratios, namely the ratio of net debt to Regulatory Capital Value (RCV) and the ratio of adjusted net cash income to net interest cost.

The net debt to RCV ratio is calculated as short and long-term senior borrowings, less cash and short-term deposits to the RCV (all values taken from our Regulatory Accounts). The RCV is set by Ofwat at each five-year periodic review and reflects forecast growth in the asset base from capital investment and inflation. The RCV can be adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period. The ratio of senior debt to RCV is targeted to be maintained at around 80 per cent, comfortably within our debt covenants.

Senior adjusted cash interest cover (measured as net cash inflow from operating activities less current cost depreciation and the infrastructure renewals charge to senior debt interest) is targeted to be maintained above 1.1 times to meet covenanted levels.

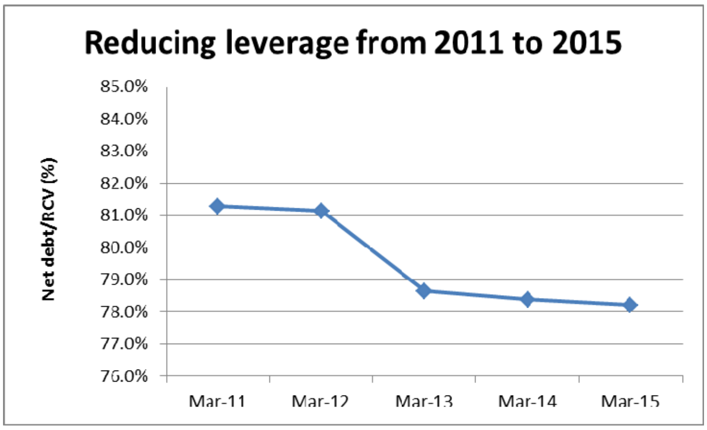
Net debt / RCV	%
2011–12 performance	81
2012–13 performance	79
2013–14 performance	78
2014–15 performance	78
Covenanted lock-up level	<85

Senior adjusted cash interest cover	Times
2011–12 performance	1.6
2012–13 performance	1.5
2013–14 performance	1.6
2014–15 performance	1.6
Minimum target trigger level	1.1

Credit rating	
Standard & Poor's	Class A debt: A- Class B debt: BBB
Fitch	Class A debt: A- Class B debt: BBB
Moody's	Class A debt: Baa1 Class B debt: Ba1

In February 2015, Moody's removed the negative outlook on our credit ratings following an assessment of the PR14 Final Determination (the regulatory Business Plan for the period April 2015 to March 2020), including a recognition of our improved operational and financial performance in recent years. All credit ratings are now 'stable'.

During the current five-year regulatory period from 2010 to 2015 we have faced financial risks such as a material shortfall in revenues compared with those assumed at the time of setting prices for this five-year period, as well as event risks such as the £18.8 million cost associated with the series of storms and heavy rainfall from December 2013 through to February 2014. Shareholders have been extremely supportive during this period by voluntarily forgoing dividends in order to ensure we have sufficient cash to maintain our programme to improve performance and to reduce leverage and financial risk as well as to manage these financial KPIs.



Southern Water capital structure

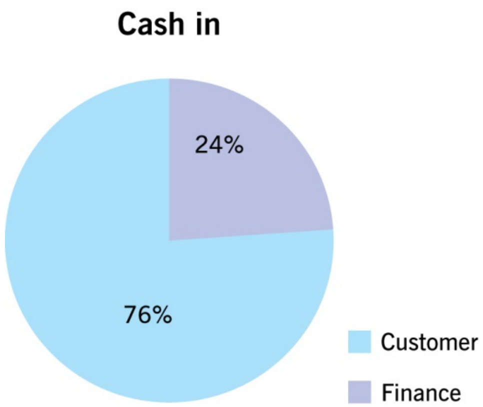
Why Southern Water raises finance

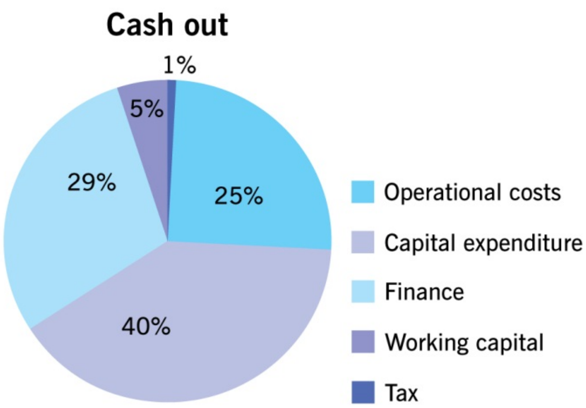
Significant capital investment has been a feature of our business since privatisation in 1989. We have invested in both maintaining our existing asset base and constructing new assets in order to improve the environmental quality of wastewater, improve the quality of drinking water and accommodate population growth in our area of operation. As an example, prior to privatisation, wastewater discharged into our coastal waters was untreated, but the completion of our £300 million Cleaner Seas for Sussex scheme in 2013 marked the conclusion of a programme of capital investment to fully treat wastewater of the coastal towns and cities from Kent to Hampshire and the Isle of Wight.

We raise finance to pay for the construction of new assets. As a shareholder-owned company, we are incentivised to drive efficiency and need to maintain the proportion of assets financed by shareholder equity in order to absorb financial risk and to lay the basis for financing the construction of new assets. New finance is also required to repay loans taken out in previous years.

The level of customer charges is calculated to cover our operating expenditure, our annual financing costs (including any equity return to our shareholders) and the amount required to invest in and maintain our assets, such as water pipes, sewers, pumping stations and treatment works.

The charts below illustrate the sources and uses of expected cash flows for the current regulatory period April 2010 to March 2015 and demonstrate our requirement to raise finance to fund our capital investment programme. The data is based upon the regulatory price determination, which sets out our obligations and the limits for customer charges for this current five-year price period.





Capital structure and borrowing covenants

We refinanced our regulated business in 2003 with the aim of reducing our cost of capital and gaining access to long-term and secure sources of finance. This was achieved by replacing a short-term parent company loan with a series of listed bonds issued under a long-term framework for sustainable future financing, which continues to be in place today.

Our financing subsidiary Southern Water Services (Finance) (SWSF) was established for the express purpose of raising debt finance on our behalf. The Southern Water Financing Group (see ownership chart below) was also established at that time to create a financial ring-fence to protect our ongoing operation.

The financing group, whose immediate parent is SWSG, provides security to finance providers in the form of a charge over the share capital of SWS Group Holdings (SWSGH). No security is provided over our individual regulated operating assets. This structure ensures that, in the unlikely event that either Southern Water or SWSF were to default on their debt obligations, we will continue to operate our business as usual. Debt providers are not permitted to either break up or interrupt our business and can therefore only look to a new owner of the financing group to recover their debt in the unlikely event of serious default.

In 2003, a Common Terms Agreement (CTA) between the members of the financing group and its debt investors was established. The CTA sets out arrangements for the ongoing management of our debt issuance programme as well as a number of operating arrangements in order to minimise our financial risk and adhere to good industry practice.

One of the CTA arrangements is a limit on the indebtedness of Southern Water and SWSF. This limit includes precautionary ‘early warning’ limits which prevent us from paying dividends if a precautionary limit is breached. We ensure that we operate with sufficient financial headroom against these limits and have not breached a limit at any time since the implementation of the financing framework in 2003.

How we finance the business

In note 16 to the financial statements, we provide an analysis of our outstanding debt at 31 March 2015 and 31 March 2014. The majority of our loans are sterling bonds and were issued by our financing subsidiary SWSF and are listed on the UK Stock Exchange.

The regulatory framework, under which revenues and the RCV are indexed, exposes us to inflation risk. This risk is managed through the use of inflation-linked loans and derivatives within the overall debt portfolio. We do not intend to access future inflation-linked debt through the use of derivatives but will instead seek such debt from natural sources such as public and private bond markets. As a consequence, we expect the proportion of the RCV and debt that is currently linked to inflation through the use of derivatives will decrease over time.

We are not restricted to issuing sterling bonds but will ensure that any other currency loans are fully hedged back to sterling. We also hedge our exposure to interest rate volatility by ensuring that at least 85 per cent of our outstanding debt liabilities (in respect of Class A and Class B debt) is either inflation-linked or fixed rate for the current five-year regulatory period and at least 70 per cent in the next period (on a rolling basis).

We also consider refinancing risk by ensuring that loan maturities are not concentrated in any single year or regulatory period. When issuing new loans, we test that refinancing obligations are less than 20 per cent of RCV in any two consecutive years and 40 per cent of RCV within any five-year regulatory period. The maturity profile of loans ranges from within one year to March 2056, which ensures we comfortably meet this test. Although not formally required, we ensure that inflation-linked swap accretion payments are included within our maturity analysis.

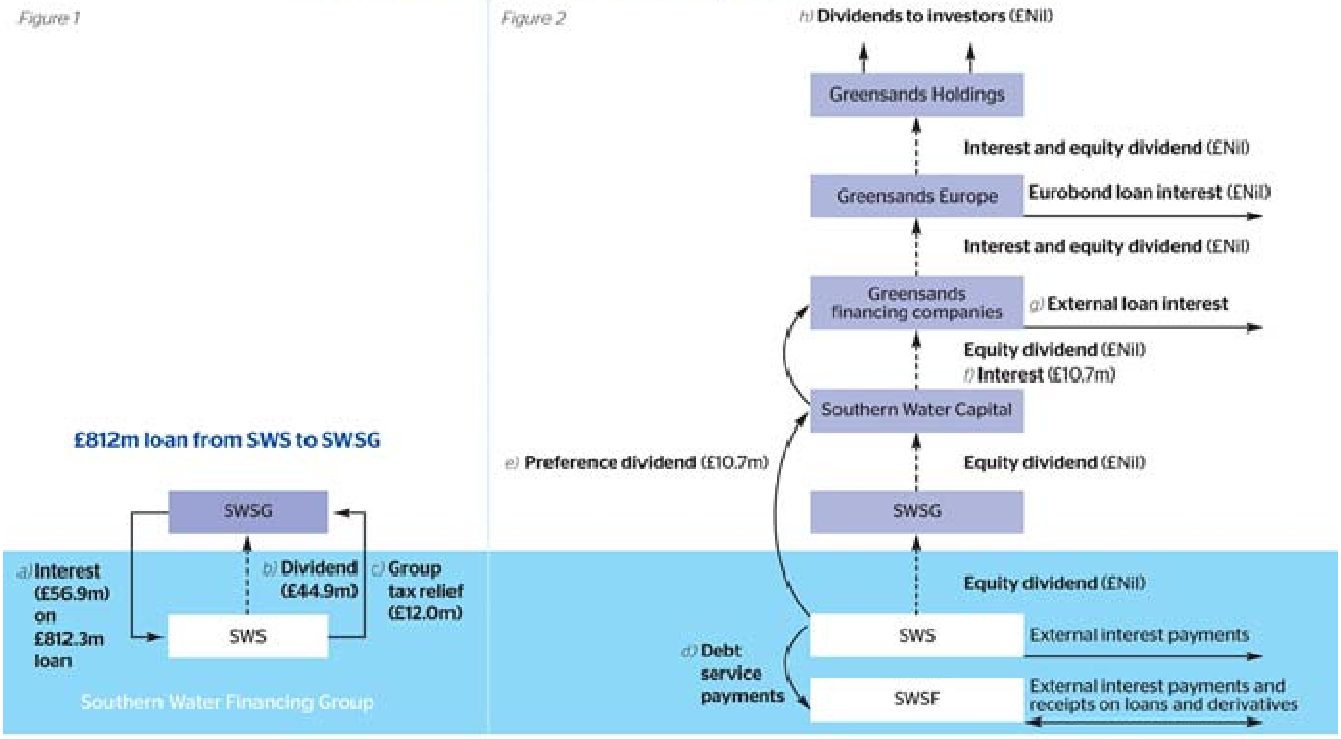
We ensure that sufficient liquidity (cash and committed bank facilities) is in place to fund the business for at least the next 12 months (including loan and inflation-linked swap accretion maturities), an important consideration given that we have negative cash flow generation in the majority of years as a result of our ongoing capital investment programme. In November 2014, we renewed our committed bank credit facility and increased the size of the facility from £200 million to £350 million. This facility supports our liquidity and was undrawn at 31 March 2015 (£350 million) and 31 March 2014 (£200 million).

As a result of our liquidity policy, we can have large cash balances. We reduce the risk of losing cash on deposit, from bank or fund failure, by setting maximum limits on cash deposits and minimum credit ratings for each bank or fund. Banks must have, as a minimum, a credit rating of P1 (Moody’s), A1 (Standard & Poor’s) or F1 (Fitch). Funds must be the most secure rating of AAA rated.

In addition to the loans as analysed in note 16, Southern Water have in issue a loan of £812.3 million to SWSG which was issued as part of the refinancing in 2003. Southern Water receive £56.9 million annual interest on this loan, which is financed by dividend and tax payments we make to SWSG. For the year ended 31 March 2015, the dividend was £44.9 million and the tax payment, in respect of the taxable losses incurred by SWSG, amounted to £12.0 million. This loan provides no tax benefit to either Southern Water or the Greensands Group, with the tax payment we make to SWSG simply negating any tax effect of this loan. This is illustrated in figure 1 of the diagram below. These transactions do not feature1 in the GSH accounts as they are internal to the group and therefore eliminated on consolidation

The Greensands companies also have their own loans: a UK-listed bond and bank loan issued by Southern Water Greensands (Financing) (SWGF), represented in the diagram below as part of the Greensands financing companies, and Eurobonds issued by Greensands Europe. Interest on these loans may result in a tax expense which can be used within the Greensands Holdings group of companies.

Interest and dividends payments 2014-15



Footnote:
a) Interest paid by SWSG to SWS on £812.3m loan.
b) Dividend paid by SWS to SWSG.
c) Payment of group tax relief by SWS for the taxable losses at SWSG.
d) Interest payments from SWS to SWSF on the loans taken out by SWSF on behalf of SWS. This is then used by SWSF to pay the interest on these external loans.
e) Interest payments on the preference shares.
f) Interest payable on an inter-company loan.
g) External interest payable, funded from interest receivable and cash held in the Greensands financing companies.
h) No dividends were paid to investors.

Risks

In order to provide a reliable and consistent service for our customers it is important we identify, monitor and mitigate risks to our business.

We ensure controls are in place so we can take action to minimise the impact of these risks. To do this, we manage risks through a central database where they are ranked and assigned to a senior manager who is responsible for implementing mitigation plans.

Risks are reviewed each month and the highest risks are escalated to our Executive Management Team, the Board and the Audit and Risk Review Committee. Any new risks added to the database with a score above a certain level are passed to a director and Chief Executive Officer for immediate review. Key risks during the year included:

Market reform

From 1 April 2017, the retail market for non-domestic customers will be opened. This will require significant structural changes within the company to allow us to continue to comply with regulatory requirements and to anticipate the shift in customer base. Further details of the requirements for operating in this new market have been published during the course of the year and as such, there remain areas of uncertainty. If we do not make adequate preparations to operate in this new market we could face significant reputational damage and financial penalties from Ofwat.

Mitigation

We have continued to engage constructively with Ofwat and Defra on the proposals for market reform. During the year we have actively participated in numerous workshops held by Ofwat and Open Water. We have established a market readiness programme to co-ordinate the changes required in the business, including a steering group chaired by our Director of Strategy and which includes our Chief Executive and Chief Financial Officers.

Delivery of our capital investment programme

We have a capital investment programme of £1.8 billion between 2015 and 2020.We have plans in place to ensure we will be on target to deliver this, however we have to ensure our focus is maintained to complete all our work on time. If we are unable to deliver significant parts of the programme on schedule, we face a risk to our ability to provide the best service we can for our customers, to meet the promises that we have made in our Business Plan and possible action by the Environment Agency, Drinking Water Inspectorate or Ofwat.

Mitigation

We have transformed our asset management capability during the course of the current AMP to bring significant capital investment capability in-house. This includes the establishment of an in-house engineering function, a specialist programme management function and asset planning systems, processes and capabilities. Progress against the capital programme is overseen by our Investment Committee and we have adapted our monthly reporting procedures to ensure the delivery of the Business Plan is given the greatest level of focus within the company. We work closely with our regulators and other interested parties to resolve issues as they arise.

Compliance with legislation

We are a highly regulated business with three main regulators: Ofwat, the Environment Agency and the Drinking Water Inspectorate. If we do not meet the standards set by these bodies, we could face fines, legal action and, in the worst case scenario, the loss of our appointment as a water and wastewater company.

Mitigation

We have procedures in place to comply with legislation and key procedures have been certified to meet relevant industry standards, including ISO 9001 and ISO 14001. Internal monitoring and assurance is undertaken during the year and annual reporting is supported by external verification through our financial and technical auditors to provide assurance on compliance with our obligations. Awareness training is provided throughout our company for critical compliance issues, such as the Bribery Act and Competition Law, to ensure everyone understands our legal obligations. All sections of the business review compliance with company procedures through self-assessment every six months and implement improvement plans if necessary.

Operational failures and pollution incidents

Reliable water and wastewater services are essential to maintain public health and protect the environment. Operational failures can lead to interruptions to drinking water supplies, risks to health or severe damage to the environment from pollution. As well as the risk of damage to the environment or distress to customers, incidents such as these can also affect our ability to deliver the promises set out in our Business Plan, with the potential for financial penalties associated with Outcome Delivery Incentives, prosecution and fines by the Environment Agency or the Drinking Water Inspectorate and cause damage to our reputation.

Mitigation

The majority of our £1.8 billion capital investment programme from 2015–20 is targeted to maintain our water and wastewater sites and networks to reduce the risk of failure and incidents. We have response teams on standby to make sure that, if there are problems, we can minimise the impact to our customers and the environment.

Performance against our regulatory targets is monitored on a monthly basis by both our Board and Executive Management Team.

Resilience to drought

The South East is classified as an area of severe water stress and changing weather patterns are predicted to pose an increasing challenge for all water companies in the region in future years. We supply drinking water to more than one million households across Kent, Sussex, Hampshire and the Isle of Wight and it is critical we are able to maintain adequate water resources to continue to do so now and in the future.

Mitigation

In 2011 we secured extra water resources through our new River Arun reservoir in West Sussex to achieve our target for the Security of Supply Index in the region. We have continued to drive down leakage below our company target and are on track to install water meters for the majority of our customers by the end of 2015, supported by a wide range of water-efficiency initiatives. Should a drought occur, as in 2012, we have a Drought Plan which we follow to introduce measures to conserve water and secure additional resources through Drought Permits and Drought Orders and by changing the way we operate our sources. Our Water Resources Management Plan uses an industry-leading approach that allows us to plan for a wider range of droughts than we have seen in the past.

Preventing flooding of our sites and from our network

Changing rainfall patterns, more frequent storms and rising sea levels could all lead to an increased risk of flooding, both from our wastewater network and from watercourses and groundwater, with significant implications for our customers. The serious floods in recent years have also highlighted the need to protect our water and wastewater treatment works and pumping stations from being put out of action in floods.

Mitigation

To help combat this risk, we have prioritised schemes for investment in 2015–20. We will be investing £426 million to provide a reliable and effective wastewater service, part of which will be used to keep our 39,600 kilometres of sewers and 2,375 wastewater pumping stations well maintained. It will also fund our replacement or refurbishment of about 224 kilometres of sewers, with the parts of our network most in need of repair and of most structural use targeted first. We will also carry out more sewer cleaning to prevent blockages and put more resources into keeping our drainage plans up to date to fully understand how much capacity we will need for the years ahead.

We are also focusing on reducing the risk of blockages, which are a major cause of flooding from sewers. This will include providing our customers with better information about the causes of blockages and how they can prevent them, carrying out targeted surveys of our sewers using cameras and regular sewer-cleaning work. Through investment of £268 million, we intend to ensure there is no increase in the number of blockages in our sewer network.

Regional growth

The population in the South East has grown considerably during the past 20 years and is expected to grow by a further 16 per cent between 2010 and 2030. The populations of Portsmouth and the Isle of Wight are forecast to be the fastest growing in the region. This presents significant challenges because our region has increasingly scarce water resources, many environmentally important areas and a densely populated coastline, which will require higher standards of protection. We need to ensure we can supply enough drinking water to cater for a growing population and that we have enough capacity at our wastewater treatment works and in our water mains and sewer network to cope with the extra flows.

Mitigation

We continually review population forecasts as part of our forward planning in our five-year Business Plan and our 25-year Water Resources Management Plan. While the current economic conditions have resulted in a decline in the housing market, we expect the population will increase in line with forecasts. By 2020, we anticipate the rate of housing development will have quickened again. We work closely with local planners and developers to ensure we have the necessary infrastructure in place to cater for new developments.

Bad debt

The levels of customer bad debt, which cannot be recovered and has to be written off as a loss, continues to be a significant issue for the water industry. In the current economic climate, there is a risk that the number of customers who do not pay their bills will increase. This puts an additional burden on customers who do pay their bills.

Mitigation

We understand that some customers may experience financial difficulties, particularly in difficult economic times. We encourage customers who are struggling to make payments to contact our Debt Advice Centre as early as possible. To assist those in difficulty we offer a range of flexible instalment plans and tariffs, including a new social tariff from April 2015. We are proactive in collecting payment from our customers and in helping households to pay their bills and debt. When necessary, we also utilise a leading debt management system to recover overdue payments to keep bad debt to a minimum.

Financing our business

Significant change in interest rates or a reduction in the availability of credit to the water industry could put our ability to efficiently finance our capital investment programme at risk in the future. The industry requires access to capital markets as a result of negative cash flows resulting from our capital investment programme and the requirement to finance debt maturities when they fall due. As a minimum, we intend to maintain our current risk profile.

Mitigation

We maintain a level of cash reserves and liquidity facilities sufficient to finance our business and to finance scheduled debt maturities for at least the next 12 months, without the need to raise additional finance during the 12-month period. This practice ensures we maintain a strong position of liquidity, protecting our business from any short-term financial market volatility and supporting our long-term planning horizon. We also manage our liquidity exposure to debt maturities by ensuring that the aggregate nominal value of debt maturities does not exceed 40 per cent of Regulatory Capital Value (RCV) in any single five-year regulatory period and 20 per cent of RCV in any 24-month period. Exposure to interest rate rises on our current borrowings is also hedged by a subsidiary company, SWSF, and the majority of current borrowings are at either fixed or index-linked interest rates. We ensure that sufficient funds are available for our operational and capital investment programme through monitoring and forecasting of our cash flow and we take steps to manage this when necessary.
We only enter into treasury transactions to manage inherent risk and support prudent funding, not to speculate.

Credit ratings

We need to maintain an investment grade credit rating to ensure we can continue to access the capital markets to efficiently finance our capital investment programme and refinance our existing debt maturities. This is required as a condition of our regulatory licence and it is also a primary duty of Ofwat to ensure we can finance our business. In addition, it is a condition of borrowing covenants, where a failure to maintain certain credit ratings could lead to a restriction in dividend payments. Our current credit ratings are:

- Standard & Poor's: Class A debt, A-; Class B debt, BBB
- Fitch: Class A debt, A-; Class B debt, BBB
- Moody's: Class A debt, Baa1; Class B debt, Ba1; Corporate family rating Baa2

Mitigation

We have reduced leverage from levels at the start of the AMP5 period, in April 2010, and improved operational performance. This positive action has stabilised our credit for the start of the next AMP6 regulatory period, commencing April 2015. A primary duty of Ofwat when setting prices is to ensure companies can efficiently finance their business. If necessary, a company can apply to reset customer prices during the five-yearly regulatory periods through an interim determination of price limits.

Health and Safety

The health and safety of our employees and the public in the provision of our services and on our sites is our utmost priority. The nature of our work requires that our employees and contractors undertake activities or use equipment which, if uncontrolled, has the potential to cause significant harm. Failure to comply with our health and safety management system could result in death, serious injury or adverse health effects. In addition to the personal impact these would have, we could be susceptible to prosecution under the Health and Safety at Work and Corporate Manslaughter acts.

Mitigation

Along with our contractors we have comprehensive processes and procedures to prevent injury and occupational ill health. We have taken all necessary steps to ensure the potential health and safety risk is suitably mitigated and controlled. We have a clearly defined strategy, safety protocols and standards that are set. These are monitored and reported to the Board on a monthly basis and to the Board Health and Safety Committee. The Executive Management Team monitors health and safety performance via detailed reports at the monthly health and safety management review meeting. This group ensures there is an adequate system for meeting our responsibilities to staff, customers and members of the public. These services have been developed and are continuously reviewed to ensure they meet the needs of the business and our employees at work.

Additionally, every employee has ready access to a copy of the corporate policy statement and health and safety processes and procedures. All staff receive suitable health and safety training and we have a campaign to encourage staff to report near misses or hazards at work to help further reduce the risk of injuries or ill health. Over the past few years we have increasingly focused on our employees' wellbeing as well as their physical safety through the establishment of a company-wide wellbeing forum as well as a series of physical and mental health initiatives.

Water quality

We supply drinking water to more than two million people. Should operational treatment processes fail, or should the supply become contaminated, there is a risk that water could be supplied to customers that is unfit for consumption. Any problem affecting drinking water quality (for example a bacteriological failure) could cause our customers to become ill and would require a widespread 'boil water notice' to protect public health, causing disruption to our customers and potentially a prosecution.

Mitigation

Significant effort is made to prevent such an incident occurring through investment in assets and technology and through staff adherence to company processes and procedures. New staff are trained in these processes and procedures and their importance. We consistently have a drinking water compliance of over 99.9 per cent. Our 2015–20 Business Plan includes schemes to add carbon filters and other more advanced filters at our water treatment works in high-risk areas such as Hastings to help improve the taste and smell of water. Part of our activities to improve water quality includes upgrades to wells and boreholes, service reservoirs and water supply works as well as flushing mains and cleaning service reservoirs which store water underground before it is pumped to customers' taps.

To avoid problems associated with nitrates and pollutants being washed into rivers from high surface run off after heavy rain, we have processes to cease water abstraction during and after heavy storms. Drinking Water Safety Plans have been completed and made available online for staff. These plans identify where and how problems can arise with drinking water quality and cover the entire supply system, from catchment to customers' taps.

Customer service

Customers will become dissatisfied if we are unable to deliver the level of service they expect, which can be caused by interruptions to supply and services or quality deterioration as well as shortcomings in our communications and response. The Service Incentive Mechanism (SIM) was developed by Ofwat to incentivise improvements in customer service and compares the water sector companies' performances across the industry. Financial penalties may be applied under SIM for failure to achieve the requisite level of service to our customers.

Our performance as measured by SIM has continued to improve, although not as fast as our peers and still not at the desired level. We have set ourselves challenging targets and our improvement programmes are working to deliver these for our customers.

Mitigation

Improvements to customer service are being made on a continuous basis. Staff are being provided with increased training and development and we are carrying out our ongoing research to better understand our customers' experiences, both the services they are being provided with and also when contacting us to define key local areas of improvement.

We are also informing the public when we are working in their area and strengthening our links with local organisations such as councils and community groups.

We are reducing the need for customers to contact us by providing facilities for them to manage their accounts online and where customers do need to speak to us directly we have ensured the opening hours of our contact centre are convenient. Additionally, our bills have been redesigned to make them easier to understand.

Cyber security

We provide water and wastewater services to customers across our regional infrastructure, which is considered critical national infrastructure. As a result, we recognise our operational and enterprise IT systems may be a potential target for cyber threats which could have a significant impact on our business reputation and operational digital assets.

Mitigation

We manage this risk through IT security standards, ongoing monitoring of threats to and activities on our IT infrastructure as well as incident management plans. We continue to invest in cyber threat mitigation strategies in response to the changing risk landscape and we work with the Centre for Protection of National Infrastructure (CPNI). Over the past 12 months we have also undertaken employee campaigns to raise awareness of IT security and data protection risks.

Defined benefit pension scheme

We operate a defined benefit pension scheme which has been closed to new entrants from 1 April 2005. We remain liable for rights earned by past and present members of the scheme. Changes in demographics and fluctuations in investment markets may affect our ability to fund pension promises.

Mitigation

We have agreed a deficit and risk management strategy with the Trustees. This is monitored regularly by the company and Trustees and mitigating actions are reviewed and implemented as appropriate.

The risk of a sustained period of negative inflation

Our wholesale revenues, capital value and the return on our capital value are linked to inflation. A sustained period of negative inflation could result in a reduction of returns relative to the cost of financing our business. A sustained period of negative inflation could also lead to pressure on the financial headroom we have between our capital value, linked to inflation (our RCV), and our financial structure.

Mitigation

This risk is reduced by the inclusion of index-linked debt and derivatives, within our financial structure, which makes up approximately two thirds of our borrowings. These financial instruments are linked to inflation, whereby interest cost, and loan value, rise and fall in line with the movement in inflation.

Southern Water Corporate Governance

Introduction

Southern Water is committed to maintaining high standards of leadership, transparency and governance. It has adopted its own code and has committed to comply with its letter and spirit. The Board of Southern Water (SWS Board) fully accepts its responsibility and accountability to stakeholders for ensuring effective governance processes are in place and followed.

The SWS Board's role is to:

- Ensure that the company's obligations to, and interests of, its stakeholders, including customers and regulators, are known and met appropriately
- Provide effective leadership and collective responsibility for the long-term success of the company, to the benefit of its stakeholders
- Determine overall strategic aims and direction
- Ensure that sufficient resources are available to the Chief Executive Officer and his team to operate, manage and develop the business appropriately
- Ensure that appropriate and effective processes and controls are in place to assess and manage risk.

Southern Water Code of Board leadership, transparency and governance

The SWS Board readily adopted Ofwat's suggestion in 2013 to develop its own code. The Southern Water Code of Board leadership, transparency and governance, has fully reflected the Ofwat Principles (published in January 2014) and drawn extensively on the appropriate principles of the UK Corporate Governance Code. Southern Water has committed to comply with the letter and the spirit of the principles and commitments of the Southern Water Code and the board of Greensands Holdings has committed to assist. Southern Water continues to have regard to corporate governance practices and developments in other areas and will review the Southern Water Code again in the current year 2015–16.

The Southern Water Code is published on the Southern Water website.

SWS Board membership

During the year , Robert Jennings was the independent non-executive Chairman of Southern Water, appointed with effect from 1 April 2014. Robert was previously one of four independent non-executive directors and, following his appointment as Chairman, Paul Sheffield was appointed in his place.

The Southern Water Nomination Committee was tasked to consider candidates for the independent non-executive directorship Robert Jennings vacated and to recommend the appointment to the SWS Board, which it did following an appropriately formal, rigorous and transparent process. This began with agreeing the principal characteristics required by the SWS Board overall and evaluating the current strengths and balance. Following Paul Sheffield's appointment, the opportunity was also taken to plan for succession in anticipation of the retirements of Bob Armstrong and Cheryl Black, which were expected later in the year. Accordingly, the SWS Board appointed Bill Tame (from 1 January 2015) and Rosemary Boot (from 1 March 2015). Lisa Harrington was appointed with effect from 1 April 2015, in anticipation, later in 2015, of David Golden's retirement. In the appointment of its independent non-executive directors, the SWS Board is pleased to continue its pursuit of diversity.

By 31 March 2015, the SWS Board comprised an independent Chairman, two executive directors (the Chief Executive Officer and Chief Financial Officer) and six non-executive directors, of whom four are independent. The Chairman of Southern Water believes that overall, during the year, Southern Water comprised a balanced and rounded Board, giving independent support and advice as well as providing new ideas and healthy challenge. The presence of the non-executive directors, only two of whom are not independent, and the independent non-executive Chairman ensures that Southern Water achieves appropriate governance.

All members of the SWS Board were and are able to allocate the necessary time to the company and its areas of business to discharge their responsibilities effectively.

Chairman

The role of the Chairman of Southern Water is to lead the SWS Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to the governance principles and processes of the Board. The Chairman has ensured that the new members of the SWS Board receive appropriate induction and ongoing training.

The Chairman discusses and agrees agendas for SWS Board meetings with the Chief Executive Officer and Company Secretary, although any director may sponsor an item to be included on the agenda. The Chairman has authority to act and speak for the SWS Board between its meetings, including engaging with the Chief Executive Officer. The Chairman reports to the SWS Board, chairmen of its committees and individual directors as appropriate on decisions and actions taken between meetings of the SWS Board. The Chairman also meets with the non-executive directors, without the executive directors present, to consider the performance of the executive directors and to provide feedback. The Chairman continues to increase open and constructive contact between all members of the SWS Board, in both formal and informal meetings.

Investor representation

The Southern Water investors comprise the Greensands Consortium, the membership of which is explained on the Southern Water website.

Two investors, but not all, are directly represented on the SWS Board and the Chairman ensures that the views of all investors can be communicated to the Board.

Senior independent non-executive director

David Golden is the senior independent non-executive director. He has chaired the Remuneration Committee, of which he remains a member, and is a member of the Health and Safety and Audit and Risk Review Committees. He would chair SWS Board meetings in the event that the Chairman is unable to do so for any reason and is available to discuss matters or concerns with investors as required. David has been a non-executive director for 11 years. The SWS Board recognises that his character and judgement show him to be independent and values his continuing contribution during the recent quinquennial price review process and to the new Business Plan and operating model that is now being implemented. David proposes to resign at the end of June and will be succeeded by Paul Sheffield as senior independent non-executive director.

Independent non-executive directors

The independent non-executive directors are valued members of the Board. As well as meeting the company's obligation in its licence to have independent non-executive directors, they bring overall independent advice, review and challenge on behalf of all stakeholders, including customers. The independent non-executive directors have been appointed for their individual external expertise and experience in specific areas, such as customer service, the environment, operations, procurement and finance, and for the range of their experience of general corporate management. They meet without the Chairman at least once a year and appraise the Chairman's performance annually.

The SWS Board considers the independent non-executive directors to have been and to be independent in character and judgement and persons of standing with relevant experience, collectively having connections with, and knowledge of, the company's area and understanding of the interests of its customers and how these can be respected and protected.

The standard terms and conditions of the independent non-executive directors are published on the Southern Water website.

Shareholder representative non-executive directors

There are two non-executive directors each of whom is nominated to the SWS Board by one of our two major investors. They bring the extensive knowledge, skills and resources of their nominating investors and employers as well as their own personal skills, experience and knowledge of businesses and business sectors similar to Southern Water's. On the SWS Board, they have all the duties, obligations and rights of a director of Southern Water and act in the best interests of the company. They do not receive any remuneration from Southern Water.

Chief Executive Officer

The Chief Executive Officer of Southern Water, Matthew Wright, is a member of the SWS Board and has all the responsibilities of a director of the company. In his executive role, responsibility has been delegated to him to achieve the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgement, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls. The non-executive directors, led by the Chairman, appraise his performance annually.

Chief Financial Officer

The Chief Financial Officer of Southern Water, Michael Carmedy, is a member of the SWS Board and has all the responsibilities of a director of the company. In his executive role and reporting to Matthew Wright, he has the responsibility to manage the company's financial affairs and assist the Chief Executive Officer in the delivery of the company's strategy. His executive performance is reviewed annually by Matthew Wright.

Executive Management Team

Reporting to Matthew Wright, the Executive Management Team supports him in driving the implementation of strategy in the company. The team is committed to do this in a responsible way that takes account of Southern Water's commitment to its customers, the environment, the communities in which people live and work and all its other stakeholders and with a view towards the long-term responsible stewardship of the business.

Role of the Company Secretary

All directors have access to the advice and services of the Company Secretary and General Counsel, Kevin Hall, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the SWS Board operates in accordance with the governance framework it has adopted and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the SWS Company Secretary is reserved to the SWS Board.

Director induction, training and development

On appointment to the SWS Board, a director will discuss and agree induction coverage and then an appropriate comprehensive and individualised induction pack is provided, which will include information on the company and holding group structure, the regulatory framework of the business, customer service and the operation of assets, strategic plans, financial reports, business plans and the governance framework. This and further relevant information is summarised in the directors' handbook.

Meetings are arranged with members of the Executive Management Team and with external advisers, who provide support to the relevant Board committees the directors may serve on, as well as visits to operational and office sites.

Directors received updates through the year on matters such as changes to the regulatory framework, Defra's Open Water programme, procurement and people management and deepened their knowledge through their leadership of and engagement in the regulatory Price Review 2014 (PR14). They also have access to professional development provided by external bodies and our specialist advisers.

Board evaluation

Robert Jennings as Chairman, took on the process of Board evaluation which was already under way and, with the members of the Nomination Committee, identified where and how Southern Water wanted to add to the capabilities of the Board. In the autumn of 2014, the Chairman reviewed progress and carried out the next annual Board evaluation, this time with external facilitation. The SWS Board agreed to the engagement of Duncan Reed, Condign Board Consulting, who conducted face-to-face interviews with all directors and attended SWS Board meetings. The report was presented to the SWS Board at its February meeting and painted an encouraging picture, reflecting that the overall functioning of the SWS Board is at a good level and that governance is in good order. No areas of major concern or weakness were identified but helpfully a number of suggestions had been made by individuals to improve SWS Board effectiveness further. These are being trialled and will be reviewed during this year.

Subsequently, David Golden, senior independent non-executive director, led a review and appraisal of the Chairman's performance , without participation of the Chairman. The SWS Board and Chairman are pleased to record that the chairmanship is supported by the SWS Board overall and no areas of major concern or weakness were identified.

Board operation

There is good understanding of the principles and processes in place regarding the tasks and activities of the SWS Board, the authority delegated to the Chief Executive Officer and the relationship between them.

The following matters are routinely determined by the Board:

- Business strategy
- Financing strategy
- Business plans
- Approval of annual budgets
- Fixing of principal charges and charges schemes
- Approval of financial statements
- Key regulatory submissions (including, but not limited to, Price Review submissions to Ofwat, Interim Determination of K applications, Risk and Compliance Statement and Regulatory Financial Statements)
- Key customer and stakeholder publications (including, but not limited to, the Annual Report)
- Entering into significant contracts or commitments (including capital schemes over £5 million and disposals over £1 million)
- Approval of dividends
- Commencing into new businesses
- Appointment or removal of auditor
- Appointment and remuneration of independent non-executive directors
- Appointment or removal of the Company Secretary
- Amendment, qualification, addition to or removal from the above.

The Shareholders' Agreement of Greensands Holdings, reserves certain matters by exception to the GSH Board and shareholders. A list of these matters is published on the Southern Water website. During the year 2014–15, no such matters have been decided by the GSH Board or its shareholders.

Good governance requires a clear division of responsibilities between the Chairman and Chief Executive Officer. A statement of these responsibilities is published on Southern Water website.

SWS Board meetings

The SWS Board held ten scheduled monthly meetings during the year. The agenda and papers are sent to SWS Board members in advance of each meeting. The monthly financial, performance and economic regulation reports are also distributed for the other two months when there is no scheduled meeting (August and December). The SWS Board holds its meetings at its principal office in Worthing but at least two meetings each year are held in London to facilitate meetings with investors.

Additionally, ad hoc SWS Board meetings were held to consider, challenge and decide the company’s positions on further stages in the PR14 process, which has continued to be such an important process for the SWS Board during 2014–15. This culminated in the decision not to seek referral of Ofwat’s Final Determination to the Competition and Markets Authority.

Directors have access to the advice and services of the Company Secretary and are able to take appropriate independent professional advice for the performance of their duties. Where a director has a concern over any unresolved matter, he/she is entitled to require the Company Secretary to record that concern in the minutes of a meeting. Should the director later resign over the issue, the Chairman, would bring it to the attention of the SWS Board.

Attendance at scheduled monthly Board meetings in 2014–15			
Robert Jennings	10/10		
Robert Armstrong (resigned 31 January 2015)	8/8	Cheryl Black (resigned 31 January 2015)	7/8
Michael Carmedy	10/10	David Golden	9/10
Paul Sheffield (appointed 1 June 2014)	8/8	Matthew Wright	10/10
Bill Tame (appointed 1 January 2015)	2/3	Rosemary Boot (appointed 1 March 2015)	1/1
Paul Moy Bronte Somes (as alternate)	9/10 1/1	Mark Walters	10/10

Note – Attendance includes attendance in person and by telephone.

SWS Board committees

Southern Water has established standing committees of the SWS Board with specific responsibilities. They assist by monitoring and reviewing performance and issues in the areas within their respective scopes and by advising and making recommendations to the Board. Specific responsibilities have been delegated to those committees.

The standing committees of the SWS Board that met in 2014–15 are:

- Audit and Risk Review
- Health and Safety
- Remuneration
- Nomination

Each committee has written terms of reference to exercise oversight on behalf of the SWS Board and provide advice in its remit area. These terms of reference are published on the Southern Water website.

Other committees are constituted if and when required for specific matters.

Southern Water has previously appointed a Regulatory Committee. However, given the significance of the regulatory issues and changes that have taken place in the regulatory environment in 2014–15, and in particular the PR14 process, such regulatory matters have been discussed and decided by the full SWS Board. Consequently, the Regulatory Committee did not meet during the year. This position will continue to be reviewed by the SWS Board, which itself receives an economic regulation report at each scheduled monthly meeting and for the other two months, as described above, and which has been closely involved in PR14.

Remuneration

The remuneration of the directors of Southern Water is set out in the directors' remuneration report in Southern Water's Annual Report.

Interests

No director of Southern Water declared a material interest at any time during the year in any contract of significance with the company.

Conflicts of interests

Conflicts or potential conflicts are governed by the Companies Act 2006. The SWS Board does not have power to authorise conflicts. If a conflict should arise, the conflicted director takes no part in discussions or voting on that issue.

Annual General Meeting

Southern Water Services Limited is a private company with single corporate ownership and is not required to hold an Annual General Meeting.

Directors' report for the year ended 31 March 2015

The directors of Greensands Holdings Limited (Registered Number: Jersey 98700) present their report and the audited financial statements for the year to 31 March 2015.

Group

Greensands Holdings Limited ("the company") was incorporated on 28 September 2007 as the parent company of Greensands Europe Limited, whose subsidiaries include Greensands Investments Limited.

On 15 October 2007, the company became the ultimate parent company of the Southern Water group of companies, via the acquisition of Southern Water Capital by Greensands Investments Limited.

Principal activities of the company

The company's principal activity is that of a holding company for Greensands Europe Limited and its subsidiaries.

Principal activities of the group

The principal activities of the group are the provision of water supply and wastewater services in the south-east of England.

The trading results reflect the performance of the major trading subsidiary Southern Water Services Limited (Southern Water).

Strategic report

The information that fulfils the requirement of the Strategic Report can be found in the Strategic Report sections on pages 2 to 5 and pages 8 to 30.

Future developments

The information regarding future developments of the company can be found in the Strategic Report sections on pages 2 to 5 and pages 8 to 44.

Results and dividends

The profit and loss account on page 54 shows the group's results and profit for the year. Further details are also available in the Strategic Report section on page 3.

No dividends were paid or declared during the year.

Directors and their interests

The directors who held office during the year ended 31 March 2015 and up to the date of signing the financial statements were as follows:

Robert Jennings	
Peter Antolik	(Ceased as alternate to Paul Ryan 7 January 2015)
Keith Budinger	
Michael Nagle	
Paul Ryan	(Appointed as alternate director to A Truscott and resigned as director 7 January 2015)
Bronte Somes	(Appointed as alternate to P Moy and resigned as director 1 April 2015)
Jeff Woodard	
Craig McAllister	Alternate to Keith Budinger
Paul Moy	(Appointed as director and resigned as alternate to B Somes 1 April 2015)
Andrew Truscott	(Appointed as director 7 January 2015)

None of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

Research and development

The improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the group's strategy to enhance the quality of service to customers and improve methods of working. Research and development expenditure for the year amounted to £0.4 million (2013–14: £0.5million).

Employees

Employee involvement: The group recognises the importance of its employees and is committed to effective two-way communication and consultation.

The group has established Business Involvement groups to facilitate meaningful consultation between management and employees through elected employee representatives. The groups meet regularly at both a functional and company-wide level. An employee survey is also completed on an annual basis to seek input from employees.

The group recognises the rights of every employee to join a trade union and participate in its activities. Southern Water has a single union agreement with Unison.

The group publishes its own in-house newspaper, Southern Water News, on a regular basis. General information is posted on the group intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues that may affect the group.

Equal opportunity: The group's policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. The group takes full account of the needs of people with disabilities and follows set policies and procedures to support reasonable adjustments in the workplace.

Health and safety: The group recognises its duties to make proper provision for the health, safety and welfare at work of its employees.

Every employee receives a copy of the corporate policy statement on health and safety. There are regular meetings of employee representatives and managers to consider all aspects of health and safety. In addition there is a health and safety management review group which ensures that there is an adequate system for meeting the company's responsibilities for health and safety to its staff, customers and members of the public.

The group provides an internal occupational health service for employees, including the provision of physiotherapy. These services have been developed and are continuously reviewed to ensure they meet the needs of the business and our employees at work.

Environmental issues

The group is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice, and aims to contain the environmental impact of its activities to a practicable minimum.

The group's environmental performance is reported on pages 22 to 25. The group recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

Political donations

No political donations were made.

Land and buildings

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable to quantify the difference precisely.

Financial risk management objectives and policies

The group intends to at least maintain its present risk profile, as measured by its investment grade credit rating. The group 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.

Interest Rate Risk - The group hedges its exposure to interest rate risk on at least 85 per cent of its total outstanding debt liabilities in respect of Class A Debt and Class B Debt for the current period to the next Periodic Review and at least 70 per cent in the next period to the subsequent Periodic Review (on a rolling basis) into either index-linked obligations or fixed rate obligations.

Inflation Risk - The regulatory framework, under which revenues and the RCV are indexed, exposes the group to inflation risk. The group manages this risk through the use of index-linked instruments within its overall debt portfolio.

Liquidity risk – The group raises additional funds, as required, to ensure that it has sufficient cash and/or facilities to fund the business for at least the next twelve months.

Cash management risk – The group sets exposure limits for, and deposits cash balances with, organisations whose credit ratings are rated a minimum of Moody's P1, Standard & Poors A1 or Fitch F1.

Going concern

The directors believe, after due and careful enquiry, that the group has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the financial statements to 31 March 2015.

In forming this assessment the directors have considered the following information:

- The group's business activities, together with the factors likely to affect its future development, performance and position, which are set out in the Strategic Report on pages 2 to 7 and 8 to 49.
- The financial position of the group, its cash flows, liquidity position and borrowing facilities, which are described in the Financial Performance reviews on pages 3 to 5 and 31 to 46.
- The group has available a combination of cash and committed undrawn bank facilities totalling £620.0m at 31 March 2015 (2014: £418.4m). These funds are sufficient to fund the operating and capital investments activities of the group for the 12 months from the date of signing the financial statements.
- The group operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities. The Final Determination for the period April 2015 to March 2020 has now been agreed by Ofwat.

As a consequence the directors believe that the group is well placed to manage its business risks successfully.

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

Qualifying third party indemnity

Following shareholder approval, the group 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 Strategic Report, the Director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 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 disclosure 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 group's auditor is unaware; and

(2) He/she 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 group's auditor is aware of that information.

Auditor

Deloitte LLP has indicated its willingness to continue in office.

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

K Hall
Company Secretary
21 July 2015

Financial statements

Consolidated profit and loss account

For the year ended 31 March 2015

	Note		**2015 £m**		2014 £m
Turnover	1,2,3		**828.6**		806.2
Cost of sales	3				
- before exceptional item		**(503.8)**		(479.7)	
- exceptional item	4	**2.4**		(18.8)	
			(501.4)		(498.5)
Gross profit			**327.2**		307.7
Administrative expenses	3		**(28.5)**		(30.7)
Other operating income	3		**0.2**		0.2
Operating profit			**298.9**		277.2
Profit on disposal of fixed assets			**1.3**		0.5
Profit on ordinary activities before interest and taxation			**300.2**		277.7
Interest receivable and similar income	7		**1.5**		5.1
Interest payable and similar charges	7		**(295.0)**		(328.9)
Profit/(loss) on ordinary activities before taxation	4		**6.7**		(46.1)
Tax on profit/(loss) on ordinary activities	8		**(24.1)**		41.2
Loss for the year			**(17.4)**		(4.9)

The above results relate to continuing operations.

The Notes on pages 58 to 82 form part of these financial statements.

Consolidated statement of total recognised gains and losses
For the year ended 31 March 2015

	Note	**2015 £m**	2014 £m
Loss for the year		**(17.4)**	(4.9)
Actuarial (loss)/gain recognised in the pension fund	23	**(42.9)**	3.1
Movement on deferred tax relating to pension deficit	17	**8.6**	(2.2)
Total recognised losses for the year		**(51.7)**	(4.0)

There are no differences between the profit/(loss) on ordinary activities before taxation and the profit/(loss) transferred to reserves for the financial year, and their historical cost equivalents.

Consolidated and company balance sheets

As at 31 March 2015

	Note	**Group 2015 £m**	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Fixed Assets					
Intangible assets – goodwill	9	**78.8**	**-**	85.1	-
Tangible assets	10	**5,637.0**	**-**	5,607.5	-
Investments	11	**0.1**	**1.0**	-	1.0
		5,715.9	**1.0**	5,692.6	1.0
Current assets					
Stocks	12	**2.2**	**-**	2.0	-
Debtors: amounts falling due within one year	13	**203.3**	**-**	186.6	-
Debtors: amounts falling due after one year	14	**-**	**1,016.6**	-	1,016.6
Cash at bank and in hand	18	**230.1**	**-**	193.4	-
		435.6	**1,016.6**	382.0	1,016.6
Creditors: amounts falling due within one year	15	**(417.8)**	**(31.9)**	(250.2)	(31.9)
Net current assets		**17.8**	**984.7**	131.8	984.7
Total assets less current liabilities		**5,733.7**	**985.7**	5,824.4	985.7
Creditors: amounts falling due after one year	16	**(4,758.2)**	**(59.3)**	(4,835.1)	(59.3)
Provision for liabilities and charges					
Environmental obligations	17	**(0.5)**	**-**	(0.5)	-
Deferred taxation	17	**(336.2)**	**-**	(313.5)	-
Grants and contributions	19	**(41.4)**	**-**	(43.8)	-
Net assets excluding pension deficit		**597.4**	**926.4**	631.5	926.4
Pension deficit	23	**(89.9)**	**-**	(72.3)	-
Net assets including pension deficit		**507.5**	**926.4**	559.2	926.4
Capital and reserves					
Called up share capital	20	**921.9**	**921.9**	921.9	921.9
Share premium account	21	**4.5**	**4.5**	4.5	4.5
Profit and loss account	21	**(418.9)**	**-**	(367.2)	-
Total shareholders' funds		**507.5**	**926.4**	559.2	926.4

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 56 to 83 were approved by the Greensands Holdings Limited Board and authorised for issue on 21 July 2015 and they were signed on its behalf by

M Nagle
Director

Consolidated cash flow statement

For the year ended 31 March 2015

	Note	**2015 £m**	2014 £m
Net cash inflow from operating activities	22	**540.9**	538.1
Returns on investments and servicing of finance			
Interest paid		**(164.5)**	(283.0)
Interest received		**1.4**	5.6
Net cash outflow from returns on investments and servicing of finance		**(163.1)**	(277.4)
Taxation		**-**	(0.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(348.7)**	(382.0)
Receipt of grants and contributions		**12.3**	9.9
Purchase of investment		**(0.1)**	-
Sale of tangible fixed assets		**0.3**	0.3
Net cash outflow for capital expenditure and financial investment		**(336.2)**	(371.8)
Net cash inflow / (outflow) before financing		**41.6**	(111.2)
Financing			
Repayment of long term loan/bonds		**(4.9)**	(252.8)
Issue costs of new loans/bonds		**-**	(0.2)
Net cash outflow from financing		**(4.9)**	(253.0)
Increase / (decrease) in net cash		**36.7**	(364.2)
Reconciliation to net debt			
Net debt at beginning of year		**(4,633.0)**	(4,371.5)
Increase / (decrease) in net cash		**36.7**	(364.2)
Movement in borrowings		**4.9**	252.8
Debt issue costs		**-**	0.2
Non-cash items		**(128.4)**	(150.2)
Net debt at 31 March	22	**(4,719.8)**	(4,632.9)

Notes to the consolidated financial statements

For the year ended 31 March 2015

1 Accounting policies

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

Basis of accounting

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice and with the requirements of the Companies (Jersey) Law 1991.

Basis of consolidation

The group financial statements include the financial statements of the company and all of its subsidiary undertakings therefore no discrete profit and loss account is presented by the company. The company is not required to prepare a cash flow statement under Financial Reporting Standard (FRS) 1 (revised).

The results of the subsidiaries are included in the Profit and Loss Account from the date of acquisition. Intra group sales and profits are eliminated fully on consolidation. The acquisition method of accounting has been used to consolidate the subsidiaries.

Going concern

The directors have undertaken a detailed review of the group's liquidity requirements compared with the cash and facilities available, the financial covenant position including projections based on future forecasts, the current ratings and financial risk and have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. For this reason they continue to adopt the going concern basis of accounting in preparing the annual financial statements. For further details see page 52.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use; these include materials, labour and applicable overheads. Interest costs are not capitalised.

i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of assets covering the group's geographic area.

Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition to fixed assets and is stated at cost after deducting grants and contributions. Staff costs that directly relate to the construction of a specific infrastructure asset are capitalised on the basis of the amount of time spent by individuals on projects.

The depreciation charge for infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan determined by the water industry regulator, Ofwat, as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

ii) Other tangible assets (including over-ground assets, plant and equipment) are stated at cost less accumulated depreciation and any provision for impairment. These assets are depreciated down to their residual values on the straight-line method over their estimated operating lives which are principally as follows:

	Years
Buildings	10 - 60
Operational structures	15 - 80
Fixed plant	10 - 40
Vehicles, computers and mobile plant	3 - 10

Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

Tangible fixed assets and depreciation (continued)

iii) Freehold land is not depreciated.

iv) Assets in the course of construction are not depreciated until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor following completion of performance and take-over tests.

v) Private Sewers were adopted in October 2011 and have been valued at nil value, as permitted by UKGAAP and by reference to the net present value of the incremental cash flows as a result of the adoption. These assets form part of our infrastructure assets and expenditure associated with them has been treated as described above.

Grants and contributions

Revenue grants and contributions , as applied to the group's subsidiaries are credited to the profit and loss account in the year to which they relate.

Capital grants and customer contributions in respect of additions to non-infrastructure tangible fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets in accordance with the provisions of the UK Companies Act 2006, as applicable to the group's subsidiaries.

Grants and capital contributions received relating to infrastructure assets have been deducted from the cost of tangible fixed assets as permitted by Statement of Standard Accounting Practice (SSAP) 4. This is not in accordance with Schedule 1 of the Companies Act 2006 which requires tangible fixed assets to be stated at their purchase price or production cost. The Act does not permit the deduction of contributions.

This departure from the requirements of the Act is, in the opinion of the directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have determinable finite lives. Accordingly related capital contributions would not be recognised in the profit and loss account. The effect of this treatment on tangible fixed assets is disclosed in note 10.

Leased assets

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

Rentals payable under operating leases are charged to profit and loss account as incurred.

The sale of income rights relating to aerials masts and sites owned by the group to third parties is treated as an operating lease. Income received from such sales is received entirely in advance and is therefore taken to deferred revenue and will be credited to other operating income in the profit and loss account over the life of the lease.

Sale and leaseback transactions occur when an asset is sold but use is immediately re-acquired by entering into a lease with the buyer. Where the new lease is an operating lease, the transaction is treated as the disposal of an asset and the operating lease accounted for in accordance with existing policies.

Goodwill and intangible fixed assets

Businesses and interests acquired have been dealt with in the consolidated financial statements using acquisition accounting. Upon the acquisition of a business, fair values are attributed to the identifiable assets and liabilities acquired that reflect the condition at the date of acquisition and any required adjustments made to bring the accounting policies of the businesses acquired into alignment with those of the group. Where the consideration paid exceeds the fair value of the net assets acquired, the difference is treated as goodwill.

In line with FRS 10, goodwill arising on acquisitions is capitalised and amortised through the profit and loss account over its estimated useful economic life, estimated to be 20 years.

Impairment reviews of goodwill are carried out at the end of the first financial year after acquisition and provision is made where there is any indication of impairment.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

Fixed asset investments

Investments held as fixed 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 fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stock is held for use in the production of water supply and treatment of wastewater. Stock is valued at the lower of cost and net realisable value.

Deferred revenue

Deferred revenue includes monies received from customers where the related turnover has not yet been recognised.

Amounts are deferred to the balance sheet and released to the profit and loss account in line with the period of the service provided.

Provisions

An environmental provision is made in accordance with Financial Reporting Standard (FRS) 12 for the costs relating to the decommissioning of abandoned sites. No reimbursement is expected.

Taxation

The taxation charge in the profit and loss account is based on the profit for the year as adjusted for disallowable and non-taxable items using current rates and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with Financial Reporting Standard 19 “Deferred Tax” (“FRS 19”). Deferred taxation balances are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for goods and services provided and, in respect of unbilled charges, includes accrued income.

Turnover relates to services provided in the year and excludes payments received in advance which are recorded as deferred revenue.

Unmetered income is based on either the rateable value of the property or on an assessed volume of water supplied. Metered income is based on actual or estimated water consumption.

Turnover includes an estimate of the consumption between the date of the last meter reading and the period-end. The unbilled income accrual is based on estimated usage from the last meter reading date through to the end of the reporting period. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff.

Bad debts

The bad debt provision is calculated by applying estimated recovery rates to various categories of debt and reflecting past collections experience and expectations of future recovery of outstanding receivables at the year-end.

Research and development

Expenditure on research and development is charged to the profit and loss account as it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful lives of those assets.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

Pensions

The group operates a defined benefit pension scheme, the assets of which are held separately from those of the group in independently administered funds. An independent actuary conducts a valuation this pension scheme every three years.

In accordance with FRS 17 the pension deficit has been recognised on the balance sheet and operating and financing costs of pension and post-retirement schemes are recognised separately in the profit and loss account.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Service costs are systematically spread over the service lives of the employees and financing costs are recognised in the period in which they arise. The costs of past service benefit enhancements, settlements and curtailments are also recognised in the period in which they arise.

The differences between actual and expected returns on assets and liabilities during the year, including changes in actuarial assumptions, are recognised in the statement of total recognised gains and losses.

The group also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. Group contributions to the scheme are charged to the profit and loss account in the period to which they relate.

Capital instruments

Interest-bearing borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The issue costs of capital instruments have been amortised over the life of the financial instrument to which they relate.

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

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.

Financial instruments

Derivative transactions include interest rate, currency and index-linked swaps that are only used for non speculative purposes. These derivatives are entered into for the purpose of matching or eliminating risk from potential movements in interest and currency rates and RPI associated with the long term borrowing requirements of the group (see note 18). All derivatives, being non speculative, are accounted for on an accruals basis.

Provisions are made for losses, if appropriate, in the event that it is expected that any portion of a financial instrument will not be a hedge of the long term borrowing requirements of the group.

Interest rate and currency swaps are used to manage interest rate profiles and mitigate exchange risks. When matched with primary financial instruments, the net position is measured at the hedge rate and presented within creditors on the balance sheet. Income, costs, gains, losses and expenses are recognised within net interest payable in the profit and loss account over the life of the instruments.

Greensands Holdings Limited does not adopt FRS 25, 'Financial Instruments: Disclosure and Presentation' or FRS 26 Financial Instruments: Recognition and Measurement.

2 Segmental analysis

The directors believe that the whole of the group's activities constitute a single class of business. The group's turnover is generated wholly from within the United Kingdom.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

3 Classification of turnover and revenue costs

Turnover represents the income receivable for providing water supply and wastewater services and is generated wholly in the United Kingdom.

Cost of sales reflects the direct costs of providing water supply and wastewater services. Administrative expenses comprise the indirect costs of the business. Other operating income relates to rents receivable and dividends received from investments.

4 Group profit/(loss) on ordinary activities before taxation

	2015 £m	2014 £m
Group profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Employee costs (note 6a)	**40.2**	37.9
Depreciation on		
- owned assets	**280.2**	257.9
- assets held under finance leases	**1.6**	1.4
	281.8	259.3
Amortisation of goodwill	**6.3**	6.3
Rentals under operating leases – vehicles	**2.1**	2.2
Research and development expenditure	**0.4**	0.5
Release of grants and contributions (note 19)	**(2.9)**	(2.9)
Exceptional item (see note (a) below)	**(2.4)**	18.8

During the year, the group's auditor earned the following fees:

Fees payable for the audit of the group	**0.2**	0.2
Fees payable for other services pursuant to legislation	**0.1**	0.1
Fees payable for all other services to the group	**0.5**	2.0
Total audit and non-audit fees	**0.8**	2.3

Fees in respect of other non-audit services of £0.5 million in 2014–15 relate to taxation advisory services, and consultancy services in relation market reform advice, report modelling and the PR14 Business Plan.

(a) The exceptional item of £18.8 million for the prior year relates to costs incurred in dealing with the high groundwater levels and storms experienced in the winter of 2013–14. It includes tankering and pumping costs to remove the water as well as repairs to equipment as a result of the damage caused. During 2014–15 we received insurance proceeds totalling £2.4 million in relation to this event and these are recorded as an exceptional item in the results for this year.

5 Profit of parent company

The result for the financial period dealt with in the financial statements of the parent company is £nil (2013–14: £nil).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

6 Employee information

	2015 £m	2014 £m
(a) Group employee costs		
Wages and salaries	**69.6**	65.9
Social security costs	**6.5**	6.1
Pension costs - Defined contribution	**2.0**	1.4
- Defined benefit	**4.8**	5.0
Total employee costs	**82.9**	78.4
Less: charged as capital expenditure	**(42.7)**	(40.5)
Charged to the profit and loss account	**40.2**	37.9

Employee costs that are charged as capital expenditure are those directly related to the construction or acquisition of assets.

The company has no employees and did not bear any employee costs.

For directors' emoluments see note 26.

(b) Average number of persons employed by activity
The average monthly numbers of persons employed by the company during the year was:

	2015 Number	2014 Number
Operations	**1,096**	1,079
Customer services	**422**	480
Corporate centre	**598**	467
	2,116	2,026

7 Interest

	2015 £m	2014 £m
Interest payable and similar charges		
Interest payable on loans	**302.2**	307.5
Interest rate swap receipts	**(51.9)**	(54.8)
Total interest payable on other loans	**250.3**	252.7
Indexation	**48.5**	72.1
Amortisation of issue costs	**4.4**	11.4
Amortisation of gilt lock proceeds	**(0.1)**	(0.1)
Amortisation of bond premium	**(8.7)**	(9.6)
Other finance expense (note 23)	**0.6**	2.4
Total interest payable and similar charges	**295.0**	328.9
Interest receivable		
Other interest receivable	**1.5**	5.1
Total interest receivable	**1.5**	5.1

A large proportion of the payment of interest payable on loans falls due on 31 March. Where this date is not a business day, the interest is paid on the next following business day.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

8 Group tax on profit/(loss) on ordinary activities

	2015 £m	2014 £m
Current tax:		
UK corporation tax on profits/(losses) of the year	**0.1**	0.1
Total current tax	**0.1**	0.1
Deferred tax:		
Origination and reversal of timing differences	**24.1**	16.1
Pension cost relief in excess of pension cost charge	**1.3**	0.1
Impact of corporation tax rate change	**-**	(47.0)
Impact of rate change on pension charge	**-**	1.2
Adjustment to opening tax estimates	**(1.4)**	(11.7)
Total deferred tax	**24.0**	(41.3)
Total tax on profit/(loss) on ordinary activities	**24.1**	(41.2)

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax due to the following factors:

	2015 £m	2014 £m
Profit/(loss) on ordinary activities before tax	**6.7**	(46.1)
Current tax:		
UK corporation tax rate at 21% on profit/(loss) for the year (2013–14: 23%)	**1.4**	(10.6)
Timing differences	**(25.2)**	(16.2)
Pension cost relief in excess of pension cost charge	**(1.4)**	(0.1)
Permanent differences	**25.3**	27.0
Current tax charge for year	**0.1**	0.1

Factors that may affect future tax charges:

On 20 March 2013 the UK Government announced a reduction in the main rate of corporation tax from 23 per cent to 21 per cent effective from 1 April 2014, and to 20 per cent effective from 1 April 2015. These rate changes were enacted in Finance Bill 2013 during the period, and deferred tax balances have been calculated using these reduced rates. A £47.0m credit was recognised in the profit and loss account in the previous year to reflect the reduction in the deferred tax liability as a result of the rate change. In addition, charges of £1.2m in the profit and loss account and £1.5m in the statement of total recognised gains and losses were recognised to reflect the reduction in the deferred tax asset relating to the pension deficit.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax liabilities have not been discounted.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

9 Group goodwill

Group	**£m**
Cost:	
At 1 April 2014 and 31 March 2015	**126.2**
Amortisation:	
At 1 April 2014	41.1
Charge for the year	6.3
At 31 March 2015	**47.4**
Net book amount:	
At 31 March 2015	**78.8**
At 31 March 2014	85.1

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

10 Fixed assets and capital commitments

The group tangible assets are shown below. The company has no tangible assets.

(a) Group tangible assets

	Freehold land & buildings £m	Plant & machinery £m	Infra-structure assets £m	Assets in the course of construction £m	Other £m	Total £m
Cost or valuation:						
At 1 April 2014	1,689.8	1,844.6	2,537.6	395.5	443.4	**6,910.9**
Additions	1.7	44.2	73.1	163.1	41.0	**323.1**
Transfers	8.6	224.5	18.8	(290.0)	38.1	**-**
Grants & contributions	-	-	(11.8)	-	-	**(11.8)**
Disposals	-	(6.3)	(7.5)	-	(5.5)	**(19.3)**
At 31 March 2015	1,700.1	2,107.0	2,610.2	268.6	517.0	**7,202.9**
Depreciation:						
At 1 April 2014	369.3	386.3	366.0	-	181.8	**1,303.4**
Charge for the period	58.8	92.5	76.2	-	54.3	**281.8**
Disposals	-	(6.3)	(7.5)	-	(5.5)	**(19.3)**
At 31 March 2015	428.1	472.5	434.7	-	230.6	**1,565.9**
Net book value:						
At 31 March 2015	**1,272.0**	**1,634.5**	**2,175.5**	**268.6**	**286.4**	**5,637.0**
At 31 March 2014	1,320.5	1,458.3	2,171.6	395.5	261.6	5,607.5

Of the additions and transfers into infrastructure assets, the amount spent on infrastructure renewals net of contributions during the years ended 31 March 2015 and 31 March 2014 was £65.0m and £76.8m, respectively. The associated contributions were £3.8m for the year ended 31 March 2015 and £2.6m for the year ended 31 March 2014.

For the years ended 31 March 2015 and 31 March 2014, the net book value of infrastructure assets is stated after deducting grants and contributions of £67.4m and £55.6m respectively.

Freehold land is stated at a value of £98.1m at 31 March 2015 (2013–14: £98.1m), and is not depreciated.

Other assets relate primarily to computer equipment, meter reading devices and motor vehicles.

Assets held under finance leases have been capitalised and included in plant and machinery:

	Group 2015 £m	Group 2014 £m
Cost	**19.4**	18.6
Aggregate depreciation	**(14.3)**	(12.7)
Net book amount	**5.1**	5.9

Outstanding payments and interest associated with this lease are not material.

(b) Group Capital Commitments	**2015 £m**	2014 £m
In respect of contracts placed	**113.3**	124.0

The company has no capital commitments.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

11 Investments

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Greensands Europe Limited				
At 1 April and 31 March	**-**	**1.0**	-	1.0
Other external investments				
At 1 April	**-**	**-**	-	-
Addition	**0.1**	**-**	-	-
Disposal	**-**	**-**	-	-
At 31 March	**0.1**	**-**	-	-
Total investments	**0.1**	**1.0**	-	1.0

A full list of subsidiaries is disclosed in note 28.

12 Stocks

	Group 2015 £m	Group 2014 £m
Raw materials	**1.5**	1.6
Work in progress	**0.7**	0.4
	2.2	2.0

The company does not hold any stock.

13 Debtors: amounts falling due within one year

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Trade debtors	**90.7**	**-**	79.3	**-**
Unbilled income	**88.8**	**-**	75.6	**-**
Prepayments	**12.9**	**-**	13.7	**-**
Other debtors	**10.9**	**-**	18.0	**-**
	203.3	**-**	186.6	**-**

14 Debtors: amounts falling due after one year

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Amounts owed by other Greensands Group undertakings	**-**	**1,016.6**	-	1,016.6

All amounts owed by group undertakings are unsecured. Of this amount £897.6m accrued interest at 0.01 per cent for the year ended 31 March 2015. The remaining balance is interest free and repayable on demand. The directors have confirmed that neither of these balances will be called upon for 12 months from the date of these financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

15 Creditors: amounts falling due within one year

	Group 2015	**Company 2015**	Group 2014	Company 2014
	£m	**£m**	£m	£m
Loans and other borrowings (see note 16 (ii))	**200.0**	**-**	-	-
Trade creditors	**23.8**	**-**	21.0	-
Amounts owed to group undertakings	**-**	**31.9**	-	31.9
Capital creditors and capital accruals	**80.7**	**-**	106.5	-
Corporation tax	**0.1**	**-**	0.1	-
Other taxation and social security	**2.4**	**-**	2.7	-
Other creditors	**0.2**	**-**	-	-
Other accruals and deferred revenue	**104.0**	**-**	113.3	-
Premium deferred on issue (note 16 (vi))	**9.6**	**-**	9.6	-
Debt issue costs	**(3.1)**	**-**	(3.1)	-
Deferred gilt lock proceeds (see note 16 (iv))	**0.1**	**-**	0.1	-
	417.8	**31.9**	250.2	31.9

16 Creditors: amounts falling due after one year

	Group 2015 £m	**Company 2015 £m**	Group 2014 £m	Company 2014 £m
Loans and other borrowings:				
Loans from group undertakings	**-**	**59.3**	-	59.3
Long term borrowings	**4,664.6**	**-**	4,736.0	-
Debt issue costs	**(28.7)**	**-**	(38.3)	-
Premium deferred on issue (note (vi) below)	**100.4**	**-**	115.2	-
Deferred gilt lock proceeds (see note (iv) below)	**5.2**	**-**	5.3	-
Obligations under finance leases	**1.8**	**-**	1.6	-
Total loans and other borrowings	**4,743.3**	**59.3**	4,819.8	59.3
Deferred revenue (note (v) below)	**14.9**	**-**	15.3	-
Total creditors falling due after one year	**4,758.2**	**59.3**	4,835.1	59.3

	Group 2015 £m	Group 2014 £m
Repayments fall due as follows:		
Between two and five years	**-**	150.0
After five years not by instalments	**4,664.6**	4,586.0
	4,664.6	4,736.0

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

16 Creditors: amounts falling due after one year (continued)

An analysis of the external loans is shown below:

Loans	Group 2015 £m	Group 2014 £m
Class A £350m 6.192% fixed rate 2029	**350.0**	350.0
Class A £150m 3.706% index linked 2034	**215.5**	210.2
Class A £35m 3.706% index linked 2034	**49.6**	49.7
Class A £350m 6.640% fixed rate 2026	**350.0**	350.0
Class A £150m 3.816% index linked 2023	**215.5**	210.2
Class A £350m 5.000% fixed rate 2021	**350.0**	350.0
Class A £150m 5.000% fixed rate 2041	**150.0**	150.0
Class A £200m 4.500% fixed rate 2052	**200.0**	200.0
Class A £300m 5.125% fixed rate 2056	**300.0**	300.0
Class A £300m 6.125% fixed rate 2019	**300.0**	300.0
Artesian £165m 4.076% index linked 2033	**237.1**	231.3
Artesian £156.5m 3.635% index linked 2032	**219.3**	214.0
	2,937.0	2,915.4
Fixed swapped to Index-linked – (note (i) below)	**(1,318.2)**	(1,318.2)
Index-linked swaps – (note (i) below)	**1,600.6**	1,578.8
Total Class A debt	**3,219.4**	3,176.0
Class B £250m 4.51% fixed rate 2022	**250.0**	250.0
£250m 8.500% Guaranteed Secured Fixed Rate Notes 2019	**250.0**	250.0
£225m Facility Agreement 2016 – Libor plus 4% (note (ii) below)	**-**	200.0
Eurobonds 12% 2021 (note 27)	**795.2**	710.0
Term Facility Agreement 2013 £150m - 6 month Libor plus 3% 2017	**-**	150.0
Term Facility Agreement 2014 £150m - 6 month Libor plus 1.95% 2021	**150.0**	-
Debt issue costs (note (iii) below)	**(28.7)**	(38.3)
Premium deferred on issue (note (vi) below)	**100.4**	115.2
Deferred gilt lock proceeds (see note (iv) below)	**5.2**	5.3
Obligations under Finance Leases	**1.8**	1.6
	4,743.3	4,819.8

Class A and Class B 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 Southern Water Services Limited, Southern Water Services (Finance) Limited ('SWSF'), 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 the Licence to own and operate water assets.

In respect of the specific instruments above:

(i) As at 31 March 2015, SWSF was party to various swap agreements converting a total of £1,318.2m (book value) of Class A debt from the original fixed interest rate to a real interest rate linked to RPI (Retail Price Index) plus capitalised inflation on the nominal value of the underlying Class A debt.

The table below analyses the total value of swaps entered into by SWSF as at 31 March 2015:

Loan	Book value of Class A debt swapped	Fixed interest rate	Index Linked interest rate	Book value of Class A debt plus capitalised RPI
Class A £350m 6.192% fixed rate 2029	£349.3m	6.192%	3.335%	£402.0m
Class A £350m 6.640% fixed rate 2026	£141.9m	6.640%	3.699%	£162.0m
Class A £350m 5.000% fixed rate 2021	£177.0m	5.000%	2.060%	£202.6m
Class A £150m 5.000% fixed rate 2041	£150.0m	5.000%	0.500%	£204.4m
Class A £200m 4.500% fixed rate 2052	£200.0m	4.500%	0.060%	£266.3m
Class A £300m 5.125% fixed rate 2056	£300.0m	5.125%	1.132%	£363.3m
	£1,318.2m			£1,600.6m

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

16 Creditors: amounts falling due after one year (continued)

(ii) Of the £225m Facility Agreement, £200m has been drawn, 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. The group has entered into swap agreements that have converted £150m of the £200m drawn on the £225m Facility Agreement from a floating rate of Libor plus 4 per cent (4.69 per cent from 1 April 2015), to a fixed rate of 2.909 per cent. The facility was refinanced in April 2015 and the related swap agreements were closed out, further details surrounding the terms are given in note 29. As a result of this, the facility at 31 March 2015 has been disclosed in creditors due within one year.

(iii) Debt issue costs represent issue fees paid by SWSF and Southern Water (Greensands) Financing Plc. Where these costs are attributable to a specific instrument they are being amortised over the life of that instrument. The remaining costs are being amortised over the weighted average life of the loan advances noted above. As at 31 March 2015 debt issue costs amounted to £31.8m (2013–14: £41.4m) of which £3.1m (2013–14: £3.1m) represents the short-term amount which is disclosed separately in note 15.

(iv) Prior to the issue of the Class A £300m bond in the year to 31 March 2008, SWSF entered into a gilt lock agreement, resulting in the receipt of £6.3m, which was advanced to Southern Water along with the proceeds of the bond issue. The proceeds have been deferred and are being released to the profit and loss account over the life of the loan.

(v) Deferred revenue relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by Southern Water. The income will be credited to the profit and loss account evenly over the life of the lease.

(vi) The deferred bond premium represents the additional book value of certain of the group's bonds which were issued in 2003, and arose when a number of the group's swap instruments were effectively closed out and the resulting loss was rolled forward into the pricing of those bonds. The premium is being amortised over the lives of the relevant bonds.

17 Provision for liabilities and charges

	Group 2015 £m	Group 2014 £m
(a) Environmental obligations		
Provision as at 1 April	**0.5**	0.8
Utilised in year	**-**	(0.3)
Provision at 31 March	**0.5**	0.5

The environmental provision relates to costs for the decommissioning of abandoned sites. No reimbursement is expected. The period over which the provision will be utilised cannot be determined thus the provision is not discounted. Discounting the provision would not materially affect its value.

	Group 2015 £m	Group 2014 £m
(b) Deferred taxation		
Accelerated capital allowances	**347.3**	333.0
Other timing differences	**(11.1)**	(19.5)
Deferred taxation at 31 March	**336.2**	313.5

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

17 Provision for liabilities and charges (continued)

Movement in deferred tax provision:	**Group 2015 £m**	Group 2014 £m
Deferred tax provision as at 1 April	**313.5**	356.2
Origination and reversal of timing differences	**24.1**	16.1
Adjustment to opening tax estimates	**(1.4)**	(11.8)
Impact of corporation tax rate change	**-**	(47.0)
Deferred tax provided at 31 March	**336.2**	313.5

Group losses of £5.6 million (2013–14: £10.4 million), with a deferred tax asset of £1.1 million (2013–14: £2.1 million) have not been recognised in the accounts due to the uncertainty of suitable taxable profits in the foreseeable future on which to utilise these losses.

On 9 April 2014 agreement was reached with HMRC regarding the proportion of interest on the Eurobond issued by Greensands Europe Limited to the group's shareholders which HMRC would accept as being deductible for tax purposes under transfer pricing regulations. Prior to this agreement, the accounting position reported for the group for all years up to and including the 31 March 2013 had been prepared on the basis that no deductions would be permitted, as discussions with HMRC had not been concluded.

Following the agreement, the total amount of accrued interest for the years ended 31 March 2008 and onwards that is now expected to be deductible is £112.0 million. No tax benefit has been recognised in respect of these, as there is uncertainty over the availability of suitable taxable profits against which these may be offset.

The deferred tax asset of £25.3 million (2013–14: £18.1m) relating to the pension deficit has been deducted from the pension deficit and so has not been included in this balance. An analysis of the movement in the deferred tax relating to the pension deficit is shown below.

No provision has been made for potential deferred tax liability on fair value adjustments made to the fixed assets recognised on acquisition. Such tax would only become payable if a contract was entered into to sell the related assets.

The total amount of deferred tax un-provided is £230.8m (2013–14: £235.0m). At present it is not envisaged that any such tax will become payable in the foreseeable future.

The company has no provisions for liabilities and charges.

Deferred tax asset relating to pension deficit	**2015 £m**	2014 £m
At 1 April	**18.1**	21.6
Deferred tax charge in profit and loss account	**(1.3)**	(0.1)
Deferred tax charged to the statement total recognised gains and losses	**8.6**	(0.7)
Impact of rate change:		
Charge in profit and loss account	**-**	(1.2)
Charged to the statement total recognised gains and losses	**-**	(1.5)
At 31 March	**25.4**	18.1

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

18 Financial instruments

Derivative activity is undertaken by subsidiaries in the group, Greensands Senior Finance Limited, Southern Water (Greensands) Financing Plc and Southern Water Services (Finance) Limited ("SWSF"), as determined by the Board, which considers the overall risk profile of the group and enters into derivatives to mitigate or hedge any risks identified, as appropriate. No derivatives are undertaken for trading purposes, or to benefit from price fluctuations.

No derivative activity is undertaken by the company.

The SWSF business consists of lending to other group companies and raising external finance.

Fair values of hedging instruments (as described in the table below) have not been recognised in the financial statements as the group does not adopt FRS 25, 'Financial Instruments: Disclosure and Presentation' or FRS 26 Financial Instruments: Recognition and Measurement. The fair value in respect of these instruments has been disclosed on page 73.

All fair values are based on arms length transactions in normal market conditions. Where available, market values have been used to determine fair values.

The fair value of the group's long term borrowings has been estimated based on quoted market prices for the same or similar debt where possible. Where prices did not exist, the fair value has been estimated based on the calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates.

For foreign currency and interest rate swap agreements the fair value has been estimated based on market valuations at the balance sheet dates.

The group has no material un-hedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation.

The table below describes the main activities and risks which lead to the use of derivatives.

Activity	Risk	Type of hedge in place
Floating rate borrowing / financing	Increased interest expense due to increases in interest rates	Interest rate swaps which fix the amount of interest payable.
Currency rate borrowing / financing	Increased currency losses due to increases in exchange rates	Currency rate swaps which fix the exchange rates.
Indexation	The regulatory framework, under which revenues and the RCV are indexed, exposes the group to inflation risk	Index-linked instruments

For the purposes of the notes below, short term debtors and creditors have been excluded, on the basis that their fair values are not considered to be different to book value.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

18 Financial instruments (continued)

Interest Rate Risk profile of financial liabilities

Currency	Total £m	Index Linked financial liabilities £m	Fixed rate financial liabilities £m	Variable rate financial liabilities £m
GBP	4,736.0	2,494.2	1,846.8	395.0
At 31 March 2014	4,736.0	2,494.2	1,846.8	395.0
GBP	**4,664.6**	**2,537.6**	**1,782.0**	**345.0**
At 31 March 2015	**4,664.6**	**2,537.6**	**1,782.0**	**345.0**

The balance above includes the debt raised in external finance markets (described further in note 16).

	Fixed rate financial liabilities	
Currency	Weighted average interest rate %	Weighted average time for which rate is fixed Years
GBP		
31 March 2014	8.2	6.9
GBP		
31 March 2015	**8.8**	**6.3**

The group held the following financial assets:

	2015 £m	2014 £m
GBP Cash	**230.1**	193.4

The above financial assets attract interest at floating rates.

Fair values of financial assets and financial liabilities
The following table provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and financial liabilities at 31 March 2015. 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.

	Book value 2015 £m	**Fair value 2015 £m**	Book value 2014 £m	Fair value 2014 £m
Long term borrowings	**(4,664.6)**	**(5,254.6)**	(4,736.0)	(4,906.9)
Cash at Bank and in Hand	**230.1**	**230.1**	193.4	193.4
Derivative financial instruments held to manage interest rate profile				
Interest Rate and index linked Swaps	**(282.3)**	**(1,222.2)**	(260.6)	(1,105.3)

There is no expectation these losses will be realised within 5 years as the group expects to hold these instruments until maturity. In the event of any repayment of associated debt, the intention is to match the liability with a new debt instrument.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

19 Grants and contributions

	Group £m
At 1 April 2014	43.8
Receivable in period	0.5
Released to profit and loss account	(2.9)
At 31 March 2015	**41.4**

Grants and contributions relate to non-infrastructure assets.

20 Share capital

	Group and Company 2015 £m	Group and Company 2014 £m
Allotted, called up and fully paid		
921,874,025 Ordinary shares of £1 each	**921.9**	921.9
	921.9	921.9

21 Reconciliation of shareholders funds

Group	Called up share capital £m	Share Premium account £m	Profit and loss account £m	Total £m
At 1 April 2014	**921.9**	**4.5**	**(367.2)**	**559.2**
Loss for the year	-	-	**(17.4)**	**(17.4)**
Actuarial loss on pension scheme	-	-	**(42.9)**	**(42.9)**
Movement on deferred tax relating to pension asset	-	-	**8.6**	**8.6**
At 31 March 2015	**921.9**	**4.5**	**(418.9)**	**507.5**
At 1 April 2013	921.9	4.5	(363.2)	563.2
Loss for the year	-	-	(4.9)	(4.9)
Actuarial gain on pension scheme	-	-	3.1	3.1
Movement on deferred tax relating to pension asset	-	-	(2.2)	(2.2)
At 31 March 2014	921.9	4.5	(367.2)	559.2

Company	Called up share capital £m	Share Premium account £m	Profit and loss account £m	Total £m
At 1 April 2014	**921.9**	**4.5**	-	**926.4**
Profit for the year	**-**	**-**	-	**-**
At 31 March 2015	**921.9**	**4.5**	**-**	**926.4**
At 1 April 2013	921.9	4.5	-	926.4
Profit for the year	-	-	-	-
At 31 March 2014	921.9	4.5	-	926.4

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

22 Notes to the cash flow statement

Cash flow from operating activities	**2015 £m**	2014 £m
Continuing operations		
Operating profit	**298.9**	277.1
Depreciation charge	**281.8**	259.2
Amortisation of goodwill	**6.3**	6.3
Amortisation of grants & contributions	**(2.9)**	(2.9)
Increase in stocks	**(0.2)**	(0.4)
Increase in debtors	**(18.5)**	(19.6)
(Decrease)/increase in creditors	**(5.9)**	21.4
Decrease in environmental provision	**-**	(0.3)
Difference between pension charge and cash contributions	**(18.6)**	(2.7)
Total net cash inflow from operating activities	**540.9**	538.1

Analysis of Net Debt:

	At 1 April 2014 £m	Cash flows £m	Other non-cash £m	At 31 March 2015 £m
Cash deposits	193.4	36.7	-	**230.1**
	193.4	36.7	-	**230.1**
Debt issue costs	36.0	-	(4.2)	**31.8**
Debt due within one year	(9.6)	-	-	**(9.6)**
Debt due after one year	(4,851.1)	4.9	(124.1)	**(4,970.3)**
Finance leases	(1.6)	-	(0.2)	**(1.8)**
	(4,632.9)	41.6	(128.5)	**4,719.8**

23 Pensions

The group accounted for pension costs during the year under FRS 17. These disclosures show a net FRS 17 deficit (after deferred tax) of £89.9m (2013–14 deficit: £72.3m). The deficit has arisen mainly as a result of lower expected future returns on investments primarily due to low interest rates. The net FRS 17 deficit has increased due to a decrease in the yields on AA-rated corporate bonds, partially offset by a reduction in the RPI inflation assumption used (this decreases the value placed on the pension scheme liabilities, decreasing the shortfall in the pension scheme), and asset returns in excess of the expected return over the year (this has resulted in a higher value in the year end assets, decreasing the shortfall in the pension scheme). The deferred tax asset related to the plan deficit increased by £8.6 million leading to a corresponding credit in the statement of total recognised gains and losses (note 17).

The company has no defined benefit or defined contribution pension schemes.

Pension schemes operated

The group principally operates two schemes, details of which are shown below:

1. Southern Water Pension Scheme (SWPS), a funded defined benefit scheme, was closed to new members on 31 December 1998, re-opened in July 2003 and closed once more to new entrants on 1 April 2005. This scheme has nine trustee directors. The Southern Water Services Executive Pension Scheme (SWEPS) was also closed to new entrants and merged with the SWPS on 1 April 2005.

   The assets of the scheme are held separately from those of the company. Legal and General and BlackRock manage assets for the Southern Water Pension Scheme within pooled investment funds, and appoint custodians for these assets at individual pooled fund level (not client holding level).

2. A second company stakeholder scheme, which is a defined contribution scheme, is also available to all employees.

   Contributions made to the defined contribution scheme for the year ended 31 March 2015 amounted to £2.0 million (2013–14: £1.4 million). No contributions were outstanding at either year end in relation to the defined contribution scheme.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

23 Pensions (continued)

Members of all schemes receive an annual statement of their accrued benefits.

The latest actuarial valuation of the SWPS was carried out as at 31 March 2010 using the projected unit method. For closed schemes under this method the current service cost will increase as the members of the schemes approach retirement. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the level of inflation, which drives pension increases in the SWPS.

The principal assumptions in the valuation were as follows:

	2010 SWPS % per annum (pa)
Return on investments: pre-retirement	7.2
Return on investments: post-retirement (pensioner/non-pensioner)	5.2/5.25
Salary growth	5.2
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% pa)	3.8

The assets of the scheme had a market value of £479.6 million at 31 March 2010. This was sufficient to cover 81 per cent of the scheme's benefits.

Expected employer and employee contributions to the defined benefit scheme for 2015-16 are £15.2 million and £0.3 million respectively under the current Schedule of Contributions. An actuarial valuation as at 31 March 2013 is currently under way and a new Schedule of Contributions will be agreed as part of this valuation, which could result in a different level of contributions being

FRS 17 – assumptions, asset, liability and reserves disclosures

The formal actuarial funding valuation was carried out as at 31 March 2010 and updated to 31 March 2015 by a qualified independent actuary. The major assumptions used by the actuary are set out in the table below.

	2015 % pa	2014 % pa	2013 % pa
Price inflation (RPI)	**3.0**	3.2	3.2
Price inflation (CPI)	**2.0**	2.3	2.3
Rate of increase in salaries (plus an age-related promotional scale)	**2.5**	2.5	2.5
Rate of increase of pensions in payment (MIS* members only)***	**2.0**	2.3	2.3
Rate of increase of pensions in payment (Old section** members only)***	**3.0**	3.2	3.2
Rate of increase of pensions in payment (all other members)***	**2.9**	3.1	3.1
Rate of increase for deferred pensions (MIS* members only)***	**2.0**	2.3	2.3
Rate of increase for deferred pensions (all other members)***	**2.9**	3.1	3.1
Discount rate	**3.4**	4.5	4.4
Expected return on assets	**4.0**	5.1	4.7

* MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

** For this section the Trustee will endeavour to meet any indexation of excess pension above the five per cent cap on increases that apply to other sections of the Scheme.

*** In excess of any Guaranteed Minimum Pension (GMP) element.

Assumptions regarding future mortality experience are set based on advice, published statistics and experience. For 2014–15, the group has used the post-retirement mortality assumptions based on the standard SAPS mortality tables together with future improvements in line with the CMI 2014 improvements with a long-term improvement rate of 1.25 per cent per annum.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

23 Pensions (continued)

	2015 Years	2014 Years
Longevity at age 65 for current pensioners		
Male	**23.0**	22.9
Female	**25.1**	25.0
Longevity at age 65 for future pensioners		
Male	**24.7**	24.7
Female	**27.0**	26.9

The assets and liabilities in the schemes and the expected rates of return at 31 March 2015 and 31 March 2014 were:

	Rate of return 2015	Rate of return 2014	**Value at 2015 £m**	Value at 2014 £m
Equities	**5.9%**	7.1%	**282.2**	256.6
Government bonds	**1.9%**	3.1%	**159.1**	132.3
Non-Government bonds	**2.8%**	4.0%	**208.8**	183.9
Cash	**2.7%**	2.9%	**23.9**	8.7
Total market value of Plan assets			**674.0**	581.5
Total value of Plan liabilities			**(789.3)**	(671.9)
Accrued deficit in the Plan			**(115.3)**	(90.4)
Related deferred tax asset			**25.4**	18.1
Net pension liability			**(89.9)**	(72.3)

a) The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price following the adoption of the amendment to FRS 17.

Reconciliation of the present value of the scheme liabilities	**2015 £m**	2014 £m
At 1 April	**671.9**	669.7
Current service cost	**4.8**	5.0
Interest cost	**29.8**	29.1
Member contributions	**0.2**	0.3
Actuarial loss/(gain) on liabilities	**108.1**	(7.5)
Benefits paid	**(25.5)**	(24.7)
Scheme liabilities at 31 March	**789.3**	671.9

Sensitivity analysis of scheme liabilities

The sensitivity of the present value of the scheme liabilities to changes in the principle assumptions used is set out below.

	Change in assumption	Impact on scheme liabilities (%)		Impact on scheme liabilities (£m)	
Discount rate	+/- 1%	-/+	15	-/+	117
Rate of inflation*	+/- 1%	+/-	13	+/-	101
Rate of increase in pensions in payment	+/- 1%	+/-	11	+/-	90
Mortality	+/- 1yr	+/-	3	+/-	23

*A change in inflation is assumed to be reflected in a change in the assumed rates of deferment revaluation and pension increase (on pension in excess of GMP).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

23 Pensions (continued)

Reconciliation of the fair value of the scheme assets	2015 £m	2014 £m
At 1 April	**581.5**	576.0
Expected return on assets	**29.2**	26.7
Gain/(loss) on assets	**65.2**	(4.4)
Employer contributions	**23.4**	7.6
Member contributions	**0.2**	0.3
Benefits paid	**(25.5)**	(24.7)
Bid value of scheme assets at 31 March	**674.0**	581.5

The actual gain on scheme assets was £94.4m (2013–14: £22.2m).

Analysis of amounts charged to operating profit are as follows	2015 £m	2014 £m
Employer's current service cost	**4.8**	5.0
Expected return on pension scheme assets	**(29.2)**	(26.7)
Interest on pension scheme liabilities	**29.8**	29.1
Total P&L expense before deduction for tax	**5.4**	7.4

Analysis of the amounts recognised in STRGL	2015 £m	2014 £m
Actuarial return less expected return on pension scheme assets	**65.2**	(4.4)
(Loss)/gain on change of assumptions (financial and demographic)	**(108.1)**	7.5
Total gain/(loss) recognised in STRGL before adjustment for tax	**(42.9)**	3.1

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses is £179.5m (2013–14: £136.6m).

Analysis of the movement in the schemes' deficit during the year	2015 £m	2014 £m
Deficit in the scheme at 1 April	**(90.4)**	(93.7)
Employer's contributions	**23.4**	7.6
Employer's current service cost	**(4.8)**	(5.0)
Other finance expense	**(0.6)**	(2.4)
Actuarial (loss)/gain	**(42.9)**	3.1
Deficit in the scheme at end of year	**(115.3)**	(90.4)
Deferred tax relating to scheme deficit	**25.4**	18.1
Net deficit at 31 March	**(89.9)**	(72.3)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

23 Pensions (continued)

History of gains and losses for the year to 31 March 2015 are as follows	**2015**	2014	2013	2012	2011
a. Experience (gain)/loss on scheme assets					
Amount (£m)	**(65.2)**	4.5	(43.0)	0.5	(1.1)
b. Experience (gain)/loss on scheme liabilities					
Amount (£m)	**-**	-	1.1	4.9	(6.0)
c. Total amount recognised in the STRGL					
Fair value of assets at year-end (£m)	**674.0**	581.5	576.0	519.8	500.6
Actuarial value of liabilities at year-end (£m)	**(789.3)**	(671.9)	(669.7)	(616.1)	(560.7)
Deficit in scheme at year-end (£m)	**(115.3)**	(90.4)	(93.7)	(96.3)	(60.1)

24 Contingent liabilities

Contractors submit claims to Southern Water for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water's valuation.

Neither the company nor the group had any contingent liabilities for capital claims at the year-end (2013–14 £nil).

25 Financial commitments

As at 31 March 2015 and 2014, the group had annual commitments under non-cancellable operating lease agreements in respect of vehicles and land and buildings for which the payment extends over a number of years as follows:

	Land and Buildings		**Other**	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Expiring between two and five years	**-**	0.1	**0.2**	0.1
Expiring after more than five years	**1.6**	1.4	**-**	-
	1.6	1.5	**0.2**	0.1

Operating leases are charged to the profit and loss account over the lease term.

The company has no such commitments.

26 Directors' emoluments

One director received £30,000 (2013–14 £30,000) paid by the group for services as a director of Greensands Holdings Limited. One other director received £15,000 (2013–14 £15,000) paid by one of the ultimate shareholders.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

27 Related party transactions

The major shareholders in Greensands Holdings Limited as at 31 March 2015 are IIF International SW UK Investments Limited and The Northern Trust Company.

The transactions and balances with the group's related parties (i.e. the shareholders), as defined by Financial Reporting Standard 8 and the extent of the transactions with them are summarised below.

	2015 £m	2014 £m
Eurobond interest		
IIF Int'l SW UK Investment Ltd	**24.9**	22.3
Phildrew Nominees Ltd	**13.3**	11.9
National Nominees Ltd	**5.0**	4.4
STC Funds Nominee Pty Limited	**2.7**	2.4
The Northern Trust Company	**19.9**	17.8
Sky Brace Investments Ltd	**4.1**	3.6
Sumaya Investments Ltd	**4.1**	3.6
Nambawan Super Limited	**0.4**	0.3
JP Morgan Nominees Australia	**1.3**	1.2
Hermes GPE Infrastructure Fund LP	**3.3**	3.0
SW Holdings LP	**1.1**	1.0
Simcoe Yeoman Water Ltd	**5.1**	4.6
Total Eurobond interest payable to related parties	**85.2**	76.1
Loans and other borrowings greater than one year:		
Eurobonds – Shareholder loans		
IIF Int'l SW UK Investment Ltd	**105.3**	105.3
Phildrew Nominees Ltd (UBS IIF)	**20.1**	20.1
Phildrew Nominees Ltd (UBS IINF)	**2.8**	2.8
Phildrew Nominees Ltd (UBS II4F)	**22.2**	22.2
Phildrew Nominees Ltd (UBS IIUSTEF)	**11.1**	11.1
National Nominees Ltd - Motor Trades association of Australia Super Fund	**16.8**	16.8
STC Funds Nominee Pty Limited as trustee of the SW Unit Trust	**11.2**	11.2
National Nominees Ltd – Prime Super	**4.2**	4.2
The Northern Trust Company (as custodian for Future Fund Investment Company No.2 Pty Ltd)	**84.2**	84.2
Sky Brace Investments Ltd	**17.1**	17.1
Sumaya Investments Ltd	**17.1**	17.1
Nambawan Super Limited as trustee for the Nambawan Superannuation Fund	**1.7**	1.7
JP Morgan Nominees Australia	**5.6**	5.6
Hermes GPE Infrastructure Fund LP	**14.0**	14.0
SW Holdings LP	**4.8**	4.8
Simcoe Yeoman Water Ltd	**21.6**	21.6
Accrued interest	**435.4**	350.2
Total Eurobonds – Shareholder loans	**795.2**	710.0

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2015

28 Subsidiaries

As at 31 March 2015 the company held 100 per cent of the ordinary share capital of Greensands Europe Limited. Greensands Europe Limited's principal subsidiaries are listed below and are included within these consolidated financial statements.

Company	Class of share capital	Proportion of shares held	Activity
Greensands UK Limited	Ordinary	100%	Non-trading activities
Southern Water (Greensands) Financing plc	Ordinary	100%	To raise debt finance
Greensands Junior Finance Limited	Ordinary	100%	To raise debt finance
Greensands Senior Finance Limited	Ordinary	100%	To raise debt finance
Greensands Investments Limited	Ordinary	100%	Non-trading activities
Southern Water Capital Limited	Ordinary	100%	Non-trading activities
Southern Water Investments Limited	Ordinary	100%	Non-trading activities
Southern Water(NR) Holdings Limited	Ordinary	100%	Non-trading activities
Southern Water(NR) Limited	Ordinary	100%	Non-trading activities
SWS Group Holdings Limited	Ordinary	100%	Non-trading activities
SWS Holdings Limited	Ordinary	100%	Non-trading activities
Southern Water Limited	Ordinary	100%	Intermediate parent company for Southern Water(NR) Group
Southern Water Services Limited	Ordinary	100%	Supply of Water and Wastewater Services
Southern Water Services Finance Limited*	Ordinary	100%	To raise debt finance
Southern Water Services Group Limited	Ordinary	100%	Non-trading activities
Southern Water Industries Limited	Ordinary	100%	Dormant
Southern Water Services Finance plc	Ordinary	100%	Dormant
Bowsprit Holdings Limited	Ordinary	100%	Dormant
Monk Rawling Limited	Ordinary	100%	Dormant
Bowsprit Property Development Limited	Ordinary	100%	Property Development
EcoClear Limited	Ordinary	100%	Dormant
Southern Water Executive Pension Scheme Trustees Limited	Ordinary	100%	Dormant
Southern Water Pension Trustees Limited	Ordinary	100%	Dormant
Southern Water Retail Services Limited	Ordinary	100%	Dormant

*The country of incorporation for this company is the Cayman Islands.

All subsidiaries have been included in Greensands Holdings Limited's consolidated financial statements.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2015

29 Post balance sheet events

On 15 April 2015, the group completed the refinance of the £200m (previously £225m prior to November 2014 (see note 16 (ii))) Facility Agreement disclosed in note 15. 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 funds have been split into two facilities with the terms stated in the below table.

Facility	Value	Term	Rate	Interest Due
Facility A	£125m	7 years	3.25% plus Libor	6 monthly
Facility B	£75m	10 years	4.00% plus Libor	6 monthly

Independent Auditor's report to the members of Greensands Holdings Limited

We have audited the financial statements of Greensands Holdings Limited for the year ended 31 March 2015 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 29. 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).

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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 auditors
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 group's and the company's affairs as at 31 March 2015 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper 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
- we have not received all the information and explanations we require for our audit.

James A. Leigh

James Leigh
for and on behalf of Deloitte LLP
Chartered Accountants
London, United Kingdom
23 July 2015