



# **Greensands Holdings Limited Annual Report and Financial statements for the year ended 31 March 2023**

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Registered no. JE98700

## Introduction

Greensands Holdings Limited ('GHL' or 'the company') is the ultimate parent company of Southern Water Services Limited 'Southern Water' and all other group companies disclosed in note 39, with no minority interests.

The only operating company in the Group is Southern Water and the information contained in this Strategic Report is therefore principally based upon the activities of Southern Water. The information herein has been adopted from the Southern Water Annual Report for the period ending 31 March 2023 which is published on the Southern Water website. Sections 1 and 2 that follow contain reviews of GHL and Southern Water for the year to 31 March 2023, respectively.

## 1) Greensands Holdings Limited

### Strategic Report:

#### The Business

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

This section sets out the financial performance and structure of the Group as well as the corporate governance at GHL. A summary of the activities, performance and key risks relating to Southern Water is described in section 2 from page 20.

#### S172(1) Statement

As stated above, Greensands Holdings Limited acts as a holding company for Southern Water Services Limited. As a holding company, Greensands Holdings Limited has no employees, customers or suppliers. Consequently, the company's stakeholders are directly correlated to those of its subsidiary, Southern Water Services Limited.

The main role of the Board of Greensands Holdings Limited (GHL Board) is to make strategic decisions. Although not subject to the Companies Act 2006, the GHL Board applies section 172(1) in its strategic decision making by acting in good faith and by considering how their decisions will promote the success of GHL for the benefit of its members as a whole.

The Directors of Greensands Holdings Limited continue to act in ways that have regard to the matters set out in section 172 (1) (a) to (f) of Companies Act 2006 when performing their duties. The purpose, culture and values that the board of Southern Water Services have established have been geared towards applying the matters outlined in section 172(1).

Under section 172 of the Companies Act 2006, directors need to consider the interests of the company's key stakeholders as well as the need to take into account the impact on the environment and the outcomes over the long term. Southern Water and its board engage with a variety of stakeholders through various mechanisms, including membership of stakeholder panels, regular meetings with stakeholders, public meetings as well as speaking to people and visiting operational sites.

Delivery for customers is one of Southern Water's key priorities. The board of Southern Water (SW Board) receives regular reports from management regarding customer performance and attitudes. The introduction of performance metrics that take into account the wider customer experience has also led to an increased need for awareness of customer views. The needs of customers is a top concern of the SW Board, particularly where they may face significant challenges, whether these be financial, physical or mental health-related, as a result of the COVID-19 pandemic and current economic situation in particular.

The SW Board receive regular updates on environmental matters, including legislative changes, key areas of concern such as climate change, biodiversity and water resources. The SW Board receives regular updates on compliance and regulatory matters, regulators' reports and enterprise risk throughout the year. The SW Board is also updated on culture, employee engagement and ethical business, including the annual review and approval of the Code of Ethics.

Since the start of the COVID-19 pandemic, the Southern Water CEO has held regular 'Company Conversations' with the company's Workforce which address a variety of topics, including Southern Water's performance. These forms of engagement are supported by regular Gallup all-employee surveys.

Regular meetings between senior representatives of Southern Water's key regulators – Ofwat, the EA and the DWI – and senior executives and Chair of Southern Water take place, in order to discuss our performance and compliance, as well as its plans for the future. Since the major investment by a fund managed by Macquarie Asset Management in the group, the three shareholder-nominated non-executive directors of Southern Water ensure that the views of its major shareholder are communicated. In addition, the SW Board and executives have engaged extensively with the new investor, including through various 'deep-dives' into aspects Southern Water's operation and in terms of developing the its strategy.

The Company's impact on Section 172 (1) is considered at Southern Water Services Limited level for the whole group and not managed at GHL level. These are disclosed on pages 96 to 99 of Southern Water Services Limited annual report and financial statements for the year ended 31 March 2023.

### **Managing risk**

Southern Water's approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with its operations, to executive management and to the SW Board. Its' risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk. The framework seeks to promote better decision-making, avoid incidents and encourage the best outcome for Southern Water and its customers through:

1. Risk identification and ownership: understand the risk environment, identify the specific risks the company faces and assess potential exposure.
2. Risk assessment: determine how best to manage identified risks to balance exposure.
3. Risk response: take action to manage the risks the company does not want to be exposed to, ensuring resources are effectively and efficiently prioritised and used.
4. Risk monitoring, reporting and escalation: report to the Audit Committee, the Health and Safety and Operational Risk Committee and to the SW Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.
5. Risk appetite and communication: use analysis to support the SW Board's determination of risk appetite and to monitor and report against it.

### **Risk management embedded in business processes**

Southern Water's risk management approach is embedded within the business units and their business processes. It has established a risk management approach that provides a consistent basis for measuring risk to:

- Establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood;
- Report risks and their management to the appropriate levels of the company; and
- Inform prioritisation of specific risk management activities and resource allocation.

All areas of Southern Water review significant risks and business processes to help inform and enable risk-based decision-making. As part of Southern Water's annual planning process, the Executive Leadership Team and SW Board review the company's principal and emerging risks.

## Group financial performance

### Accounting policies

The accounting policies of the Group, including any changes in accounting policies in the year, are set out on pages 53 to 66.

### Consolidated income statement

The group's income statement is summarised in the table below.

Income statement	Years ended 31 March	
	2023 £m	2022 £m
Revenue	792.5	823.5
Amortisation of regulatory settlement payments	23.2	21.0
Total revenue	815.7	844.5
Other operating income	1.8	1.8
Operating costs before regulatory settlement	(479.2)	(398.3)
Court fine and costs	-	(91.5)
Trade receivables impairment charge	(12.0)	(29.9)
Depreciation, net of amortisation	(352.5)	(329.4)
Operating loss before regulatory settlement	(26.2)	(2.8)
Profit on disposal of fixed assets	1.6	1.5
Other income	-	0.1
Loss before interest and tax	(24.6)	(1.2)
Net finance costs	(315.6)	(304.9)
Fair value gains/ (losses) on derivative financial instruments	661.6	(665.6)
Profit/ (loss) before tax	321.4	(971.7)
Tax (charge)/ credit	(91.5)	78.4
Profit/ (loss) for the financial year	229.9	(893.3)

Operating loss largely reflects the trading results of Southern Water for the year and additional depreciation from the revaluation of assets on acquisition.

### Revenue

Revenue decreased to £792.5 million (2022: £823.5 million). This principally results from the changes to our inflation-linked water and wastewater tariffs, which were agreed as part of our business plan for 2020–25 and increased by £36.7 million for inflation but are also impacted by the application of Outcome Delivery Incentives (ODI) which can incur rewards or penalties for historic operational performance.

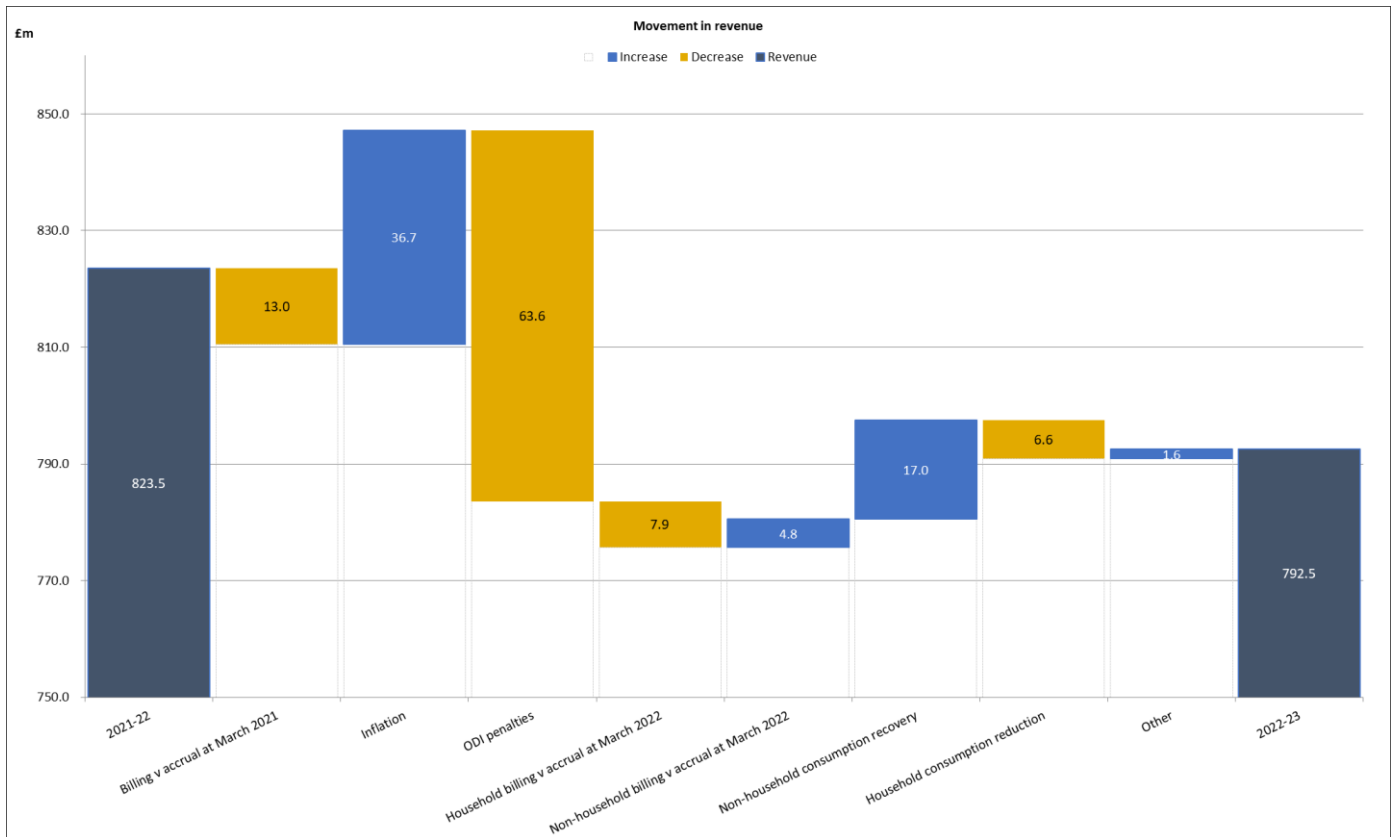
In 2022–23 ODI penalties, relating to performance in 2020–21, were applied to our water and wastewater revenue totalling £63.6 million representing penalties of £51.6 million and an element for tax of £12.0 million. We have subsequently confirmed with Ofwat that the tax element of this adjustment was incorrectly applied to reduce our tariff and revenues in 2022–23 and we will therefore recover the £12.0 million through revenues in 2023–24.

Details of the other significant movements affecting our revenues are described here and shown in the diagram below:

- Revenue estimation –most of our customers are billed based on metered water usage. At each period end we make an estimate for water used but not billed. In the prior year we billed an additional £13 million in relation to consumption to March 2021 and in the current year we billed a net £3.1 million less than we accrued at March 2022.
- Consumption – following the return to more normal usage patterns following the pandemic, we have experienced an increase in non-household consumption in the year which increased revenues by £17.0 million. This was partially offset by reduced household usage in response to the drought which reduced revenues by £6.6 million.

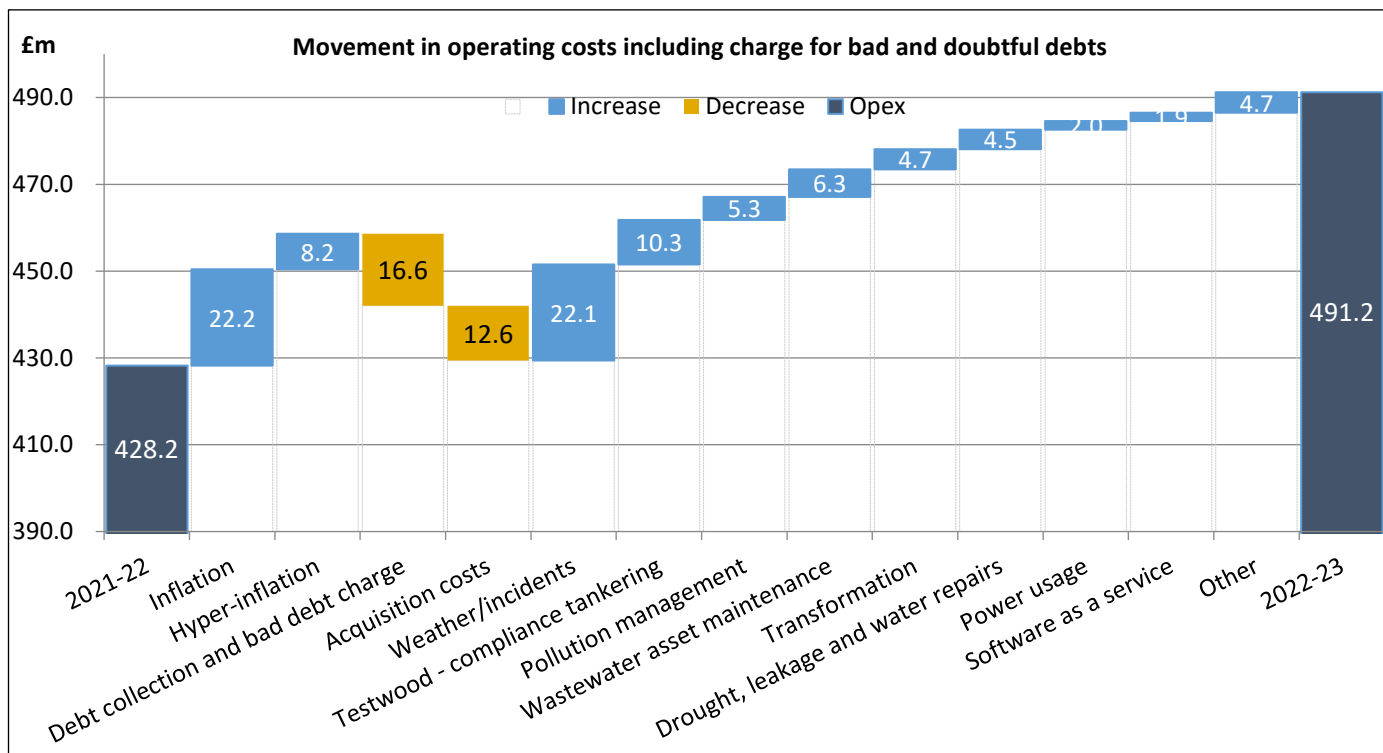
In 2018–19, we made provision for customer rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period from 2020–25. These customer rebates are now included within our tariffs and so part of the revenue reported in the income statement. The provision made in 2018–19 for these rebates is being released in line with the tariff adjustment over the same period, £23.2 million was released in 2022–23 a slight increase from the prior year, reflecting the impact of inflation on our revenues.

An analysis of revenue is provided in note 5 to the financial statements.



## Operating costs and trade receivables impairment charge

Operating costs including the impairment charge against trade receivables for the year increased by £63.0 million from £428.2 million to £491.2 million. This increase is explained in the chart below:



Over the course of the year, Southern Water's most significant cost movements were:

- Inflation and hyper-inflation – general inflation added a significant amount to our underlying costs, £22.2 million, with average inflation rates across most of our cost base lying between 4% and 7% including power costs for which we had previously fixed prices. However, for certain chemicals and fuel we experienced inflation rates ranging from 14% to 200% and these increased our operating costs by £8.2 million.
- Debt collection and bad debt charge – cash collection performance has been maintained as debt collection activities resumed post COVID-19 and with the support initiatives we have put in place to help customers facing financial difficulties in the current economic climate. As a result, our bad debt charge, which included an additional charge of £10.3 million in the prior year for the potential impact of the economic pressure on customers, reduced by £17.9 million to £12.0 million (2022: £29.9 million). This reduction was offset by a small increase in our overall debt collection costs resulting in a net reduction in operating costs of £16.6 million.
- Acquisition costs - one off costs of £12.6 million were incurred in the prior year as part of the investment by a fund managed by Macquarie Asset Management in September 2021.
- Weather/incidents - As a water and wastewater provider we experience operational incidents from time-to-time. These normally affect relatively small numbers of customers. As described in the Southern Water strategic report, in 2022-23 we experienced events on the Isle of Sheppey and in Otterbourne which affected large numbers of customers across our region, we would consider these events to be atypical due to the scale of the events which added £12.8 million to our operating costs. Since October 2022 we have experienced a prolonged period of extremely wet weather, with our region receiving 181% of the long-term average rainfall. Dealing with the high-ground water levels and infiltration cost a further £10.8 million. These increases were offset in part by the costs incurred in the prior year for Storm Eunice which were not incurred in 2022-23 of £1.5 million.
- Testwood compliance tankering – at our Testwood Water Supply Works we have enhanced water quality performance through capital investment to replace all the chemical dosing equipment on site. Consequently, and in order to maintain compliance, this increased the amount of tankering and treatment required for the waste produced, so that it can be safely returned to the environment. This increased costs significantly by £10.3 million in the year and we are working hard to identify an alternative solution to mitigate and reduce these exceptional costs for the future.
- Pollution management – we increased proactive maintenance of our sewerage network by £5.3 million as part of our pollution reduction programme.
- Transformation – costs incurred during the year as part of our transformation programme to improve operational performance, these included the creation of a new logistics team, managing our own small fleet of water tankers as well as stores of spares for plant and equipment repairs, improvements to our control centre and alarm handling as well as production and publication of our overall transformation programme.

- Drought, leakage and water repairs – following the dry winter in 2021 and the hot summer water companies across the country faced the first nationwide drought for a decade, introducing a temporary usage ban for our customers in Hampshire. We incurred additional £4.5 million of operating costs in preparation for the drought and replenishing our reservoir at Bewl, along with additional leakage activity and water repairs to mitigate the effect on our overall water resources.
- Power usage – additional power consumption dealing with wastewater following the high levels of rainfall over the period from October 2022.
- Software as a Service (SaaS) – in 2021, the IFRS Interpretations Committee published its agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (SaaS). This has resulted in certain costs, that would have previously been capitalised as an intangible asset, being held on the Balance Sheet as a prepayment and recognised as an operating expense over the life of the contract. The impact on our operating costs is an increase of £1.9 million in 2022–23.

### **Court fine and costs**

As disclosed on page 39, Southern Water was subject to a detailed investigation by the Environment Agency (EA) regarding permit breaches at some of the wastewater treatment works during the period 2010 to 2015. On 9 July 2021, Southern Water was sentenced and fined £90.0 million plus £2.5 million of costs for these historic offences. These costs, less the provision of £1.0 million made in 2019–20, have been charged to the income statement in 2021–22.

### **Depreciation and amortisation**

Depreciation and amortisation increased to £352.5 million (2022: £329.4 million) following the completion and commissioning of a large number of capital investment schemes. This included a number of large schemes across the wastewater treatment works network aimed at improving wastewater asset performance together with a number of short-life IT and system related assets.

### **Operating profit**

As a result, the operating loss for the year was £24.6 million (2022: loss of £1.2 million)

### **Financing costs and profit before tax**

Net finance costs increased by £10.7 million to £315.6 million (2022: £304.9 million). This increase is largely driven by higher indexation on our index-linked debt of £93.3 million, which, along with indexation from the prior year, increased the interest payable on loans by £3.9 million. These increases to our interest charge were offset by a greater level of interest capitalised during the year of £17.0 million

The fair value gain on our derivative financial instruments amounted to £661.6 million reversing the loss experienced in the prior year, (2022: loss £665.6 million). The primary driver for changes in the valuation are the fluctuation in UK Government bond yields, which are used to discount the future cash flows and inflation which increases the liability associated with our index-linked instruments. As government gilt yields are constantly moving and inflation has increased significantly over the past year, the valuation of our derivative instruments is volatile. The balance sheet value represents the present value of future cash flows using financial market forecasts for inflation and interest rates. This balance sheet value does not, however, reflect the expected impact of inflation on future revenues and future Regulatory Capital Value (RCV) which is expected to more than offset the reported balance sheet value.

The profit before tax for the year amounted to £321.4 million (2022: loss of £971.7 million).

### **Taxation**

We have recognised a total tax charge to the income statement of £91.5 million (2022: credit of £78.4 million). This differs from the charge that may be expected of £61.1 million, based on the profit before tax of £321.4 million and the current period tax rate of 19%, as described in note 11. The variance is primarily due to differences between the current and deferred tax rates.



**Cash flow statement**

Overall, cash and cash equivalents decreased in 2022-23 by £73.8 million (2022: £140.7 million decrease) and details of the principal movements in the cash flow are provided in the table below.

	Years ended 31 March		Movement £m	Explanation
	2023 £m	2022 £m		
<b>Proceeds from share issue</b>	-	<b>1,072.5</b>	(1072.5)	In September 2021, Macquarie Asset Management (MAM) acquired a majority stake in Southern Water's ultimate parent company Greensands Holdings. As part of this investment new equity totalling £1,072.5 million was invested into the company.
<b>Net interest related transactions</b>	<b>(213.2)</b>	<b>(217.4)</b>	(4.2)	In total, the net cash outflow in relation to interest decreased by £4.2 million.  There were no payments made in relation to accrued indexation on our index-linked loans (2022: £46.9 million).
<b>Net movement on borrowings</b>	<b>(307.8)</b>	<b>(470.6)</b>	(162.8)	During the year, we made loan and preference share repayments totalling £307.8 million (2022: £16.9 million); these were offset by the issue of a bridging loan £400.4 million (2022: nil).
<b>Movements in short-term investments</b>	<b>285.0</b>	<b>(285.0)</b>	570.0	Funds held on deposit for periods greater than three months decreased by £285.0 million in the year to support our capital investment programme.
<b>Settlement of court fine and costs</b>	-	<b>(92.5)</b>	92.5	Payment of the court fine and costs relating to the EA prosecution as disclosed on page 7.
<b>Pension deficit repair</b>	-	<b>(77.3)</b>	77.3	In FY22 we made lump sum pension deficit repair payments totalling £77.3 million which included the advance payment of £59.8 million previously scheduled to be made over the period to 31 March 2025. As a result, no further payments were made in the current year.
<b>Other</b>	<b>(162.2)</b>	<b>(147.7)</b>	(14.6)	The net cash movement from operating activities and our capital investment programme.  Largely driven by the increase in our capital investment programme during the year which increased cash expenditure by £167.4 million and the increase in the cashflow associated with our higher operating costs as described above.
	<b>(73.8)</b>	<b>(140.7)</b>		

**Consolidated statement of financial position**

	<b>31 March 2023</b>	31 March 2022
	<b>£m</b>	£m
		* Restated
Non-current assets	7,542.5	7,115.0
Current assets (excluding cash)	227.8	*485.2
Cash and cash equivalents	202.7	276.5
<b>Total assets</b>	<b>7,973.0</b>	<b>7,876.7</b>
Current liabilities	(588.1)	(689.7)
Non-current liabilities	(7,003.8)	**(7,026.5)
<b>Total liabilities</b>	<b>(7,591.9)</b>	<b>(7,716.2)</b>
Total net assets	381.1	160.5
<b>Total equity</b>	<b>381.1</b>	<b>**160.5</b>

\* The prior year has been restated following a re-analysis of prepayments from current to non-current (see note 15 and 18 for more detail).

\*\* The prior year has been restated following the deferred tax on post April 2017 losses at a group company now being reflected by netting the related deferred tax asset in the April 2021 opening deferred tax balance.

At the end of the year to 31 March 2023, we had non-current assets of £7,542.5 million (2022: £7,115.0 million), an increase of £427.5 million from March 2022. This increase results from Southern Water's ongoing capital investment programme which, after depreciation, increased the value of property, plant and equipment and intangible assets by £385.0 million.

Overall, during 2022–23 our capital investment in property, plant and equipment was £707.7 million (2022: £569.7 million). This step-up in expenditure was targeted at making refurbishments to our assets to improve operational performance as well as schemes to enhance the level of wastewater treatment we undertake, for example to reduce phosphorus levels.

Current assets decreased to £227.8 million (2022: £485.2 million). Most of this decrease resulted from the utilisation of the cash held in short-term investments at March 2022 during this financial year to finance the capital investment programme. At March 2023 there were no deposits held in short-term investments (2022: £285.0 million). This reduction was offset by increases in prepayments for interest and IT contracts of £9.2 million and a higher VAT debtor at the year-end of £7.9 million resulting from the increase in the capital investment programme.

Current liabilities decreased to £588.1 million (2022: £689.7 million). This was mainly caused by the movement on loans due to be repaid in under one year which decreased to £54.5 million (2022: £274.1 million) together with an increase in the level of creditors and creditor accruals of £56.9 million reflecting the increased expenditure in operating costs and the capital investment programme.

At 31 March 2023, non-current liabilities totalled £7,003.8 million (2022: £7,026.5 million). This decrease of £22.7 million was principally the result of the following:

- An increase in borrowings of £234.2 million largely resulting from indexation on our inflation linked bonds of £106.0 million offset by repayment of preference shares and loans totalling £24.1 million.
- An decrease in the derivative financial instrument liability of £533.6 million.
- An increase in the deferred tax liability of £80.2 million largely resulting from the fair value gain on derivatives recorded for the year.
- An increase in retirement benefit obligations of £13.1 million from the impact of movements in market conditions at 31 March 2023, which increased the deficit by £11.5 million, together with past service and financing costs of £1.6 million.
- The transfer of £25.6 million of the Ofwat regulatory settlement provision to short-term liabilities for rebates that will be applied through bills to customers' bills during 2023–24.

Overall, net assets increased to £381.1 million at 31 March 2023 (2022: £160.5 million).

## Dividend policy

The detail of the dividend policy for the Group is determined by the dividend policy of Southern Water.

Any dividend paid by Southern Water is firstly used to pay interest on borrowings outside of Southern Water and surplus cash is then used to pay a shareholder dividend.

### Dividend policy of Southern Water:

The dividend policy is formulated to ensure a fair balance of reward between customers and investors. To enable the successful delivery of our business plan for 2020–25, all stakeholders must share in success: customers benefiting through enhanced service and lower bills, and shareholders earning a fair return on the equity invested.

When proposing payment of a dividend, the directors of Southern Water Services Limited, acting independently in accordance with their directors' duties and in accordance with the company's licence, will apply the following principles:

1. Determination of a base level of dividend, based on an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, we will take into account all aspects of our performance. This would reflect our overall financial performance as compared to the final business plan as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.
3. Consider the financial resilience ahead of any dividend decision and whether any financial out-performance should be reinvested to benefit customers. This consideration will include taking into account the interests of Southern Water's employees, other stakeholders, and our pension schemes.
4. The dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of step three, Southern Water carry out an assessment of:
  - (i) headroom under debt covenants
  - (ii) the impact on the company's credit rating
  - (iii) the liquidity position and ability to fulfil licence conditions
  - (iv) key areas of business risk.
5. Southern Water will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
6. Southern Water will publish their dividend policy annually (in the Annual Report) and highlight any changes.

No ordinary dividends were declared or paid in 2022–23 (2022: £nil million).

On 26 July 2022, having undertaken a careful consideration of the company's financial position, progress in delivery for customers, and all other relevant factors, the SW Board approved the redemption of 5,164 of its Class B preference shares, at nominal value plus the premium on issue, including settlement for fixed value dividends due to that date. The total amount paid was £17.5 million, comprising principal redemption of £5.2 million and dividends of £12.3 million (2022: nil).

Dividends on the preference shares accrue like interest and from an accounting perspective they are treated as interest, even though they are called dividends. The payment made in July 2022 was our first payment since 2020. These payments are made to a SWS group company and enable the payment of external interest on loans within the group. None of this money is paid to Southern Water shareholders.

An accrual totalling £4.5 million in relation to the cumulative liability of preference share dividends to 31 March is included within the financial statements as an inter-company creditor.

## Group Tax Policy

The Group's Tax Policy is consistent with the overall values and corporate strategy of the Group and considers financial risk, reputational risk, and social responsibilities. The Group's approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders, rather than use tax planning to drive or determine business decisions. Group focus is therefore on compliance and tax planning is always aligned with commercial and economic activity.

The Group's approach to tax management is to be fully compliant with tax laws, rules, regulations and reporting requirements in all operations. This extends to following both the letter of the law as well as the spirit of the law. A culture of doing the right thing is embedded in the Group's core values and the Group's approach to tax embodies this by ensuring it pays the right amount of tax, in the right place, at the right time. The Group also uses the expertise of professional tax advisers to ensure it maintains best practice in its approach to compliance and in circumstances when additional advice is deemed appropriate.

The Group is open and transparent and does not use tax avoidance schemes or take an aggressive stance on the Group's interpretation of tax legislation when tax planning.

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

Further information regarding the Southern Water tax position can be found in the Annual Report for Southern Water which is published on its website.

## Financial KPIs

Under the Group financial structure there is a comprehensive set of covenanted financial ratios. Of these, two are key ratios, 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-term and long-term borrowings less cash and short-term deposits. The RCV of Southern Water is set by Ofwat at each five-year periodic review and reflects its initial market value plus subsequent capital investment and inflation. The RCV is adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period.

Please refer to the Directors' report, for a detailed review of the Group's going concern position at pages 40 to 41.

Net debt: RCV	Hold co %	Mid co %	SWS %
2020-21 performance	93	79	70
2021-22 performance	77	70	63
2022-23 performance	81	75	68
Covenanted lock-up level	92	85	75
Covenanted default level	95	95	95

Consolidated EBITDA to cash interest cover	Hold co Times
2020-21 performance	3.1
2021-22 performance	3.3
2022-23 performance	2.7
Covenanted default level	2.0

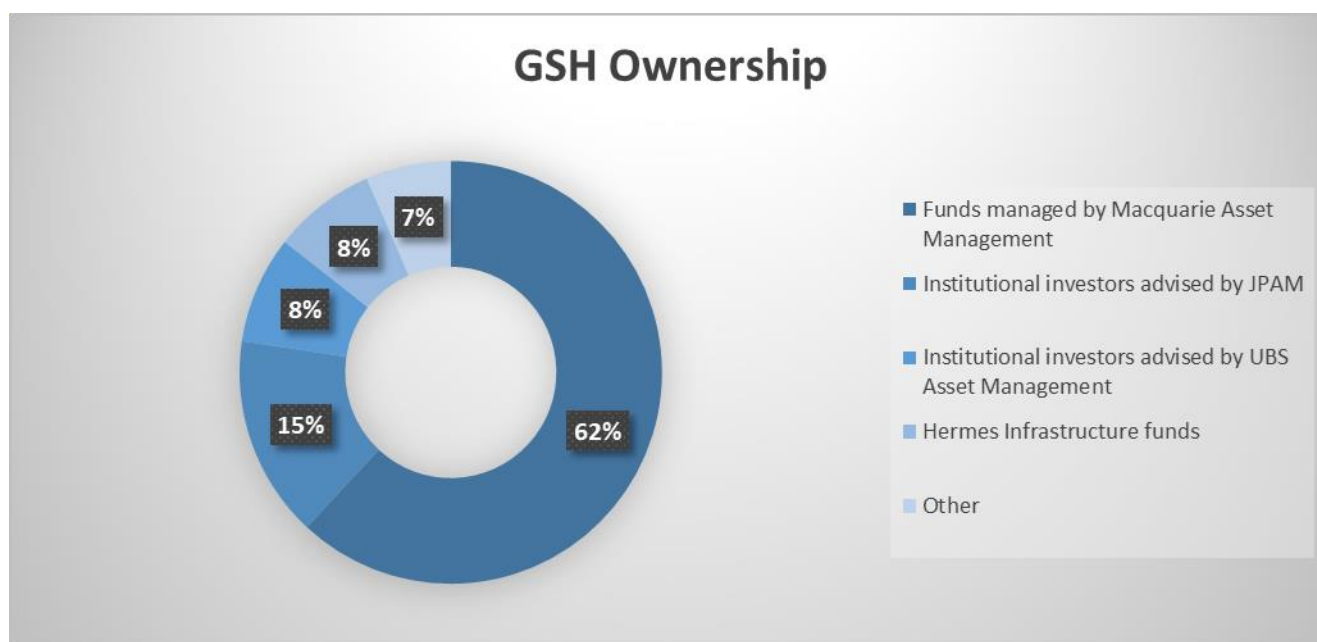
## Capital structure, liquidity and other financial matters

### Capital structure, ownership and borrowing covenants

#### Ownership

GHL is owned by a consortium of long-term investors representing infrastructure investment funds, pension funds and private equity.

In September 2021, funds managed by Macquarie Asset Management (MAM) acquired a majority stake in GHL, with an investment of over £1 billion of new equity into the Group. This new equity was used to recapitalise the ownership structure and improve the financial resilience of Southern Water and the GRoup. None of the proceeds were paid to the existing shareholders of GHL. Further equity injection is discussed within the Going Concern statement on pages 41 to 42.



#### MSCIF Wight Bidco Ltd

Funds managed by Macquarie Asset Management on behalf of long-term investors including pension funds and insurance companies.

#### IIF Int'l SW UK ParentCo Ltd

A constituent entity of the Infrastructure Investments Fund, a fund advised by JP Morgan Asset Management (JPMAM), a large-scale global asset manager advising institutional investors.

#### UBS Asset Management

Shareholding advised by UBS Asset Management, a large-scale global asset manager, offering investment capabilities across all major traditional and alternative, asset classes

#### Hermes Infrastructure funds

Hermes Infrastructure is part of Federal Hermes International and is a specialist infrastructure manager operating a diversified, well-established, UK-focused shared investment platform.

#### Other

Minor shareholdings held by infrastructure investment companies

#### GHL Board

The GHL Board comprises three directors, appointed by GHL's majority shareholder.

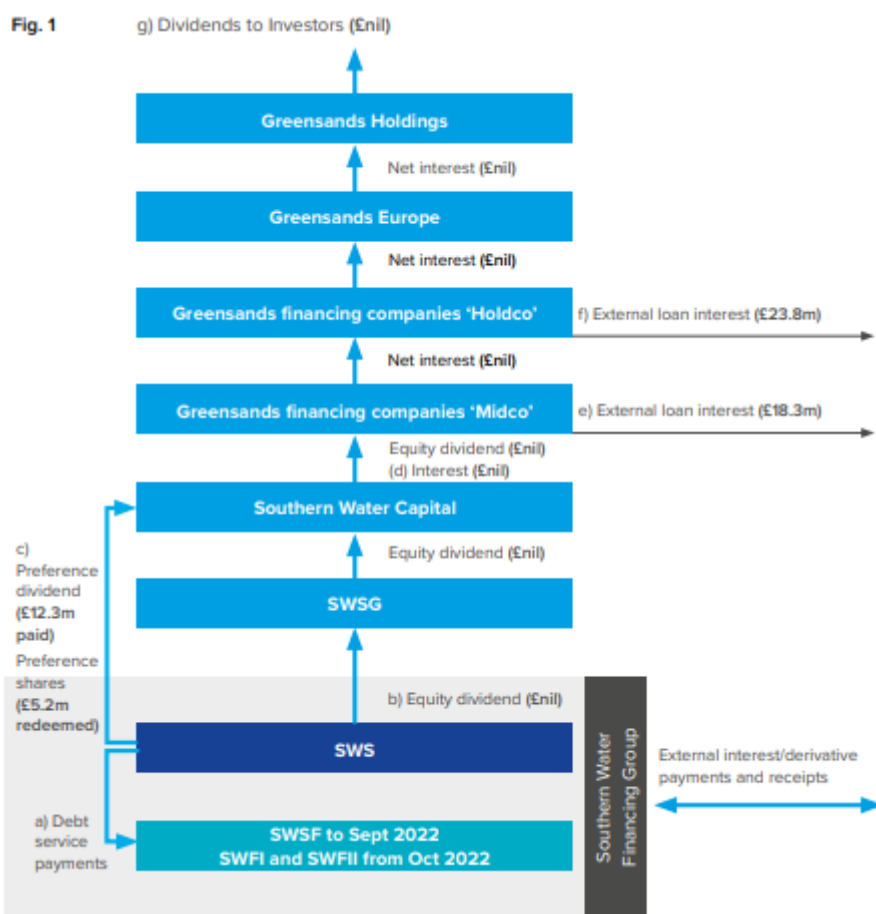
The purpose of GHL is to act as a single-purpose entity as the ultimate holding company for Southern Water and the other companies within the group. The GHL Board complements and supports the aims of Southern Water for its long-term success. While certain matters are reserved to the GHL Board and/or shareholders in GHL, they do not impact the day-to-day operations of Southern Water and nor do they materially affect Southern Water's ability to function as a company in providing an essential public service.

## Group structure

In September 2007, the Greensands group of companies was established for the purpose of the acquisition of 100% of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water, from the Royal Bank of Scotland (investing £1.9 billion of equity and debt to finance the acquisition).

During 2018–19, additional Greensands financing companies were added to the group structure as part of a financing plan to improve financial resilience of Southern Water ahead of the five-year price review period starting April 2020.

As mentioned above, funds managed by Macquarie Asset Management acquired a majority stake in the Greensands group in September 2021. This investment was used by the group to repay external debt totalling £476.0 million and make a cash injection into Southern Water Services totalling £529.9 million from the settlement of an inter-company loan and the issue of new equity. A summarised group structure, together with details of the interest and dividend payments between companies are shown in figure 1 below.



In summary, SWS has paid £nil m to internal companies. Greensands companies have paid external loan interest payments of £42.6 million.

No interest or dividends have been paid to investors.

### Footnote:

- Interest payments from SWS to SWSF, SWFI and SWFIL on the loans taken out by those companies on behalf of SWS. These are then used by SWSF, SWFI and SWFIL to pay the interest on these external loans.
- There were no ordinary dividends during the year.
- Dividend payments made on the preference shares issued by SWS of £12.3m in relation to dividends accrued at March 2022. In addition, preference shares totalling £5.2m were redeemed and dividends of £4.5m accrued for 2022-23
- Interest payable on inter-company loans from Southern Water Capital to Greensands Investments.
- External interest paid by GSF Ltd, funded from interest receivable and cash held at 'Midco'.
- External interest paid by SWGF, funded from interest receivable and cash held at 'Holdco'.
- Dividends paid to investors.



Corporate Level	Companies	Description
<b>Greensands Holdings</b>	Greensands Holdings Limited (GHL)	The ultimate parent company for the group.
<b>Greensands Europe</b>	Greensands Europe Limited (GSE)	Intermediate holding company. Listed (Jersey) Eurobonds held by shareholders in proportion to their equity were converted to an inter-company loan with GHL in June 2021.
<b>Greensands financing companies 'Holdco'</b>	Greensands UK Limited (GSUK) Greensands Junior Finance Limited (GSJF) Southern Water (Greensands) Financing plc (SWGf) Greensands Senior Finance Limited (GSSF) Greensands Investments Limited (GSI)	A group of companies established to provide additional external financing for the acquisition of the Southern Water Capital group of companies in 2007 plus a further £250 million of additional finance raised in 2019, the proceeds of which were invested into SWS. The security granted to the lenders of this financing is limited to the share capital of GHL. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
<b>Greensands financing companies 'Midco'</b>	Greensands Finance Holdings Limited (GSFH) Greensands Finance Limited (GSF Ltd) Greensands Financing plc (GSF plc)	A group of companies incorporated in 2018 as part of a financial restructuring exercise to improve the financial resilience of Southern Water. The objective of the restructuring was to reduce the total leverage within the Southern Water Financing Group. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
<b>Southern Water Capital</b>	Southern Water Capital Limited (SWC) Southern Water Investments Limited (SWI)	Intermediate holding companies established 2002 as part of a previous ownership structure.
<b>Southern Water Services Group</b>	Southern Water Services Group Limited (SWSG)	Intermediate holding company established as part of a previous ownership structure.
<b>Southern Water Financing Group</b>	SWS Group Holdings (SWSGH) SWS Holdings (SWSH) Southern Water Services Limited (SWS) Southern Water Services (Finance) (SWSF) SW (Finance) I plc (SWFI) SW (Finance) II Limited (SWFII)	SWS is the regulated water and wastewater company. It is the company that this Annual Report and financial statements relates to.  SWSF was incorporated to raise finance on behalf of SWS and was closed in October 2022 and dissolved in June 2023.  SWFI and SWFII have been incorporated to replace SWSF.  The Southern Water Financing Group was established in 2003 and comprises a legal framework where each company guarantees the obligations of others within the group. Security granted to the lenders within this group is limited to the share capital of SWS Group Holdings Ltd. This structure ensures that SWS can continue to operate as a regulated water and wastewater company in the event of a default by any group company.

All companies are UK tax resident and therefore subject to UK taxes.

Most companies within the group are incorporated in the UK. The exceptions are:

- Greensands Holdings Ltd is incorporated in Jersey, but UK tax resident. The company was incorporated there over fifteen years ago because Jersey law allowed greater choice than the UK about the way distributions can be made to shareholders while treating UK and non-UK investors equally.
- Southern Water Services (Finance) Ltd, now dissolved, was incorporated in the Cayman Islands, but was UK tax resident. SWSF was established for the express purpose of raising debt finance on behalf of SWS. Due to administrative reasons applicable at the time of forming the Southern Water Financing Group, it was necessary for SWSF to be registered in the Cayman Islands to raise debt listed on bond markets. This original requirement being no longer necessary. In the interests of transparency, in October 2022 we replaced SWSF with two new UK incorporated companies, SW (Finance) I plc and SW (Finance) II Limited.

### **How we finance the business**

In note 21 to the financial statements, we provide an analysis of our outstanding debt at 31 March 2023 and 31 March 2022. Our loans comprise: sterling bonds, issued by our financing subsidiaries SWSF I and SWSF II and listed on the UK Stock Exchange; other loans, including loans from US insurance companies; bank loans; and a loan from the European Investment Bank.

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 only sterling debt, but will ensure 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% 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% 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% of RCV in any two consecutive years and 40% of RCV within any five-year regulatory period. The maturity profile of loans extends 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), which is an important consideration given that we have negative cash flow generation in the majority of years as a result of our continuing capital investment programme.

As a result of our prudent liquidity policy, we can have large cash balances at times. 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 have the most secure rating of AAA rated.

The Greensands companies also have their own loans:

- Loans issued by Greensands Finance Limited and Greensands Financing Plc, represented in the diagram above as part of the 'Midco' financing companies.
- Eurobonds issued by Greensands Europe, which were converted to an inter-company loan with GHF in June 2021.
- The Greensands financing companies also maintain liquidity facilities (£40 million at Greensands Midco financing companies to October 2027), which can provide a source of finance to pay interest on loans.



### Rating

Credit ratings for Southern Water Services are as follows:

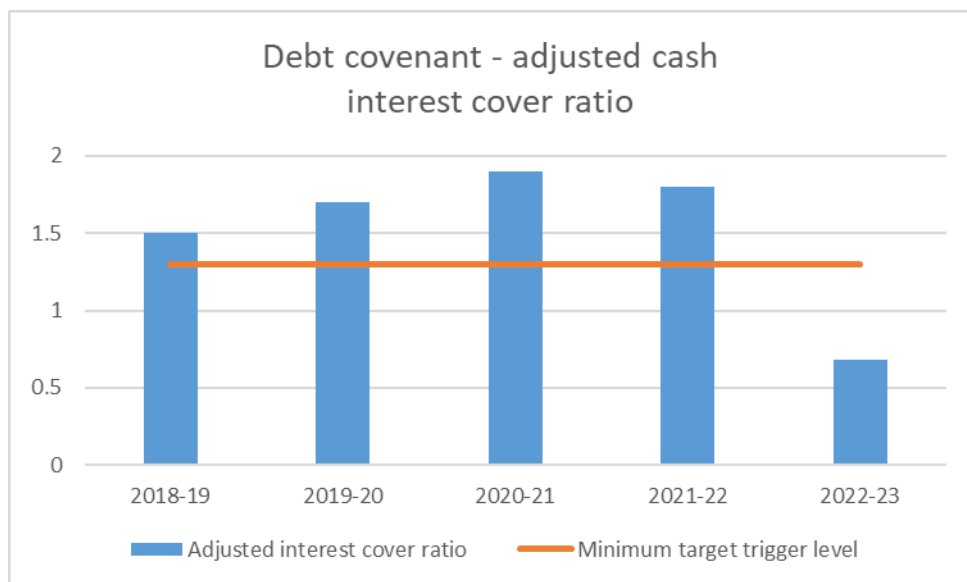
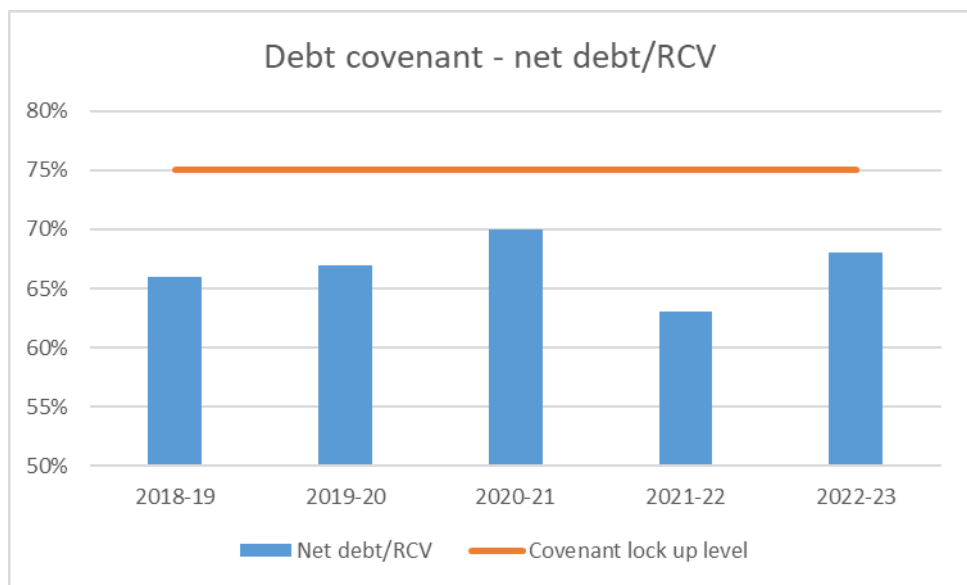
Credit rating	Southern Water Services
Standard & Poor's	Class A debt: BBB+
Fitch	Class A debt: BBB
Moody's	Class A debt: Baa3

Credit ratings shown here are as at the date of publishing the accounts

SWS is in a Trigger Event under our Common Terms Agreement which restricts the payment of dividends and may require the preparation of a remedial plan for our lenders. Southern Water has obtained a waiver from its lenders to continue to access permitted financial indebtedness to refinance the business in the event of a downgrade Trigger Event.

A further credit rating downgrade, or the assignment of a negative outlook, by Moody's would lead to a restriction on the payment of dividends under the terms of our Licence.

Under our Common Terms Agreement, a Trigger Event would occur if any two of the credit ratings fall to BBB (Standard & Poor's), BBB (Fitch) or Baa2 (Moody's) or below; and a Default would occur if any two of the credit ratings are less than the minimum rating required for the status of investment grade.



The covenanted lock-up level/trigger level refers to debt covenants where payment of dividends by Southern Water is not permitted. These are structural buffers to protect against a default covenant, e.g. the covenanted default net debt to RCV level is at 95%.

## Corporate Governance **overview**

Greensands Holdings Limited (GHL) acts as a single-purpose entity as the ultimate holding company for Southern Water and provides the financing structure for the Group.

In 2021, a fund managed by Macquarie Asset Management became the majority shareholder in GHL, holding approximately 62% of the company's equity.

The GHL Board complements and supports the aims of Southern Water for its long-term success. While certain matters are reserved to the GHL Board and/or GHL's shareholders, these matters do not impact the day-to-day operations of Southern Water, nor do they materially affect Southern Water's ability to function as an independent company in providing an essential public service.

Details of the governance of GHL are listed below, and those of Southern Water can be found in its Annual Report which is published on the Southern Water website.

### Board membership and Chairman

The GHL Board comprises three directors. These directors are appointed by the company's majority shareholder.

### Board operation and Board Meetings

GHL is a party to the shareholder agreement between the shareholders in the Greensands consortium.

Following the investment by funds managed by Macquarie Asset Management in September 2021, the three directors of GHL, Martin Bradley, Mark Mathieson and Will Price, were also appointed to the Board of Southern Water Services Limited, the operating company within the Group. Martin Bradley resigned as a director of Southern Water on 1 May 2022. He continues to be a director of GHL. Steve Fraser was appointed to the SW Board on 1 May 2022 and Phil Swift was appointed to the SW Board on 31 May 2023, both nominated by GHL's majority shareholder.

Will Price is, in addition to his roles on the GHL and Southern Water boards, a director of a number of intermediate subsidiary companies, including Southern Water (Greensands) Financing plc and the three companies comprising the 'MidCo' financing group – Greensands Finance Holdings Limited, Greensands Finance Limited and Greensands Financing plc.

When the GHL Board meets, the business at such meetings includes agreeing formally any changes in membership, noting any relevant shareholder activity and approving formally any transfers of shareholdings as well as to review and, if thought fit, approve any matters reserved to the GHL Board. Areas of particular focus during the year were largely focused on the investment by funds managed by Macquarie Asset Management.

The GHL Board also receives regular operational and financial performance reports in respect of Southern Water. The financial performance of Southern Water represents the principal financial performance of the Group.

The GHL Board members are very mindful of the independence of the directors of Southern Water. The shareholder-nominated directors 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 Ultimate Controller 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 fewer than three independent non-executive directors on the Southern Water Board.

GHL does not have any executive directors nor any dedicated management employees.

The GHL directors are not remunerated by GHL for their appointments.

### Role of the Company Secretary

Richard Manning, together with Intertrust Corporate Services (Jersey) Limited, acts as joint company secretary. Richard Manning is also General Counsel & 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 GHL Board.

### **Director induction, training and development**

GHL 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.

### **Annual General Meeting**

As a result of changes in Jersey Company Law, to bring it in line with Company Law in England and Wales, GHL, as a private company, is no longer required to hold an AGM. As a result, the Board has decided that it will no longer hold an Annual General Meeting.

## 2) Southern Water Services Limited Strategic Report Summary

### Southern Water Services Limited CEO Statement

Southern Water Services Limited is the only operating company of the Group. The financial statements of Southern Water, containing a full Strategic Report and Corporate Governance report, are published alongside these financial statements on the Southern Water website. An overview of the performance of Southern Water is provided below.

The water sector is changing, and public interest and scrutiny about the work the Company does and how it is financed increases on almost a daily basis. On top of that, the Company is dealing with the impacts of climate change and population growth on its sites and networks, which it recognises requires a reset of working practices and plans for the region's long-term future. Expectations about the way Southern Water treats water and returns it to the environment safely have also rightly changed and the Company must listen and respond to them, recognising that it is the beginning of a long journey to reduce the industry's reliance on storm overflows. Even against this backdrop of increased scrutiny and public interest Southern Water has made significant progress over the past few years, the first phase of the Company's transformation. Following the Ofwat investigation into sampling compliance which concluded in 2019, Southern Water agreed to a number of undertakings to change the way the Company works – Company values, transparency, operational performance and governance. The Company has now completed 98% of what was agreed.

Over the past 12 months Southern Water entered the second phase of transformation, accelerating delivery of the Company's business plan thanks to new investment from its shareholders. As a result the Company has improved its financial stability and performance in some critical areas, namely flooding, vulnerability support for its customers and delivery of the environmental programme. Southern Water also introduced an innovative scheme for business consumers during the 2022 summer drought, incentivising them to save water and help protect the environment.

Southern Water recognises that performance in key areas – pollutions, water quality, leakage, customer service and supply interruptions – is not yet where it needs to be and that it will take time to improve. It is also clear that Southern Water cannot blame the weather for operational issues and water outages that were experienced this year. The company knows it needs to continue to get better, proactively and reactively, and I am confident that thanks to the hard work of the Company's teams this year, Southern Water knows where it needs to improve. The Company has started to put in place changes to processes, training and systems that are needed, and is seeing real progress.

Where Southern Water has fallen short of the challenging performance targets set by its regulators, the Company has created a detailed Turnaround Plan taking it into the third phase of transformation. This two-year acceleration of Southern Water's business plan sets out its commitments to significantly improve the environmental performance and customer focus and includes a targeted set of actions to ensure the Company delivers current commitments and sets it up for a fast start in 2025. Southern Water is currently in discussions with the company's shareholders with respect to additional funding in the near term to support this plan; see page 205 of the Company financial statements for further information.

The Company is committed to a fully transparent approach in its turnaround agenda and has refreshed the executive team structure to better reflect it. Southern Water is moving at pace, and alongside day-to-day business, the Company's short and long-term plans are coming together strongly. Southern Water water resource and drainage plans have now been submitted to regulators after a series of consultations with customers and regional stakeholders.

Using this valuable insight, Southern Water is now preparing plans for the next investment period, 2025–30, which will take the Company into the final, fourth phase of its transformation. These plans are created by Southern Water's talented and committed teams, who are laser-focused on delivering resilient and efficient services now and in the future. Whether field or office-based, scientist or technician, engineer or financial analyst, the diversity of experience and knowledge in this company is what makes it who Southern Water is, and the Company has no doubt that these attributes will continue to enable improvements in Company performance.

Southern Water is confident that reaching the goals set out in Southern Water's plan, and demonstrating these tangible improvements to customers and stakeholders will enable the Company to improve the balance of reporting about the company and build trust.

### A fresh approach with new leadership

Lawrence Gosden became CEO in July of 2022 when Ian McAulay retired. At the same time, Bob Collington stepped into the role of Chief Operating Officer and the Company's departing Chief Financial Officer, Sebastiaan Boelen was also succeeded by an Interim, Nadim Ahmad. During the year, Southern Water welcome both Usha Baidya as Chief People Officer and Deborah Binks-Moore as Interim Director of Corporate Relations from May, further strengthening Southern Water's leadership team. With support from the Chair and the Board, Southern Water embarked on a wholesale review of the business to identify the Company's strengths and weaknesses, and areas where it could make rapid improvements. Although Southern Water has not seen immediate results of this targeted work in all of the Company's end-of-year results, the Company is confident that the changes put in place are improving its performance.

The results of Southern Water's annual Environment Agency Performance Assessment, for which the Company fully

expects to see its rating improve from a one-star to two-star, show that the Company is taking steps in the right direction. The Company expects to see that positive improvement trajectory continued as Southern Water implements its Turnaround Plan for the remaining two years of this five-year investment period. You can read more about Southern Water's operational performance on pages 42 to 95 of the Company financial statements and the Company's new Chief Financial Officer Stuart Ledger explains the financial performance in more detail on page 103 of the Southern Water financial statements.

### **A year of supply challenges**

A dry winter and spring, followed by a hot summer in 2022, presented a challenge for water companies up and down the country as they faced a first nationwide drought for a decade. Nowhere more so than in the water-stressed South East, where Southern Water was forced to introduce a Temporary Use Ban in Hampshire.

For the Company, although this was a difficult step to take, it is an example of living Company values and doing the right thing; the primary reason for putting in place these restrictions was to protect the environment, namely local chalk streams.

At the same time, Southern Water lost water supply to 24,000 customers on the Isle of Sheppey during one of the hottest weeks of the year in July due to two large trunk main bursts that needed complex repairs. Through the collective efforts of the team, and alongside what was a very challenging operational fix, the Company tankered water to critical services, including the hospital and prisons, and provided 835,000 litres of bottled water, which included over 12,000 deliveries to support the Company's priority services customers. Southern Water is proud of the fact that, in the face of a very challenging situation, Southern Water returned customers to service quickly in a way that also kept everyone's safety – colleagues, customers and partners – front of mind. Since then, Southern Water has taken action and completed £4.5 million of emergency work to tunnel two new water mains across the Swale to Sheppey. The project began in autumn 2022 and has overcome huge engineering challenges due to the complex geology under the seabed. Now the pipes have been pulled through, the Company has multiple options to get water to the island. Two further significant operational failures at Southern Water's Otterbourne Water Treatment Works left around 23,000 customers in Hampshire without access to water in the run up to the Christmas holidays and then again in February. The Company is again proud of the efforts of staff who worked day and night to get customers back in supply, manned bottled water stations and kept customers updated, the Company is also deeply aware of how frustrating and distressing this situation was for everyone without access to water during this time. An investigation has now concluded into the cause of this incident, and Southern Water is working with regulators to make sure the proper preventative process and procedure reviews are put in place.

Southern Water has since made amends with customers for each of these incidents, providing a blend of direct payments, shopping vouchers and community grants, depending on the area and what customers told the Company they needed most. Southern Water has also put in place a detailed four-site improvement strategy, focusing on upgrading the Company's largest and most critical water supply sites, that has been agreed with regulators and will be delivered at pace.

### **Listening to Company stakeholders**

Southern Water has spoken to stakeholders and community groups across the Southern Water region over the course of this year, whether in Whitstable with local MPs and councillors, Hampshire with Southern Water's Water Futures panel or Three Harbours Technical Work Group or at customer drop-in events at Sandown on the Isle of Wight and Broadstairs in Kent. The Company now has an Independent Climate and Environment Group of stakeholders that meets regularly to help understand their views and hold Southern Water to account on its environmental aims.

These are all important opportunities to listen to customers, and stakeholder groups, and to demonstrate the actions that Southern Water is taking now to address their concerns.

The tone of some of these meetings is rightfully challenging, but more often they are constructive and positive about the information shared, and participants welcome the investment planned and direct action the Company is taking.

### **Caring for colleagues and communities**

Southern Water has about 2,600 colleagues and many more who work as part of the Company business, most of whom live and work in the communities the Company serves. Southern Water expects everyone to live the company values of succeeding together, doing the right thing, always improving and working with care – the Company's new value, introduced this year.

The decision to add this new value reflects a renewed focus on how the Company cares for each other, customers, communities and the environment. Working with care is about ensuring the health, safety and wellbeing of everyone who works for, and with, Southern Water. It includes Company suppliers and contractors, and this culture of care

extends outwards from the better relationships the Company fosters internally, to the stronger partnerships Southern Water builds across the region.

One of the ways that colleagues live Company values is through the hours they donate to volunteer at various community projects across the region. From supporting food banks, to helping renovate a charity's premises, colleagues have provided more support than ever before.

Southern Water's community team are also increasing their school talks and have developed a network of Community Ambassadors to engage young people and a refreshed education programme to encourage the next generation to learn about water. The Company wants everyone who works with Southern Water to feel that they can bring their authentic selves to work, and the Company aims to make sure that everyone is supported and cared for through its Equality, Diversity, and Inclusion (ED&I) policy, and the support groups The Company has in place. That is why it is pleasing that Southern Water has improved its ranking in the Top 50 Inclusive Companies index for the third year in a row, moving from 46th to 44th place this year. Being a diverse and inclusive organisation enables Southern Water to connect the Company's collective passion and capability across the business. Never has this been more important as the Company works together to deliver the step change that is needed.

### **Changing behaviours to improve health and safety**

Southern Water measures how engaged people feel about their work and use regular poll and pulse surveys to encourage teams to address any particular areas. The Company is pleased to learn that the strongest score from last year's survey was for managers caring about their team members' wellbeing. The health, safety, security and wellbeing of the Company's people is an overriding value. A core pillar of Southern Water's strategy going forward will focus on how the Company makes a behavioural shift to make sure the Company is always working with care. To do this it is important that everyone develops their understanding of the consequences if the Company gets it wrong – for the individual, for their families and friends, and for colleagues and the community. It needs to become part of Southern Water's DNA, an automatic behaviour that comes naturally. To enable this, Southern Water is launching a company-wide training programme so that every colleague is given the same experience. The Company will also be launching a new set of safety campaigns and guidance materials for all colleagues.

### **The right people to deliver Company plans**

Southern Water knows that they have a way to go to meet the expectations of customers, stakeholders and regulators, but it is confident that the Company has laid further foundations this year, improving many key performance metrics. The Company is making progress and that is because of the hard work of every single one of The Company colleagues. Southern Water would like to thank each of their employees for their unwavering commitment over the past year. Succeeding together has never been more important for customers, communities and the environment.



## Principal risks and uncertainties

The principal risk that the company is exposed to is the occurrence of events that would result in an impairment to the value of its investment in Greensands Finance Holdings Limited and the recoverability of its intercompany debt. Ultimately this is reliant on cash funds being available at Southern Water Services Limited to support the group.

The directors are confident that these risks are mitigated by the use of effective risk management policies employed by Southern Water Services Limited. For further details regarding these policies please refer to the strategic report of Southern Water Services Limited which can be obtained via Companies House.

The Greensands Holdings Group comprises a number of intermediary financing companies as set out below:

Corporate level	Companies
'Holdco'	Greensands Holdings Ltd (GHL) Greensands Europe (GSE) Greensands UK Limited (GSUK) Greensands Junior Finance Limited (GSJF) Southern Water (Greensands) Financing plc (SWGF) Greensands Senior Finance Limited (GSSF) Greensands Investments Limited (GSI)
'Midco'	Greensands Finance Holdings Limited (GSFH) Greensands Finance Limited (GSF Ltd) Greensands Financing plc (GSF plc) Southern Water Capital (SWC) Southern Water Investments Limited Southern Water Services Group (SWSG)
Southern Water Financing Group	SWS Group Holdings SWS Holdings Southern Water Services Limited (SWS) Southern Water Services (Finance) (SWSF) (now dissolved) SW (Finance) I plc (SWFI) SW (Finance) II Limited (SWFII)

### Impairment Risk:

There is no trading activity carried out within either the 'Midco' or 'Holdco' groups. The 'Midco' is dependent upon distributions received from Southern Water Services Limited and the 'Holdco' is dependent on distributions received from the 'Midco'. Loan covenants exist at the 'Holdco', 'Midco' and SWS financing group which are designed to protect investors at each respective level.

On 7 July 2023, Fitch announced its decision to downgrade the Class A Unwrapped Debt of SW (Finance) I to BBB (negative outlook) from BBB+ (negative outlook). As a consequence of the Fitch credit rating action, a credit rating downgrade Trigger Event has occurred. The consequence of the Trigger Event is that Southern Water Services Limited is not permitted to make distributions to parent companies.

Therefore, the company does not expect to receive interest on loans to subsidiary companies, or a dividend from subsidiary companies. Southern Water Services Ltd and the Greensands Finance group of companies are expected to be in Trigger until at least March 2025.

To assist in financing of the planned expenditure the group expects to receive £550 million of new equity ("the Equity Raise"), with cash expected to be received by the end of October 2023. The HoldCo expects to retain £100 million of the new equity, as set out in the 'going concern' statement and this would ensure sufficient liquidity is in place to settle the debt service requirement of the HoldCo, for the 12 months from the date of signing these financial statements.



## Southern Water risks

### Risk management approach

The purpose of the approach to risk management at Southern Water is to support better decisions through an improved understanding of risk. Risk management is a core component of Southern Water’s governance and internal control framework, which provides the structure through which it conducts business.

Risk is inherent in the business and Southern Water faces a diverse range of risk and uncertainties that cannot be completely eliminated. The purpose of its approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on Southern Water and its ability to deliver on its strategic objectives are its Principal Risks. The risk governance model ensures that Southern Water can manage, monitor and report on our Principal Risks to maintain a resilient business. These risks are described on pages 29 to 36.

### Managing risk

The approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with operation of the business, to executive management and to the Southern Water Board.

The risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

The framework seeks to promote better decision-making, to strengthen operational resilience and support the best outcomes and opportunities for the company and its customers through effective:

1. **Risk identification and ownership:** understand the risk environment, identify the specific risks faced and assess potential exposure.
2. **Risk assessment:** determine how best to manage identified risks to balance exposure.
3. **Risk response:** take action to manage the risks it does not want to be exposed to, ensuring resources are effectively and efficiently prioritised and used.
4. **Risk monitoring, reporting and escalation:** report on a quarterly basis to the Executive Risk Committee, Audit Committee, and the Health and Safety and Operational Risk Committee and to the Southern Water Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.
5. **Risk appetite and communication:** use analysis to support the Southern Water Board’s determination of risk appetite and to monitor and report against it.



The risk management approach is embedded across Southern Water within the business Directorates and their business processes. A risk management approach has been established that provides a consistent basis for measuring risk to:

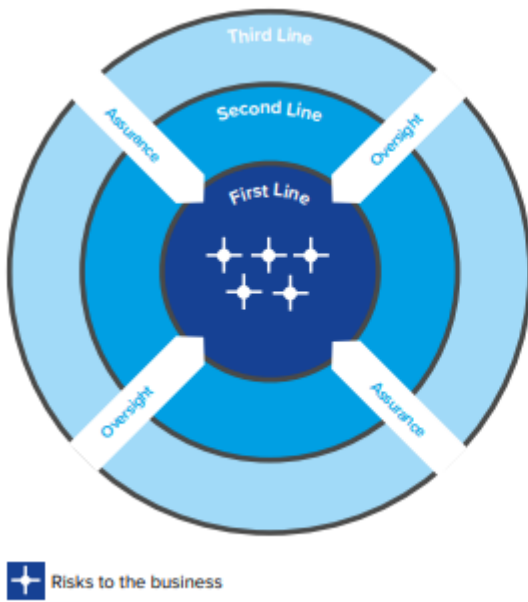
- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

All areas of Southern Water review significant risks and business processes to help inform and enable risk-based decision-making. As part of Southern Water’s annual planning process, the Executive Leadership Team and Board review the company’s Principal and Emerging Risks.

### Three lines of defence

The approach to risk management adopts the ‘three lines of defence’ model in which risk ownership responsibilities are functionally independent from oversight and assurance

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all Southern Water employees is to ensure they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.



#### First line

- The functions that own and manage risk.

#### Second line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

#### Third line

- Provides independent assurance on the business control environment, and the effectiveness of the wider System of Internal Control.

### The next 12 months

The coming year will see continued integration of the risk management framework and approach. This will see risk management efforts focused on maturing our activities in a number of areas, including:

- Advancing a dynamic risk-aware culture throughout the company.
- Enhanced risk reporting to the Southern Water Board, Board Committees and Executive Leadership Team.
- Continued training across Southern Water to embed the business partnering model and to develop enterprise risk profiles and support risk-based decision-making.
- Strengthening the analytical risk management capabilities through use of the Governance, Risk and Compliance (GRC) system to utilise enhanced risk management data and insights to facilitate risk-based decision-making and deliver business intelligence reporting.

The continuous improvements that Southern Water is making with its risk management approach are setting the company up for future success. As these improvements are further embedded, Southern Water will be able to demonstrate to its customers and external stakeholders that the decisions it makes are considered, well thought through, and demonstrate continued commitment to its values.

### Risk oversight and governance

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of Southern Water. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise and corporate risks, while the restructured Health and Safety and Operational Risk Committee oversees and advises on operational risk.

## **Role of the Southern Water Board**

The role of the Southern Water Board is to promote the long- term sustainability of the company and its responsibilities to its shareholders, customers, employees, and the communities in which it operates. It has overall responsibility for risk management within the company.

The Southern Water Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct
- forming a view on the risk culture and the extent to which it supports its ability to operate consistently within its risk appetite.

The Southern Water Board defines the risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

The risk appetite is directly aligned to the principal risks. The risk appetite for each of these underpins the governance and reporting framework and is subject to regular review by the Southern Water Board. The alignment of the principal risks with risk appetite allows for an informed analysis and discussion of the risk position and provides the Southern Water Board with the insight to make key-decisions.

As a company, Southern Water is tolerating a level of risk which is outside its current risk appetite and is reflected in the review of the principal risks in the coming pages. This can result in more focus on short-term issues than longer-term resilience.

The Southern Water Board ensures the oversight and monitoring of its risk culture, risk appetite and risk management activities through the Audit Committee.

## **Role of the Audit Committee**

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Southern Water Board on the company's overall risk appetite, tolerance culture and strategy, taking into account the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Southern Water Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Southern Water Board on current risk exposure and longer-term strategic risks to determine the future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Southern Water Board's decision-making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action.

## **Role of the Health and Safety and Operational Risk Committee**

The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Southern Water Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;

- reviewing the company’s health, safety, security and wellbeing performance;
- reviewing operational risk and risk management of information security, information governance, water, wastewater and customer services;
- reviewing of the scope, and results, of any: health, safety, wellbeing, information security, information governance, water, wastewater and customer operational risk audits; and
- considering the findings of internal and external investigations and executives’ response.

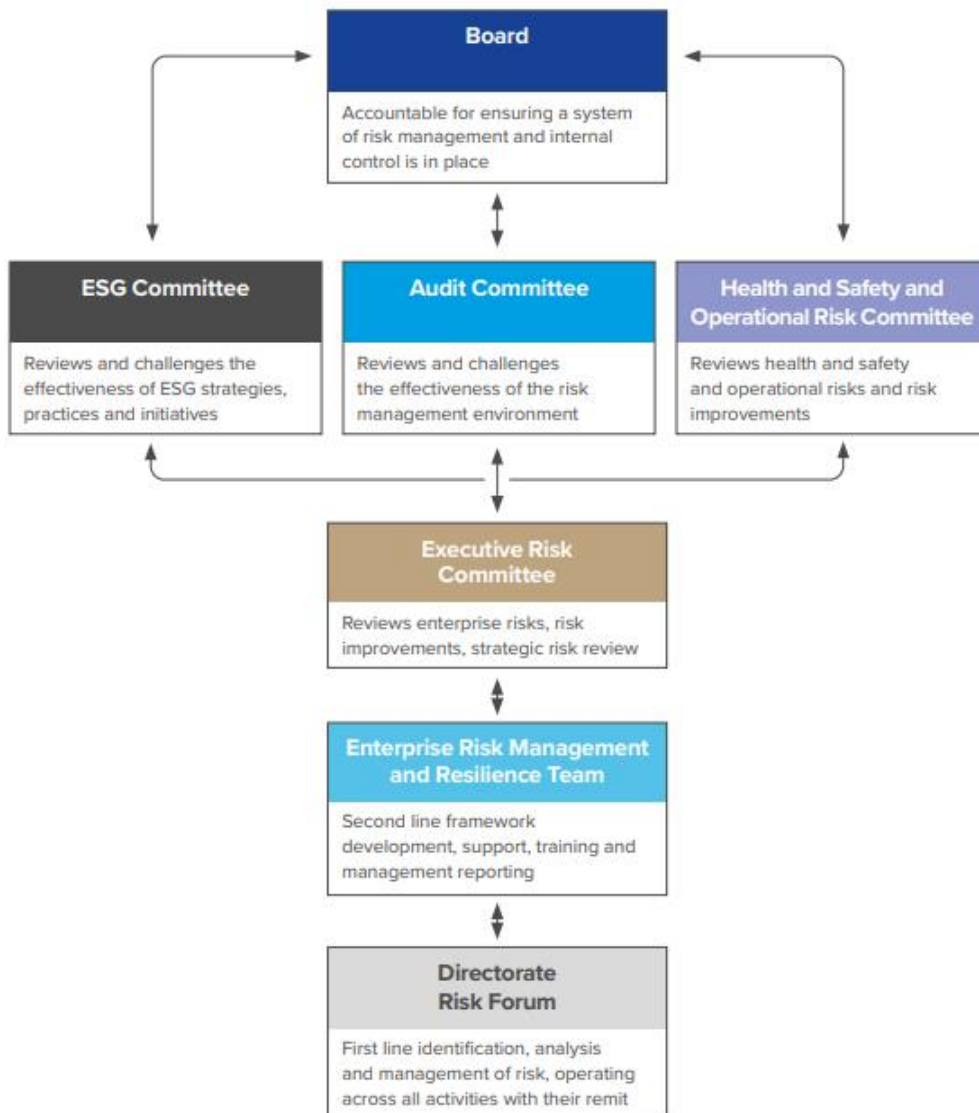
**Role of the ESG Committee**

The ESG Committee was formed in 2022 to provide greater oversight and consideration of the material environmental, social and governance matters relevant to Southern Water’s activities. ESG Committee is responsible for the review of the risks related to the environment, social, and governance practices, commitments, policies, and strategies.

The ESG Committee has a key role in:

- reviewing the progress and performance on Net Zero Plan delivery;
- ensuring the effective operation and delivery of the annual Climate Change Action Plan;
- providing oversight on the adoption and implementation of climate related disclosure regulations.

**Key risk and governance responsibilities include:**



## Emerging risks

Southern Water regularly considers new, changing, or emerging risks that could affect its ability to achieve long-term objectives. Emerging risks are defined as uncertain future events that are challenging to assess due to their unpredictable nature or lack of reliable information. Regular horizon scanning exercises are undertaken to identify and monitor emerging risks. The risk assessment process monitors available management information from a wide variety of internal and external business and environmental sources and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur. The immediate horizon scan reviews possible Emerging Risks and their potential impact on Southern Water within the next five years. These include:

Emerging risk	Description	Relevant activity
DWI enforcement regime	In early 2021, the DWI began work to change its method of regulatory enforcement to consider a new approach to include a punitive financial penalty regime within its regulatory framework. Southern Water is currently subject to a number of DWI notices; this could lead to a risk of additional financial penalties.	Southern Water continues to work closely with the DWI to respond and resolve our open notices in a timely manner. The company is committed to reform and improve our performance related to our business operations and our provision of a sufficient supply of high-quality drinking water.
Escalating Global Conflicts	In 2022, high-intensity conflict broke out in Europe between Russia and Ukraine. Tensions continue to escalate between the United States and China, Iran and Israel and in the Korean peninsula.	We are monitoring the potential expansion of global unrest to include new areas of conflict or types of conflict, resulting in new types of or expanded risk consequences especially in relation to our supply chain and IT network.
Rainfall Patterns & Extreme Weather	The changes in rainfall patterns and extreme weather resulting from global warming are creating a wider impact on our natural environment, including drought mitigations, flood defences and land erosion.	Associated risks are assessed and mitigated within the wider Climate Change strategies, the published Drought Plan and in the Drainage and Wastewater Management Plan (DWMP) to specifically address CSO reform and Flood Action Plan.
Climate Action Failure	Climate action failure is defined by the failure by governments, corporations and businesses to take up active climate change mitigation measures and help protect ecosystems and livelihoods around the world.	Southern Water is committed to understanding the evolution and impact of Climate Change on its business and on the natural water supply and eco systems. Associated risks are assessed and mitigated within the wider Climate Change strategies and use corporate insight and knowledge to help policy makers craft their strategies and legislation to support and advance climate effective change solutions

**Principal risks**

Those risks that have the potential to have a material impact on Southern Water are the Principal Risks. Southern Water manages, monitors and reports on the principal risks that can impact its ability to deliver its objectives. As part of Southern Water’s annual planning process, the Executive Leadership Team and the Southern Water Board review the business’s Principal Risks. These may be updated during the year in response to changes in internal and external circumstances.

There are currently 12 Principal Risks. These are a key feature of the Risk Taxonomy and risk appetite. The principal risks reflect Southern Water’s commitment to its values: doing the right thing, succeeding together, always improving and working with care. The principal risks and their risk components are reviewed on an annual basis, ensuring emerging risks are reflected and that the current structure adequately reflects the risk context in Southern Water.

In 2022, Southern Water was challenged by the impact of the ongoing war in Ukraine that intensified supply chain delays and failures, fuelled inflation and energy price increases, and had a deteriorating effect on the principal risks. The company had to rapidly adapt to this changing operational environment to mitigate these accelerating macro environmental influences.

**Principal risk radar**

The principal risk radar provides an indicative view of the current risk position of each of the principal risks, relative to each other.

- Improving
- Stable
- Deteriorating





Risk	Category	Risk climate	Commentary	
1	Water	Operational	▶▶	We are challenged by several significant water supply disruption events on key operational sites which have resulted in an increased interruption of supply to our customers
2	Wastewater	Operational	▶▶	We are challenged to manage an increase in capacity demand and extreme weather events while meeting our regulatory targets
3	Customer	Operational	▶▶	We continue to support our customers through supply and service events and the challenges of the current cost of living crisis
4	Financial	Financial	▶▶	Our operational and capital programmes are being significantly impacted by macroeconomic factors affecting the availability and cost of capital
5	Compliance	Corporate	▶▶	We remain under continued scrutiny by our regulators as we transform and deliver on our business plan
6	Climate Change	Corporate	▲	Planning and mitigation for climate change is embedded in our long-term strategic plans e.g. DWMP, WRMP, WINEP)
7	Delivery	Corporate	▶▶	We are challenged to deliver our capital investment delivery programme and Opex funded strategic projects due to prolonged macroeconomic conditions
8	Information Technology (IT)	Corporate	▶▶	The global heightened cyber security threat has increased risk in this area. Our IT estate requires continual monitoring and improvement to maintain resilience
9	Resources	Corporate	▼	Global inflationary pressures and disruption in goods or services availability has delayed supply and significantly increased our operational and capital costs
10	Health, Safety, Security & Wellbeing	Corporate	▲	Our Health and Safety Transformation Plan is designed to improve our operations, comply with regulations and embed our Safety-First culture across the business
11	Corporate Affairs	Corporate	▶▶	We have increased our communications in relation to service event management and recovery and work closely with our communities and regulators to support and influence the protection of our natural environment
12	People	Corporate	▼	We are challenged to manage and develop our workforce in a competitive employment environment that has been strongly influenced by rising inflation and the current cost of living crisis

Risk climate ▲ Improving ▶▶ Stable ▼ Deteriorating

## Principal risks and uncertainties for Southern Water Services

## Operational risk

1 Water
<p>We must make sure we can supply enough good quality drinking water to cater for a growing population of more than 2.7 million people across the region. Warmer summer weather and colder winters over the past two decades impact our supply/demand balance and increase our risks in relation to drought or significant water source depletion. Should we experience, water contamination, water treatment or distribution network failures, there is a risk that water may be unfit for consumption or customers may experience disruption to their water supply.</p>
<p><b>Executive accountability:</b> Director – Wholesale Water</p>
<p><b>Risk climate:</b> ▶◀</p> <p>Following one of the driest summers on record in 2022, we have experienced a winter season that has seen higher than average rainfall which has replenished our groundwater sources, reservoirs and rivers.</p> <p>Aside this, we continue to work hard at reducing leakage, which was impacted by the hot summer of 2022 and cold winter of 2022–23. We have employed digital technology to address network leakage performance, increased our field resource, continue to invest in pressure calming solutions, and have expedited speed of repair by a factor of 2.</p> <p>During the year, we were challenged by several significant water supply disruption events on key operational sites which have resulted in an increased interruption of supply to our customers. We are continuously working to improve the reliability of our water supply works by putting in place new assets and improving maintenance. Our event management and operational control teams deployed immediate response and repair plans, along with establishing bottle water stations and issuing up to date communications across several media platforms to keep customers informed.</p> <p>We have improved our logistics capability so we can move people and materials around faster, 24/7. This includes a new tanker fleet, storage of critical spares and an overhaul of our work management processes. We have also, improved the management and control of our sites and networks and our core systems and processes</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Water for Life – Hampshire, a programme of significant capital and asset improvements to provide long-term resilience.</li> <li>• Water First, our improvement programme strengthening internal processes and asset performance.</li> <li>• Improving the reliability of our water supply works by undertaking a complete overhaul of our four main sites, benefiting 62% of our customers.</li> <li>• Investing to improve our leakage position with installation of more loggers, new data points and pressure management calming tools.</li> <li>• Upgrading our logistics capability.</li> </ul>
<p><b>Cross reference:</b></p> <ul style="list-style-type: none"> <li>➔ Read more about how we are understanding and supporting our customers and communities on pages 42 to 51.</li> <li>➔ Read more about how we ensuring a supply of high-quality water for the future on pages 52 to 58.</li> </ul>

## Operational risk

2 Wastewater
<p>We are committed to provide our customers with reliable wastewater services essential to maintain public health and protect the environment.</p> <p>Periods of excessive rainfall or extreme weather may cause drainage and flooding issues. If operational wastewater treatment assets, our wastewater network or processes fail, we may discharge non-compliant sewage. These events may cause risks to the environment or public health from pollution and/or sewer flooding.</p>
<p><b>Executive accountability:</b> Director – Wastewater</p>
<p><b>Risk climate:</b> ▶▶</p> <p>Our performance has been significantly challenged, specifically in light of increased capacity demand, fluctuations in extreme weather events and challenging regulatory targets. Improving our pollution performance is a key focus for the business and is supported by our strategic Turnaround Plans and our Pollution Incident Reduction Plans. We are building capacity and resilience at our wastewater treatment works and system networks to reach 99%+ compliance with treatment and permit standards to reduce pollution occurrences and the impact our operations might have on the environment. This means making sure our pumping stations and networks continue to operate effectively as our climate changes. We have established a dedicated Clean Rivers and Seas Task Force to enhance our network assets and reduce blockages, including an investment of £5 million to implement our Pathfinder projects to tackle the root cause of the storm overflows. We continue to work closely with our customers, the general public and stakeholders with respect to our impact on the environment; with a key focus on spills to the environment in rivers, chalk streams and bathing waters.</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Over £1.5 billion investment to 2025 to improve the capacity, capability and resilience of our wastewater network across the region to ensure our pumping stations and networks continue to operate effectively as our climate changes.</li> <li>• Increased investment in Storm Overflow programme.</li> <li>• Updated and enhanced Pollution Incident Reduction Plan.</li> <li>• Updating our maintenance standards and proactive control to stop assets failing and developing an improved emergency response.</li> <li>• Digitalisation of our sewer network to reduce pollutions and flooding, using industry-leading monitors, artificial intelligence for prediction and maintenance.</li> <li>• Effective Event Duration Monitoring (EDM) and the expansion of EDM coverage on Beachbuoy, our online tool for information on storm release activity near coastal bathing waters.</li> <li>• Improving training, development, and productivity by upskilling our front-line colleagues.</li> </ul>
<p><b>Cross reference:</b></p> <ul style="list-style-type: none"> <li>➔ Read more about how we protect and improve the environment on pages 59 to 68.</li> </ul>



## Operational risk

## 3 Customer

We are committed to providing an excellent customer experience, as expected by our customers and regulators. We are prioritising our customer experience by ensuring that every colleague understands and responds to our customers and their unique needs.

When we experience interruption to services there is a risk that we are not able to deliver the standard of service expected by our customers. During these periods, we seek to address and rectify the cause of the underlying issues while also proactively managing our customers concerns in a timely manner.

**Executive accountability:**

Chief Customer Officer

**Risk climate:** ▶▶

During the year, our service delivery has been challenged by a number of significant supply events that have resulted in a customer supply disruption, prolonged outage and it has negatively impacted our customers view of our performance and reputation. This was reflected in our annual customer satisfaction (C-MeX and D-MeX) performance metric measures and is a key area for our focused rebuild and improvement. In response, we enhanced our customer communications by implementing customer text messaging during incidents to keep them informed and up to date on our repairs and return to service timelines. We are also developing a new customer website which will enhance our customer service and experience.

To manage current economic pressures, household bills were increased in line with inflation. However, we continue to support our most vulnerable customers who have been most impacted by this cost of living crisis. We increased our social tariff cross-subsidy from £6.00 (for a dual service customer) to £8.50. This will allow us to increase the minimum discount offered from 20% to 45% and will support a further 21,000 customers in addition to the 107,000 who could be supported through the lower subsidy amount.

**Mitigating strategy:**

- Improving the digital customer experience including video assistant, a new website, improving customer journeys, data quality and complaints process.
- Enhancing our Customer Culture through customer promises and customer service training for all colleagues and partners.
- Better engagement with our communities through improved multi-channel and direct communications, education programmes and regular stakeholder forums.
- Supporting customers in vulnerable situations by improving our priority services during incidents and our social tariff offering.

**Cross reference:**

- ➔ Read more about how we are understanding and supporting our customers and communities on pages 42 to 51.
- ➔ Read more about how we ensuring a supply of high-quality water for the future on pages 52 to 58.

## Financial risk

## 4 Financial

We are committed to managing the financial position of the company to ensure sufficient liquidity to meet our funding requirements and maintain service delivery for our customers. In the past two years we have been challenged by sustained macroeconomic volatility, leading to prolonged financially uncertain outlook. This is impactful to our ability to raise finance to fund the capital investment programme and to refinance debt maturities. Our internal cost control remains a key focus for all teams across the business.

A failure to maintain certain credit ratings could lead to an increase in interest cost, reduced availability of new capital and breach of our license conditions.

**Executive accountability:**

Chief Financial Officer

**Risk climate:** ▶▶

Sustained macroeconomic volatility has increased pressure on our operating and capital budgets and created significant cost control issues. Additional cost control pressures have arisen from our response activities to our water supply outages and pollution events. This has resulted in some delays and impacted our current business plan, delivery plan and funding. We are working to strengthen our financial controls and to implement systems and processes to reduce these operational events. We are currently preparing our Business Plan 2025–30, which will outline our ambition and determine our future funding.

We have engaged with our shareholders to seek an additional £550 million of equity funding for the group, of which £375 million would be injected into the regulated entity, SWS, to allow it to invest even further above its regulatory funding for this regulatory period; we anticipate this process to conclude later in 2023.

We completed some financing activity in 2022–23 and expect to secure additional external financing in the year ahead to support our business plan ambitions and delivery. We continue to be at risk of a credit rating downgrade as a result of our poor operational performance and rapidly rising inflation. Our credit ratings are provided on page 128.

**Mitigating strategy**

- Liquidity testing and reporting is carried out on a regular basis, forming part of the 'going concern' assessment
- Sufficient cash and facilities are maintained to mitigate such risks as bond market closures
- Flexible dividend policy supports management of financial risk
- Detailed budgetary scrutiny of operational spend
- Improved operational performance.

**Cross reference:**

- ➔ Read more about our financial performance on pages 102 to 119.

Corporate risk

<b>5 Compliance</b>
<p>As a regulated industry, we are committed to meeting an expected high standard of compliance with regulatory and corporate legislation.</p> <p>Failure to comply can result in regulatory enforcement, fines, legal action and, in the worst case, the loss of our licence to operate as a water and wastewater company. Existing and changing legal and regulatory requirements encourage the business to operate in an agile way to ensure continued compliance with our obligations.</p>
<p><b>Executive accountability:</b> General Counsel</p>
<p><b>Risk climate:</b> ▶▶</p> <p>We remain under continued scrutiny by our regulators. We are continuing our work to resolve a number of prior years prosecutions by the Environment Agency (EA) for wastewater permit breaches, sampling processes and governance approach. We continue to assist the EA with its ongoing investigations into these legacy issues and with their national investigations into flow compliance. The Drinking Water Inspectorate (DWI) and the EA continue to monitor our delivery of regulatory schemes (outputs) and this is likely to continue in the future.</p> <p>During the year we received six Final Enforcement Orders in relation to delays in the delivery of our key capital works for the current business plan. We are working with our regulators to prioritise the delivery for those key sites, and have detailed supporting work plans in place.</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Delivery of key transformation and training programmes in both water and wastewater parts of the business.</li> <li>• Ensuring appropriate governance through the embedding of a robust Three Lines of Defence compliance model.</li> <li>• A compliance framework with internal monitoring and assurance and an ethical business framework.</li> <li>• Compliance with company procedures is reviewed through our Statement of Compliance self-assessment every six months.</li> <li>• Transparent communication with our various regulators.</li> </ul>
<p><b>Cross reference:</b></p> <p>➔ Read more about our three lines of defence on page 121.</p>

Corporate risk

<b>6 Climate change</b>
<p>We are committed to understanding the impacts of climate change and appropriately adapting our business operating model to ensure reliable continuity of service to our customers while protecting our natural environment and resources.</p> <p>Failure to improve our resilience to the effects of climate change will impact our ability to deliver a sustainable supply of water to meet the growing demands of our customers and our ability to effectively manage the capacity and capability of our assets and sewer network. We must be resilient to both the physical effects, from extreme or prolonged weather events that could lead to flooding, pollution or damage to operational sites from coastal erosion or subsidence, and from transition risks including changes in policy, regulation and markets.</p>
<p><b>Executive accountability:</b> Chief Executive Officer</p>
<p><b>Risk climate:</b> ▲</p> <p>Extreme weather events are becoming more frequent. Severe winter storms and heavy rainfall impact our ability to effectively manage flooding and pollution events. Extended periods of dry weather greatly reduces the reliable availability of our water supply. We are challenged to balance the limitations of our stringent abstraction licences with our ability to meet customer demand while protecting our natural resources and the environment.</p> <p>We are a long-term business and as such we are required to produce a number of strategic plans that include consideration of the long-term management of our water and wastewater assets to ensure that they continue to be available to provide services to customers and adapt to the changing environment we live in.</p> <p>These include our published draft Water Resources Management Plan, which sets out how we will balance supply and demand for water over the next 80 years, and our first ever draft Drainage and Wastewater Management Plan, which analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years. We are currently in the process of producing our business plan submission for 2025–30 which will outline the investment we need to make to our assets, including mitigating and adapting to climate change risk.</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Annual Climate Change Adaptation Report.</li> <li>• Net Zero Plan.</li> <li>• Water Industry National Environment Programme (WINEP).</li> <li>• 50-year Water Resources Management Plan (WRMP).</li> <li>• Target 100 water efficiency programme.</li> <li>• Drought Plan.</li> <li>• Investment in new infrastructure.</li> <li>• Drainage Wastewater Management Plans (DWMP).</li> <li>• Operational resilience plans.</li> <li>• Bioresources strategy.</li> </ul>
<p><b>Cross reference:</b></p> <p>➔ Read more about our approach to tackling climate change on pages 75 to 95.</p> <p>➔ Read our Climate Adaptation Report: <a href="https://southernwater.co.uk/our-performance/reports/climate-adaptation-consultation">southernwater.co.uk/our-performance/reports/climate-adaptation-consultation</a>.</p>

## Corporate risk

## 7 Delivery

We are committed to the delivery of our business plan 2020–25. We have significantly invested in upgrading our existing operational sites and sewer networks and developing our capital programme. We have also increased our investment in technology to advance our ways of working to deliver a more responsive customer experience. In the past 12 months we have developed a long-term strategy and plans for significant improvements and upgrades to our four large water treatment plants at Testwood, Otterbourne, Hardham and Burham between now and 2032. We are currently preparing our business plan (2025–30) for submission to Ofwat in October 2023.

Failure to deliver significant parts of the programme on schedule, will impact our ability to provide an excellent service to our customers, compromising or preventing us from fulfilling the commitments that we have made in our business plan and to our regulators.

**Executive accountability:**

Chief Operating Officer

**Risk climate:** ▶◀

The ambition of the current capital investment delivery programme combined with the current macroeconomic environment has increased pressure on our ability to deliver on time and within budget. We have launched four key strategic plans to focus our delivery for the remainder of our current business plan around water quality and security of supply, pollutions and environment, trusted and easy customer service and health and safety. Their delivery is supported by three enablers which prioritise financing and efficiency, people and IT/digitalisation.

We are currently in the process of producing our business plan submission for 2025–30 which will be our most ambitious to date. This reflects our long-term commitment to our customers and the protection of our natural environment.

**Mitigating strategy:**

- We have brought significant investment capability in house including:
  - An in-house engineering and capital delivery function
  - An established long-term delivery partner supply chain.
- Risk and value are considered at each step of the investment cycle to provide best value for money to our customers
- Monitoring the delivery of our Final Determination obligations, continually assessing our financing status.
- Procurement and planning process are underway and on track to support the 2025–30 business plan delivery.

**Cross reference:**

- ➔ Read more about our Long-Term Priorities and how they inform our five-year delivery strategy on pages 42 to 95.

## Corporate risk

## 8 Information Technology (IT)

We are committed to providing IT services, capability and support to the business and improve our ways of working. We maintain the essential resources and processes to protect the company from external or internal attack, both physical and virtual and to protect our IT network, systems and data in accordance with our obligations under relevant regulations and legislation.

Failure to maintain the resilience of our operational and corporate IT networks and systems could have a significant impact on our business continuity, and the resilience and capability of our operational assets.

Additionally, we hold and process personal and payment data about our customers and employees. Failure to properly protect the data we hold could lead to reputational damage and loss of confidence from our customers, as well as significant fines under Data Protection (GDPR) and the Network and Information Systems (NIS) Directive.

**Executive accountability:**

Chief Information Officer

**Risk climate:** ▶◀

The sustained conflict between Russia and the Ukraine has increased the disruptive and destructive attacks on global organisations IT networks and systems by cyber hackers. This has escalated risks associated cyber security across all businesses. We have adopted the National Cyber Security Centre's (NCSC) Cyber Assessment Framework (CAF) to achieve and demonstrate an appropriate level of cyber resilience. We are continually reviewing and adapting the resilience of our approach to cyber security to ensure we are adequately protected from potential cyber threats.

As a mature company, our IT estate requires continual maintenance and improvement to deliver the required capability across the business. We are also challenged to manage the volume of demand from across the company for IT solutions and expertise for digital technologies to advance our various projects and programmes, and to meet customer and regulatory expectations.

**Mitigating strategy:**

- Business continuity processes reducing impact on IT systems.
- Active programme for migration of services off legacy infrastructure and onto new fully-managed infrastructure.
- Migration of existing critical and core service applications into the new data centres.
- Enhanced suite of IT general controls identified following alignment to the Network and Information System (NIS) – Cyber Assessment Framework.
- Continued investment in cyber threat mitigation strategies in response to the ever-changing risk landscape.



## Corporate risk

## 9 Resources

We are committed to establishing a sustainable, resilient, outcome-based supply chain for the provision of essential goods and services to support the delivery of our business plan that can adapt to market shocks. These include the supply of Engineering, Construction and Asset Management Advice to support our capital delivery programme and repair & maintenance services, chemicals, fuel, and spare parts to ensure continuity of service across our network and operational sites, as well as the energy required to power our operational equipment on a continuous basis, at a commercially viable price. We use long-term contracts for the provision of critical goods, services and works, as well as outsourced activities. In the past year, global inflationary pressures and disruption in goods or services availability has continued to delay supply of some commodities and services, and increased our operational and capital costs.

Failure to appropriately protect the resilience of our supply chain could lead to significant business interruption and result in an inability to deliver our commitments to our customers and stakeholders.

**Executive accountability:**

Chief Financial Officer

**Risk climate:** ▼

During the year we have continued to be challenged by the rising costs of goods and services due to rapid inflation and delays or failures in the global supply chain. This has caused a significant impact on both our operational costs as well as the ability to deliver on our capital programmes and projects within scope and budget. In response, we have commenced a significant review of our operational supply contracts and have focused on establishing new supply chain frameworks for a wide variety of operational site services, using category spend management to drive opportunities, mitigate risk, benchmark prices, and achieve savings and efficiencies. We have also implemented an improvement in our contract management system and processes, and are looking at how we simplify our contracting approach to create the right conditions for improved supplier relationships that better position us as an 'attractive client' to secure best rates, resources and innovation. While our operating model employs several mitigation strategies to hedge the effect of these type of market events, it has not been possible to completely mitigate the current unprecedented economic conditions.

Recent macroeconomic influences have impacted capacity throughout our supply chain. This significantly impacts our external third party suppliers ability to deliver timely and cost effective goods and services and has created many challenges with managing performance, quality and consistency.

As part of our Business Plan submission for 2025–30, the procurement process for key contractors and suppliers for our capital delivery programme and network maintenance is underway. We have established a balanced scorecard to better align our supply chain to our strategic themes, this will be a core part of our supplier selection, tender evaluation, and supplier performance management. A Market Engagement Event was held on 7 February 2023 to outline the vision and strategy to the market.

**Mitigating strategy:**

- Hedging strategy is in place for energy cost fluctuations/increases to manage impact to end customers.
- An enhanced Contract Management framework was implemented to effectively work with suppliers.

## Corporate risk

## 10 Health and safety

We are committed to ensuring that the health, safety, security and wellbeing of our employees and the public is of the highest priority. The nature of our work requires that our employees and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm. Failure to comply with our Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects.

**Executive accountability:**

Chief Executive Officer

**Risk climate:** ▲

The safety of our communities, colleagues, and supply chain partners remains our highest priority. Our recently launched Health and Safety Transformation Programme includes our new corporate value, Working with Care. Together they are designed to improve safety standards, establish a robust system of operational process reviews and inspections, comply with governing regulations and legislation and support our colleagues and contractors in their day-to-day work to embed our Safety First culture across the business. The results of this are already being seen in the 20% reduction in our Lost Time Incident Accident Frequency Rate experienced in the financial year 2022–23.

**Mitigating strategy:**

- A review and update of all our safety policies and procedures, including a new policy statement and the issuing of CEO empowerment cards to encourage adherence and challenge in the business.
- The rollout of a new, app-based, online Safety Reporting System to improve information flow, awareness and the management of hazards and incidents.
- Upgrading the capacity (by 50%) and capability of the H&S team to enhance investigations and deliver better support to frontline teams.
- Improving the safety of our colleagues when conducting physical work through the introduction of a new mobile AI based risk safety app.
- The allocation of ring-fenced monies to repair hazards identified by the workforce.
- Delivery of a behavioural change project, including an immersive actor led away day, a revised site audit and inspection plan, enhanced manager health and safety training and a mandated Senior Leadership Visit programme.
- Enhanced communications, including the launch of the fourth Corporate Value, Working With Care, our "Stop, Think, Act" campaign and target local initiatives.
- A new induction strategy, to update our existing training requirements and expand their application to cover our supply chain workforce to ensure that all personnel are aware of the potential dangers specific to each operational site.
- A continued focus at Board level with a Health and Safety and Operational Risk Committee.
- The integration of SafetyFirst in every meeting or activity, including at the Executive Safety Committee which has been expanded by 33% to cater for the growth in reporting.
- Enforce suppliers and delivery partner safety standards.
- Strategic Reviews of Security and Wellbeing.
- Managing our compliance through new systems, inspections and assurance.

Corporate risk

<b>11 Corporate affairs</b>
<p>We are committed to engaging in regular and transparent communication with our customers and stakeholders. We appropriately monitor and adapt to any changes in our political and regulatory frameworks, or take a lead role to advocate and influence positive change to the political or regulatory landscape impacting both our industry and our natural environment.</p> <p>Failure to do this may impact our relationships and reputation with our customers and stakeholders and may result in business disruption or regulatory fines.</p>
<p><b>Executive accountability:</b> Director of Corporate Relations</p>
<p><b>Risk climate:</b> ▶◀</p> <p>Our relationships with customers and stakeholders is strongly connected to our operational performance. During the year we were challenged by several significant service disruption events and noncompliant spills, which have resulted in an increase in customer complaints and negative media coverage. We understand that increased monitoring is essential to improve our wider environmental performance and to achieve a significant reduction in the use of storm overflows. We continue to invest in improvements to the timeliness and accuracy of our data. We have engaged in open conversations with our customers, community leaders and regulator and provide timely reporting of events to share causes, impacts and future mitigation to prevent re-occurrence. We are committed to improving our performance and accountability to rebuild our trust and connection with our communities.</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Work with our customers to understand their service delivery needs and expectations.</li> <li>• Monitor developments in the requirements from all of our regulators on key issues.</li> <li>• Maintain close dialogue with Government, Ofwat and other regulators on key issues.</li> <li>• Continue to engage constructively with all of our regulators in regards to the water scarcity challenges.</li> <li>• Investment Pathfinder projects to improve CSO performance.</li> <li>• Investment in Event Duration Monitoring (EDM) and the expansion of EDM coverage on Beachbuoy, our online tool for information on storm release activity near coastal bathing waters.</li> <li>• Work with our regulators on how we better understand and address our customers' needs to enable successful outcomes in the next business plan period 2025–30.</li> </ul>
<p><b>Cross reference:</b></p> <p>➔ Read more about our Long-Term Priorities and five-year delivery strategy on pages 42 to 95.</p>

Corporate risk

<b>12 People</b>
<p>We are committed to attract, retain, and establish succession planning to maintain a workforce of the right people, with the right skills for the role. This is a central part of our long-term strategy and our ability to ensure the company is agile and adaptable to change.</p> <p>We have designed our people risk framework to support a diverse and inclusive culture that promotes employee engagement and demonstrates the desired conduct and behaviours that align with our values. It includes building and retaining an industry-leading workforce and managing our people to upskill and develop our talent. This means we can ensure that we have the right resources to support our operations while implementing HR processes and procedures that support, protect and manage our people, and provide a fair and transparent reward and recognition programme.</p> <p>Failure to develop our workforce and implement a successful succession planning programme across the business can significantly impact our service delivery and result in business interruption and our ability to meet our customer and regulatory commitments.</p>
<p><b>Executive accountability:</b> Chief People Officer</p>
<p><b>Risk climate:</b> ▼</p> <p>We continue to manage challenges in relation to talent attraction and retainment especially in the Technical and STEM roles. Our recruitment efforts are also impacted in part by our geographic location. In the past year, the already competitive employment environment has been strongly influenced by rising inflation and the current cost of living crisis. We have established industry relationships with specialty recruitment partners to help us manage our talent attraction strategy. We are committed to supporting an empowering and collaborative work environment that recognises performance and facilitates career progression and development.</p>
<p><b>Mitigating strategy:</b></p> <ul style="list-style-type: none"> <li>• Ongoing workforce planning analysis and high-level strategic talent reviews take place across the business to assess capability and capacity needs</li> <li>• Development of a Talent Acquisition Strategy</li> <li>• Our internal INSPIRE Academy supports in-role development and career progression</li> <li>• Our recruitment strategy streamlines our best route to market</li> <li>• Our annual engagement surveys assess our employee satisfaction with remedial action plans developed by teams</li> <li>• Strong inclusion and diversity culture.</li> </ul>
<p><b>Cross reference:</b></p> <p>➔ Read more on our people on pages 69 to 74.</p>

## Directors' report for the year ended 31 March 2023

The directors of Greensands Holdings Limited (Registered Number: Jersey 98700) present their report and the audited financial statements for the year to 31 March 2023.

### 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. The directors expect the company to continue to carry out these activities in the future.

In carrying out these activities the company is reliant on distributions from companies lower down in the group structure as its sole source of capital.

### 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 36.

### Future developments

The information regarding future developments of the company can be found in the Strategic Report sections on pages 2 to 36.

### Results and dividends

The consolidated statement of other comprehensive income on page 47 shows the Group's results and profit for the year. Further details are also available in the Strategic Report section from page 2.

No ordinary dividends were declared during the year ended 31 March 2023 (2022: £nil).

Greensands Holdings Limited generated a loss for the financial year of £40.1 million (2022: £38.2 million).

### Directors and their interests

The directors who held office during the year ended 31 March 2023 and up to the date of signing the financial statements, unless otherwise stated, were as follows:

None of the directors who held office during the financial year, upto the date of signing the financial statements had any disclosable interests in the shares of the company or the Group.

W Price  
M Mathieson  
M Bradley

### Research and development

Improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the company's strategy to enhance the quality of service to customers and improve ways of working. Research and development expenditure charged to the income statement for the year amounted to £0.6 million (2022: £0.8 million).



## Employees

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

The company re-established an Employee Voice group during 2020–21 to facilitate meaningful consultation between company management and employees through elected employee representatives. The group meets regularly at both a functional and company-wide level.

In 2017, the company introduced the Gallup employee survey, which has continued to be undertaken every six months to help develop management action plans and provide insight into the views of employees. The company also conducts further surveys throughout the year on specific matters, the results of which are reported to management and/or the Board as appropriate.

The company 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.

General information is posted on the company 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 company.

The company's Executive directors and Executive Leadership Team members as well as individual non-Executive directors hold monthly 'Company Conversations', using video conferencing, to inform and engage with the company's employees about the company's priorities as well as to inform and engage with the company's employees about the company's purpose and values. These sessions afford employees an opportunity to put questions to the executive directors and senior leadership about anything regarding the business.

In line with the UK Corporate Governance Code, one of the company's independent non-executive directors, Mark Mathieson, has been given the remit of communicating the views of the company's workforce to the Board. Further details of the company's employees and the company's engagement activities, as well as how the directors have had regard to employee interests, can be found in the Strategic Report on pages 62 to 66 and page 151 of the Company financial statements.

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

**Health and safety, security and wellbeing:** The health, safety, security and wellbeing of our people is our priority and colleagues are encouraged to challenge anything they believe may be wrong or potentially dangerous. Empowerment forms a crucial part of our safety strategy as does making safety the first thing we consider when conducting any activity. Our Jun 23 Policy Statement reaffirms our position and provides clear direction from the CEO on how we approach health, safety, security and wellbeing within the business.

Our focus on prioritising safety is linked to the delivery of our Health and Safety transformation programme, progress against which is discussed at monthly Safety Executive Committees and with members of the Executive at monthly programme boards. This seeks to deliver a step change in our approach by embedding cultural, behavioural, process and system improvements. We are on track to deliver in 2023 and regularly review our position, ambitions and initiatives through quarterly external audits.

We continue to ensure that every employee receives training, instruction and supervision to deliver their role, proportionate to the specific level of risk. These requirements are frequently reviewed with the delivery of accredited NEBOSH and IOSH H&S training and development of modern site safety instructions and supply chain training courses being recent examples of this.

Our well-established forums, including Employee Voice and our Speak Up line, are used to share safety information and we distribute regular safety cascades and immediate safety alerts to ensure our colleagues are apprised of incidents and mitigations. We are moving to an online Safety Reporting System in 2023 that should make this passage of information even better.

The group provides an internal occupational health service for employees, including the provision of physiotherapy and support through the Employee assistance line. In 2023, we will deliver strategic review of Wellbeing and security to ensure our people remain well supported.

**Disabled employees:** Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

**Speak Up:** Employees are actively encouraged to Speak Up if they see things that are not quite right. This helps us work better as a company and fosters a culture where we ensure that we are always doing the right thing for each other, our customers, the environment and other stakeholders.

### **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.

Southern Water Services Ltd. is subject to ongoing investigations by the Environment Agency regarding wastewater performance and further details are disclosed in note 34 to the company accounts.

Southern Water Services Ltd's environmental performance for 2022–23 is reported on pages 83 to 87, and 54 to 60 of the company financial statements. 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 in either year.

### **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**

Details of the financial risk management are covered in the risk section on pages 23 and 32 of the Strategic Report, and note 23 to the consolidated financial statements.



## Going concern Statement

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 2023, notwithstanding the material uncertainty discussed below.

The group incurred an operating loss of £26.2 million in 2023 (2022: loss of £2.8 million). As of 31 March 2023, it had available a combination of cash of £202.7 million (31 March 2022: £561.5 million), which included £63.4 million (2022: £55.0 million) of cash held in accounts which can only be used in the event of default and undrawn bank facilities of £580 million (2022: £510 million), including £190 million (2022: £80 million) which can only be used in the event of a default. The group also has borrowings totalling £4,952.1 million (2022: £4,721.0 million), for which the earliest repayment is £400 million in March 2025. In 2022–23 borrowings attracted a total monthly cash interest charge of circa £10.5 million.

The borrowings of the group are subject to financial ratio covenants measured annually in March, and September, as well as the covenants relating to credit rating of debt issued by companies within the group. A breach of these covenants can result in either a Trigger Event or a Default Event, in either SWS or in the MidCo group of companies (see pages 16-17).

A Trigger event is a structural buffer intended to protect the relevant company/group of companies and its finance creditors from a Default event. If a Default event were to occur, all lenders' claims are frozen, and they have the right to exercise their security of a charge over the share capital of the parent company at the relevant levels of the group (see pages 16-17). The main consequence of a Trigger event is that the relevant company/group of companies is prevented from making distributions. It is also required to prepare a plan to recover from a Trigger Event.

Should a Default Event occur at either SWS or the MidCo group of companies (see pages 16-17), the respective company/group of companies enters a 'standstill period'. Committed and undrawn reserves are maintained to finance the business during this period, but, at SWS, there would be restrictions on the company's operations, including the cessation of capital investment expenditure. There is no standstill period in the HoldCo group of companies.

In assessing the going concern position of the group, the directors considered the forecast cash flows over the 12 months to July 2024, and the capital structure of the group and its financing needs for the period. The directors have considered a base case and various sensitivities in establishing that in order to meet the company's commitments over and above its obligations under PR19 price determination, it is necessary to raise additional capital as set out below.

### Base case - forecast cash flows

In preparing the forecasts, management has considered:

- The group's business activities, together with the factors likely to affect its future development, performance, and position. In particular, the group has considered the significant level of expenditure we have committed to in addition to that allowed at the PR19 price determination.
- The financial position of the group, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities.
- The effects of the operational incidents in 2022-23 (see page 21) on the ongoing cost base of the group.
- The effects of current high levels of inflation on costs such as energy, chemicals, and materials
- Investment needed to improve operational performance and reduce the impact on the environment from the treatment and processing of water and wastewater and mitigate the effects of climate change.
- Southern Water Services Ltd (SWS) is the operating company of the group and operates in an industry that is largely 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.

### Base case - financing needs

In planning for the future financing needs of the group, the directors have also considered the following information:

- The cash and facilities available to the group as outlined above. These include committed undrawn bank facilities that were renewed in October 2022 which comprise a £390 million revolving credit facilities that matures in October 2027 and the £190 million standstill facilities which are perpetual.
- Borrowings are generally at fixed interest rates but include £446.4 million of debt where interest rates are linked to Sonia, and certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk which is expected to be offset by inflation movement of the RCV and revenues (see note 21).

In order to finance the planned expenditure, the group expects to receive £550 million of new equity ("the Equity Raise"), with cash expected to be received by the end of October 2023. The directors anticipate receiving the equity, based on a history of successful fundraising in the past (most recently £1.1 billion received from the shareholders in 2021) and on discussions with the major shareholder, who has indicated their support for the company. We understand that the

shareholders are at an advanced stage of the equity raising process, but the equity has not been committed at the date of signing the accounts.

#### Base case - covenant compliance

- SWS has been in a credit rating Trigger Event following a credit rating downgrade on 7 July 2023. Current credit ratings are Baa3/BBB+/BBB (downgraded from Baa3/BBB+/BBB+). The credit rating downgrade is a result of pressure on financial ratios from the planned level of expenditure, plus operational performance challenges which are being addressed by the company turnaround plan. This is expected to adversely affect the cost of the additional finance planned to be raised, albeit the company still retains three investment-grade credit ratings.
- There is a risk of a credit rating downgrade at the Greensands Finance group of companies, and this would be a distribution lock-up at the MidCo group of companies, preventing them from making distributions.
- Adjusted interest cover ratios at SWS and the Greensands Finance group are expected to have negative headroom until at least March 2025 and therefore these are expected to be in a Trigger Event to at least that date.
- SWS obtained a waiver from its lenders in February 2021 which allows full use of available borrowing facilities, plus the raising of new finance, during a Trigger Event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place to March 2025, and the company anticipates being able to extend the waiver as part of the new equity process to extend the period of permitting full use of available liquidity to 2035 and increasing the associated debt/RCV limit to 75% whilst in a Trigger Event.
- A waiver has also been obtained at the Greensands Finance companies to allow full use of borrowing facilities plus the raising of new finance, during a Trigger Event related to either a credit rating downgrade or a breach of a financial ratio. Furthermore, consequences of potential default interest cover ratio breaches have been waived for the period to March 2025.

There is positive financial headroom across all Default debt covenant ratios for the going concern period in the base case, although there is limited financial headroom against the post maintenance interest cover ratio for 2023-24, and the debt/RCV ratio of 74% at March 2025. A breach of this ratio will occur if any further financial indebtedness is incurred; as noted above, management expects to vary this covenant as part of the equity raise process.

#### Sensitivities

- Financing: Should the equity raise not succeed and £550 million not be received, the group will not have sufficient liquidity for the going concern period, with headroom reduced to nil in February 2024.
- Liquidity: Downside sensitivities to the cash flows to check that the group can operate within its current facilities and covenants, which have identified that there is limited liquidity headroom to accommodate any overspend or one-off costs. If total expenditure at SWS is 12% over plan, the company will not have sufficient liquidity for the going concern period.
- Covenants: The post maintenance interest cover ratio covenant would be breached if net cash flow from operating activities less capital maintenance expenditure were to exceed plan by £35 million; the consequences of this would be Default Event.

#### Additional financing

Following the equity raise, additional new debt finance of £825 million is planned for the current financial year to 31 March 2024. This is not included in the base case as it is not committed and the timing is uncertain. Proceeds from the new debt finance will be used to repay the £400 million debt due in March 2025 and further finance the planned expenditure in the period beyond the going concern period. The directors anticipate receiving the additional debt financing based on the company's history of being able to do so in the past.

#### Conclusion

If the £550 million Equity Raise is successful, then the Directors believe that the group will have sufficient liquidity over the going concern period to execute its business plan, to finance the significant level of expenditure in addition to that allowed at the PR19 price determination, and to meet its regulatory obligations and financial commitments as they fall due.

If the £550 million Equity Raise does not proceed by the end of October 2023, the group will need to develop a new plan and will not be able to finance the full amount of planned expenditure in addition to that allowed at the PR19 price determination.

The Directors are of the opinion that that the Equity Raise will be received but given it has not been committed at the date of the financial statements and its commitment is not within the Directors' control, believe that the risk that the equity is not received constitutes a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Streamlined Energy and Carbon Report (SECR)

This section fulfils the requirements of the Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019.

Further information about Southern Water's climate change activities can be found on pages 75 to 92 of the Company Annual Report.

### Targets

To mitigate the company's climate impact, it is committed to delivering net zero by 2050, and is reviewing its interim target for net zero operational greenhouse gas (GHG) emissions, including engagement with the sector on its 2030 public interest commitment.

### Energy efficiency action

Energy use is a significant source of GHG emissions, and we have continued to invest heavily in energy efficiency throughout 2022–23, in multiple areas, covering multiple technologies.

- Over £1 million investment in aeration systems to improve the efficiency of treated water process.
- Invested in real-time control, which allows us to trend our water treatment, resulting in
- reduced energy demands at several water treatment sites.
- Replaced pumping systems at multiple sites with new efficient pump sets.
- We have also invested in real-time control, which allows us to trend our water treatment, resulting in reduced energy demands at water treatment sites

### Quantification and reporting methodology

The methodology used to calculate operational greenhouse gas emissions for the provision of water and wastewater services follows the GHG Protocol – Corporate Reporting Standard.

The water sector employs a bespoke carbon accounting workbook, which reflects best practice and is updated every year to use the latest emission factors, derived from the UK's GHG Conversion Factors. Version 17\_V4.02 of the Carbon Accounting Workbook (May 2023) has been used to prepare the GHG estimations.

### Operational Boundary

The reporting boundary covers all the company's operational services and aligns with our financial reporting boundary

### Assurance Statement

This quantification of greenhouse gas emissions and energy usage is checked internally through a governance framework and audited by independent consultants in accordance with AA1000 v3 as part of the company's annual regulatory reporting

### Energy Use

Area	2022–23 kWh	2021–22 kWh
Electricity	<b>486,491,717</b>	458,402,906
Imported	<b>432,453,458</b>	396,418,121
Self-generated	<b>54,038,259</b>	61,984,786
Gas	<b>2,364,641</b>	2,871,346
Business transport	<b>15,303,066</b>	13,447,058
Total incl. self-generation	<b>504,159,424</b>	474,721,310
Total excl. self-generation	<b>450,121,165</b>	412,736,525

The Group's self-generated supply comes from combined heat and power (CHP), solar PV and diesel generation. In addition, the Group exported excess electricity to the grid, predominantly renewable energy from the Group's 16 CHP installations.

**Greenhouse gas emissions**

Scope	Description	Included in scope	2022–23 (ktCO <sub>2</sub> e)	2021–22 (ktCO <sub>2</sub> e)
1	Direct emissions from activities that the company own or control including combustion of fuel	Gas oil use, Process emissions, Company transport	60.1	63.5
	Indirect emissions from purchase of electricity (location-based)	Grid electricity	84.7	84.5
2	Indirect emissions from purchase of electricity (market-based)	Grid electricity	0.0	0.0
3	Other Indirect emissions*	Business travel on public transport/private vehicles, outsourced activities, grid electricity transmission and distribution, purchased chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services	300.5	18.0
Total Gross emissions for Scope 1 & 2	Location-based approach**		144.8	148.1
	Market-based approach***		60.1	63.5

\*In 2023 we expanded reporting of Scope 3 emissions to include the following activities: purchase of chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services. This accounts for the reported increase in Scope 3 emissions (on a like for like basis, compared to 2022, our emissions were 12.8ktCO<sub>2</sub>e).

\*\* Location-based approach uses the average grid emission factor for power from the electricity grid.

\*\*\* Market-based approach uses the carbon intensity of the energy we procure from the electricity grid

**Global greenhouse gas and energy intensity metrics**

<b>Area</b>	<b>Unit of measurement</b>	<b>2022–23</b>	2021–22
All Group (location-based approach)	Tonnes of CO <sub>2</sub> e from Scope 1 and 2 gross emissions per £100,000 turnover	<b>18.3</b>	18.0
All Group (market-based approach)	Tonnes of CO <sub>2</sub> e from Scope 1 and 2 gross emissions per £100,000 turnover	<b>7.6</b>	7.7
All Group energy (incl. self-generation)	kWh/ £100,000 of turnover	<b>63,616</b>	57,647
All Group energy (excl. self-generation)	kWh/ £100,000 of turnover	<b>56,798</b>	50,120
Water services	kgCO <sub>2</sub> e per Megalitre (MI) of water treated (location-based approach)	<b>158</b>	130
Water services	kgCO <sub>2</sub> e per Megalitre (MI) of water treated (market-based approach)	<b>14</b>	18
Water services (Electricity incl. self-generation)	kWh/MI	<b>769</b>	537
Water services (Electricity excl. self-generation)	kWh/MI	<b>755</b>	529
Water services (Total energy incl. self-generation)	kWh/MI	<b>798</b>	558
Water services (Total energy excl. self-generation)	kWh/MI	<b>784</b>	549
Wastewater services	kgCO <sub>2</sub> e per Megalitre (MI) of wastewater treated (location-based approach)	<b>253</b>	245
Wastewater services	kgCO <sub>2</sub> e per Megalitre (MI) of wastewater treated (market-based approach)	<b>139</b>	137
Wastewater services (Electricity incl. self- generation)	kWh/MI	<b>715</b>	662
Wastewater services (Electricity excl. self- generation)	kWh/MI	<b>603</b>	534
Wastewater services (Total energy incl. self-generation)	kWh/MI	<b>741</b>	685
Wastewater services (Total energy excl. self-generation)	kWh/MI	<b>629</b>	557

Note: Turnover 2022–23 reported as £792.5 million for use in intensity metrics. This reflects a reduction of £23.2 million due to an Ofwat regulatory settlement.

**Qualifying third-party indemnity**

Following shareholder approval, the Group has provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies (Jersey) Law 1991.

## Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board and as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Greensands Holdings Limited confirm that to the best of its 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 Group; 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 Group, 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 on its behalf by:



R Manning  
**Company Secretary**  
28 July 2023



## Financial statements

### Consolidated income statement

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
<b>Continuing operations</b>			
Revenue	5	792.5	823.5
Amortisation of regulatory settlement	5	23.2	21.0
<b>Total revenue</b>		<b>815.7</b>	<b>844.5</b>
Other operating income	5	1.8	1.8
Operating costs before court fine and costs, trade receivables impairment charge, depreciation and amortisation		(479.2)	(398.3)
Court fine and costs		-	(91.5)
Trade receivables impairment charge		(12.0)	(29.9)
<b>Operating costs before depreciation and amortisation</b>		<b>(491.2)</b>	<b>(519.7)</b>
Depreciation and amortisation		(352.5)	(329.4)
<b>Total operating costs</b>		<b>(843.7)</b>	<b>(849.1)</b>
<b>Operating loss</b>	6	<b>(26.2)</b>	<b>(2.8)</b>
<b>Operating loss before regulatory settlement</b>			
		<b>(49.4)</b>	<b>(23.8)</b>
Amortisation of regulatory settlement		23.2	21.0
<b>Operating loss</b>		<b>(26.2)</b>	<b>(2.8)</b>
Other income	5	-	0.1
Profit on disposal of property, plant and equipment	6	1.6	1.5
Finance income	10	4.7	0.7
Finance costs	10	(322.8)	(305.6)
Fair value gain/ (loss) on derivative financial instruments	10	664.1	(665.6)
Net finance income/ (cost)		346.0	(970.5)
<b>Profit/ (Loss) before taxation</b>		<b>321.4</b>	<b>(971.7)</b>
Taxation (charge)/ credit	11	(91.5)	78.4
<b>Profit/ (Loss) for the financial year</b>		<b>229.9</b>	<b>(893.3)</b>

The notes on pages 53 to 111 form part of these financial statements.

**Consolidated statement of other comprehensive income**

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
<b>Profit/ (Loss) for the financial year</b>		<b>229.9</b>	<b>(893.3)</b>
<b>Other comprehensive (expense)/income:</b>			
<b>Items that cannot be reclassified to profit or loss:</b>			
Actuarial loss on pension scheme	25	<b>(11.5)</b>	(18.4)
Movement on deferred tax relating to retirement benefit obligations	24	<b>2.2</b>	13.3
<b>Total other comprehensive expense for the year, net of tax</b>		<b>(9.3)</b>	<b>(5.1)</b>
<b>Total comprehensive income/ (expense) for the year attributable to the owners of the company</b>		<b>220.6</b>	<b>(898.4)</b>

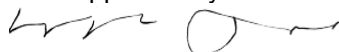
## Consolidated statement of financial position as at 31 March 2023

	Note	Group 2023 £m	Group 2022 £m *Restated
<b>Non-current assets</b>			
Goodwill	12	85.1	85.1
Intangible assets	13	110.0	100.0
Property, plant and equipment	14	7,247.1	6,872.1
Investments	16	0.1	0.1
Derivative financial instruments	23	89.3	45.9
Other Non-Current Assets*	15	10.9	*11.8
		<b>7,542.5</b>	<b>7,115.0</b>
<b>Current assets</b>			
Inventories	17	10.4	10.2
Trade and other receivables*	18	217.4	*190.0
Investments		-	285.0
Cash and cash equivalents	35	202.7	276.5
		<b>430.5</b>	<b>761.7</b>
<b>Total assets</b>		<b>7,973.0</b>	<b>7,876.7</b>
<b>Current liabilities</b>			
Trade and other payables	19	(500.0)	(385.4)
Borrowings	20, 21	(54.5)	(274.1)
Lease liabilities	20, 21, 22	(4.0)	(3.7)
Regulatory settlement liability	26	(27.4)	(25.0)
Provisions for liabilities	27	(2.2)	(1.5)
		<b>(588.1)</b>	<b>(689.7)</b>
<b>Non-current liabilities</b>			
Borrowings	21	(4,897.6)	(4,446.9)
Lease liabilities	21, 22	(32.5)	(29.6)
Derivative financial instruments	23	(1,655.3)	(2,188.9)
Deferred tax liabilities	24	(273.6)	** (203.2)
Retirement benefit obligations	25	(73.0)	(59.9)
Regulatory settlement liability	26	(28.2)	(53.8)
Provisions for liabilities	27	(3.3)	(5.0)
Other non-current liabilities	28	(40.3)	(39.2)
		<b>(7,003.8)</b>	<b>(7,026.5)</b>
<b>Total liabilities</b>		<b>(7,591.9)</b>	<b>(7,716.2)</b>
<b>Net assets</b>		<b>381.1</b>	<b>160.5</b>
<b>Equity</b>			
Called up share capital	29	-	-
Share premium account	30	-	-
Stated share capital account	31	1,998.9	1,998.9
Other reserves	32	1,606.7	1,606.7
Non-distributable reserve	33	94.6	85.1
Retained losses	34	(3,319.1)	** (3,530.2)
<b>Total equity</b>		<b>381.1</b>	<b>160.5</b>

\* The prior year has been restated following a re-analysis of prepayments from current to non-current (see note 15 and note 18 for more detail).

\*\* Deferred tax on post April 2017 losses at a number of group companies is included in deferred tax restating prior year (see note 11 and 24).

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 46 to 111 were approved by the Board and authorised for issue on 28 July 2023. They were signed on its behalf by:



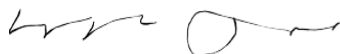
**W Price**  
Director

## Company statement of financial position as at 31 March 2023

	Note	Company 2023 £m	Company 2022 £m
<b>Non-current assets</b>			
Investments	16	997.8	<b>997.8</b>
Other non-current assets	15	50.5	<b>50.5</b>
		<u>1,048.3</u>	<u>1,048.3</u>
<b>Current assets</b>			
Trade and other receivables	18	0.3	<b>0.3</b>
		<u>0.3</u>	<u>0.3</u>
<b>Total assets</b>		<u><b>1,048.6</b></u>	<u><b>1,048.6</b></u>
<b>Current liabilities</b>			
Trade and other payables	19	(101.4)	<b>(61.3)</b>
<b>Non-current liabilities</b>			
Borrowings	21	(0.1)	<b>(0.1)</b>
<b>Total liabilities</b>		<u><b>(101.5)</b></u>	<u><b>(61.4)</b></u>
<b>Net assets</b>		<u><b>947.1</b></u>	<u><b>987.2</b></u>
<b>Equity</b>			
Called up share capital	29	-	-
Share premium account	30	-	-
Stated share capital account	31	<b>1,998.9</b>	<b>1,998.9</b>
Retained losses	34	<b>(1051.8)</b>	<b>(1,011.7)</b>
<b>Total equity</b>		<u><b>947.1</b></u>	<u><b>987.2</b></u>

The company reported a loss for the financial year ended 31 March 2023 of £40.1 million (2022: £38.2m). Further details can be found in note 7.

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 46 to 111 were approved by the Greensands Holdings Limited Board and authorised for issue on 28 July 2023. They were signed on its behalf by



**W Price**  
Director

**Consolidated statement of changes in equity**

For the year ended 31 March 2023

		Called up share capital (Note 29)	Share premium account (Note 30)	Stated share capital account (Note 31)	Other reserves (Note 32)	Non- distributable reserve (Note 33)	Retained Losses (Note 34) *Restated	Total
	Note	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2021</b>		<b>921.9</b>	<b>4.5</b>	-	-	<b>76.9</b>	<b>*(2,623.6)</b>	<b>*(1,620.3)</b>
Profit/(loss) for the financial year		-	-	-	-	9.9	(903.2)	(893.3)
Other comprehensive income/(loss) for the year:								
Actuarial loss on pension scheme	25	-	-	-	-	-	(18.4)	(18.4)
Movement on deferred tax relating to retirement benefit obligations	24	-	-	-	-	-	13.3	13.3
<b>Total comprehensive income/(expense) for the year</b>		-	-	-	-	9.9	(908.3)	(898.4)
Stated share capital account transfer	29	(921.9)	(4.5)	926.4	-	-	-	-
Eurobonds debt for equity swap	38	-	-	-	1,606.7	-	-	1,606.7
Issue of share capital		-	-	1,072.5	-	-	-	1,072.5
Reserves transfer*		-	-	-	-	(1.7)	1.7	-
<b>Balance at 31 March 2022</b>		<b>-</b>	<b>-</b>	<b>1,998.9</b>	<b>1,606.7</b>	<b>85.1</b>	<b>*(3,530.2)</b>	<b>*160.5</b>
Profit for the financial year		-	-	-	-	11.4	218.5	229.9
Other comprehensive income/(loss) for the year:								
Actuarial loss on pension scheme	25	-	-	-	-	-	(11.5)	(11.5)
Movement on deferred tax relating to retirement benefit obligations	24	-	-	-	-	-	2.2	2.2
<b>Total comprehensive income/(expense) for the year</b>		-	-	-	-	11.4	209.2	220.6
Reserves transfer**		-	-	-	-	(1.9)	1.9	-
<b>Balance at 31 March 2023</b>		<b>-</b>	<b>-</b>	<b>1,998.9</b>	<b>1,606.7</b>	<b>94.6</b>	<b>(3,319.1)</b>	<b>381.1</b>

\*See note 1 for details of the prior year restatement

\*\*The non-distributable reserve arose upon adoption of IFRS 15 relating to deemed revenue on adoption of assets from customers and is being amortised to reserves in line with the depreciation of the related assets.



**Company statement of changes in equity**

For the year ended 31 March 2023

	Called up share capital (Note 29) £m	Share premium account (Note 30) £m	Stated share capital (Note 31) £m	Retained losses (Note 34) £m	Total £m
<b>Balance at 1 April 2021</b>	<b>921.9</b>	<b>4.5</b>	<b>-</b>	<b>(973.5)</b>	<b>(47.1)</b>
Loss and total comprehensive expense for the financial year	-	-	-	<b>(38.2)</b>	<b>(38.2)</b>
Stated share capital account transfer	(921.9)	(4.5)	926.4	-	-
Issue of share capital	-	-	1,072.5	-	<b>1,072.5</b>
<b>Balance at 31 March 2022</b>	<b>-</b>	<b>-</b>	<b>1,998.9</b>	<b>(1,011.7)</b>	<b>987.2</b>
Loss and total comprehensive expense for the financial year	-	-	-	<b>(40.1)</b>	<b>(40.1)</b>
<b>Balance at 31 March 2023</b>	<b>-</b>	<b>-</b>	<b>1,998.9</b>	<b>(1051.8)</b>	<b>947.1</b>

**Consolidated statement of cash flows**

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
<b>Net cash from operating activities</b>	35	<u>350.2</u>	<u>225.4</u>
<b>Investing activities</b>			
Interest received		3.7	0.4
Purchase of property, plant and equipment		(635.1)	(466.1)
Purchase of intangible assets		(41.8)	(46.4)
Proceeds on disposal of property, plant and equipment		1.3	1.2
Acquisition of short term investments		(90.0)	(590.0)
Maturity of short term investments		375.0	305.0
<b>Net cash used in investing activities</b>		<u>(386.9)</u>	<u>(795.9)</u>
<b>Financing activities</b>			
Interest paid		(212.7)	(215.4)
Net settlements on derivative financial instruments		87.2	45.7
Repayment of borrowings		(307.8)	(470.6)
Repayments of obligations under finance leases		(4.2)	(2.4)
Proceeds of new loans		400.4	-
Proceeds from share issue		-	1,072.5
<b>Net cash (used in)/ generated from financing activities</b>		<u>(37.1)</u>	<u>429.8</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(73.8)</b>	<b>(140.7)</b>
Cash and cash equivalents at beginning of the year		276.5	417.2
<b>Cash and cash equivalents at end of the year</b>		<u>202.7</u>	<u>276.5</u>

## Notes to the consolidated financial statements

For the year ended 31 March 2023

### 1 Accounting policies

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

#### Basis of preparation

Greensands Holdings Limited is a company incorporated in Jersey (JE98700) under the Companies (Jersey) Law 1991. The address of the registered office is given on page 1. The principal activities of the company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on pages 2 to 19.

#### *Consolidated financial statements*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

#### *Parent company financial statements*

The parent company financial statements have in accordance with United Kingdom Accounting Standards and comply with the Companies (Jersey) Law 1991.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. The principal accounting policies adopted which have been applied consistently throughout the current and preceding year are set out below.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a statement of comprehensive income, statement of cash flows, financial instruments, fair value measurement, standards not yet effective, capital management, related party transactions and impairment of assets.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments and retirement benefit obligations) at fair value through profit and loss or other comprehensive income.

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

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

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

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

#### Basis of consolidation

The Group financial statements include the financial statements of the company and all entities controlled by the company (its subsidiaries) made up to 31 March each year.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)**

Control is achieved when the company: has the power over the investee, is exposed, or has rights, to variable return from its involvement with the investee; and has the ability to use its power to affect its returns. The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control.

The company considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the company gains control until the date when the company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

**Separate line items on face of income statement**

When assessing whether an event should be presented separately on the face of the income statement, management considers the nature, frequency, materiality and the facts and circumstances of each event. Management considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions. The fine imposed by the Court in relation to the Environment Agency prosecution is material due to size and incidents and has been separately disclosed.

**Adoption of new and revised accounting and financial reporting standards**

There are no new major standards applicable for the year ended 31 March 2023. A number of amendments however are effective for periods beginning from 1 January 2022. These changes had no material impact on the company's financial statements.

**Prior year restatements**

Prepayments of £11.8 million previously disclosed as current as at 31 March 2022 have been restated to non-current, representing the value of prepaid expenditure not due to be received within 12 months of the balance sheet date.

On consolidation, the deferred tax on post April 2017 losses at a group company are now reflected by netting the related £39.6 million deferred tax asset in the April 2021 opening deferred tax balance. At the group company individual entity level these deferred tax assets have not been recognised.

**Going concern**

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 2.

The directors have undertaken a detailed review of the company's liquidity requirements compared with a combination of cash of £201.1 million (including £63.4 million of cash held in accounts which can only be used in the event of a default) and committed undrawn bank facilities of £580 million (including £190 million which can only be used in the event of a default), totalling £781.1 million at 31 March 2023 (2022: £1,071.1 million), the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk. When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding the group having sufficient resources for its present requirements.

The main operating company, Southern Water Services Limited, has a significant level of planned expenditure, over at least the next twelve months and will continue to March 2025 to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater. The group is also facing the effect of high inflation, particularly on costs such as energy, chemicals, and materials. To assist in financing the planned expenditure the group expects to receive £550 million of new equity by the end of October 2023.

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 1 Accounting policies (continued)

#### Going concern (continued)

The ultimate shareholders of the company have indicated their support for the group and are believed to be at an advanced stage of the equity process, but the receipt has not been committed at the date of signing these financial statements.

The Directors are of the opinion that that the equity will be received but given it has not been committed at the date of the financial statements and its commitment is not within the Directors' control, believe that the risk that the equity is not received constitutes a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, notwithstanding the material uncertainty above, on the basis of their assessment of the group's overall financial position, and latest cash flow forecast approved by the Southern Water Board, the directors 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. This assessment includes the group's ability to raise new finance to repay existing debt and the management of operational cash flows along with the availability of committed and undrawn facilities. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements, further details can be found in the Directors' Report on page 41-42.

#### Business combinations

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- \* deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively; and
- \* assets (or disposal groups) that are classified as held for sale in accordance with IFRS-5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Segmental reporting**

The Group's revenue arises from the provision of services within the United Kingdom. It has a large and diverse customer base and is not reliant on any single customer.

The Southern Water executive leadership team is considered to be the company's chief operating decision maker. The executive leadership team review all internal management information on a single segment basis and accordingly no segmental information is provided in this report.

**Revenue recognition**

The group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 April 2018.

Revenue represents the income receivable (net of value added tax) in the ordinary course of business for goods and services provided. In respect of unbilled charges, revenue includes an estimate of the consumption between the date of the last meter reading and the period-end. The revenue accrual is estimated using a defined methodology based upon historical billing, consumption information and the applicable tariff.

Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration due.

The Group recognises revenue when it transfers control over a product or service to a customer.

Revenue is recognised when the amount of revenue can be measured reliably, the performance obligation has been satisfied, and it is probable that the economic benefits associated with the transaction will flow to the company. Revenue is not recognised when it is considered probable that economic benefits will not be received. In these circumstances revenue is only recognised when collectability is reasonably certain. Payments received in advance of revenue recognition are recorded as deferred income.

**Water and wastewater services**

The Group supplies water and wastewater services to customers in Sussex, Kent, Hampshire and the Isle of Wight. The performance obligation is the supply of services over the contractual term and is considered to be satisfied as the customer consumes based on the volume of water supplied. This is the point at which revenue is recognised.

For provisioning purposes, revenues and outstanding arrears are segmented based on customer characteristics. Since the Group is under a statutory obligation to provide water and wastewater services to its domestic properties, these services could be provided to customers who are unlikely to pay. Should a group of customers attract a provision rate of 100%, i.e. assessed as not generating economic benefit, revenue would not be recognised. In 2021–22 no segment of customers met this criteria and so revenue relating to the provision of water and wastewater services has been recognised in full.

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. Customer rebates are shown as a reduction in revenue.

Water and wastewater services also include the treatment of cesspool and trade effluent waste as well as the provision of bulk water supplies to other water companies.

**Services to developers and third parties**

Grants and contributions are also received from developers and third parties in relation to the provision of new infrastructure and/or new connections to the water and/or sewerage network. These grants and contributions received are treated as either revenue or deferred income in line with IFRS 15 as defined by the nature of the receipt. The significant components of grants and contributions, and their treatment, are as follows:

**New connections**

The Group considers that the developer requesting the new connection is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, so fees received in respect of the connection are recognised at this point.

Income received in advance of the new connection being made is held on the statement of financial position as a receipt in advance.

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 1 Accounting policies (continued)

#### Revenue recognition (continued)

##### Infrastructure charges

Infrastructure charges are a developer's contribution to fund future general network reinforcement resulting from the incremental growth in the number of customers served. These charges must be paid by the developer at the point of connection and do not relate to any specific network reinforcement activity.

The Group considers that the developer requesting the new connection associated with the infrastructure charge is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, so fees received in respect of infrastructure charges are recognised at this point.

##### Requisitions

The Group receives contributions from developers towards requisitions of new water mains and public sewers.

The Group has determined that the performance obligation is satisfied at the point of completion of the requisition works and connection of the water main or lateral drain. The contribution receivable is held on the statement of financial position as deferred revenue and subsequently recognised in full as revenue on completion of the requisition works.

##### Diversions

The Group receives contributions from third parties to divert existing water mains and public sewers.

The Group considers the requesting party to be the customer in these contracts and the contribution received towards the cost of undertaking the diversion is held on the statement of financial position as deferred revenue and subsequently recognised as revenue on completion of the performance commitment in the contract, in this case on completion of the diversion of the water main or sewer.

##### Fair value of assets adopted

Infrastructure assets, constructed by a developer, which are contributed to the Group for £nil consideration, in exchange for relieving the developer of any future liability, are recognised at fair value of the asset upon adoption. The fair value is based on a valuation provided on the vesting certificate when the asset is transferred into the Group's ownership. At the point of legal transfer of the asset, the Group has concluded that the performance obligation to the developer, adopting the asset, has been satisfied and the fair value of the asset is recognised as a contribution through revenue at this point.

These contributions from the transfer of non-current assets from customers are recognised as revenue through non-distributable reserves and released to retained earnings over the life of the asset.

##### Other contributions

Grants and contributions receivable in respect of other non-current assets where the performance commitment is also delivered over the life of the asset, are treated as deferred income and released to other operating income over the useful economic life of those fixed assets.

Grants and contributions which are given in compensation for expenses incurred with no future-related costs are recognised in revenue in the period that they become receivable.

Interest income is recognised on a time proportionate basis using the effective interest method.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the group and the amount of revenue can be measured reliably).

#### Provision for impairment of trade receivables

The impairment provision is calculated by assessing and applying estimated recovery rates to various categories of trade receivables, reflecting past collections experience and expectations of future recovery of outstanding receivables at the date of the statement of financial position.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward looking macro-economic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Taxation**

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

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

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

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

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

**Goodwill**

Goodwill represents a single cash generating unit, being the excess of cash paid by Greensands Investments Limited for the fair value of assets acquired from Southern Water Capital, the then ultimate parent company of the Southern Water group of companies, less amortisation charged up to the date of transition to IFRS from UKGAAP on 1 April 2014.

Goodwill is initially recognised and measured as set out above and in note 12 with the carrying value being reviewed for impairment on an annual basis.

**Intangible assets**

Intangible assets comprises:

- i. Assets in development, generally implementation of IT software.
- ii. Other assets – comprising software and development projects.

Intangible assets are measured at cost less subsequent amortisation and any impairment.

**Cost**

Software acquired separately, or internally generated where a separate resource that is controlled by the Group is created, are capitalised at cost.

Capitalised development costs are for plant installed on sites or work undertaken by suppliers to test new processes for performance data and scalability. The data is used to identify innovative and efficient future assets and processes to meet higher environmental or quality standards. Development costs can relate to projects or can be more general such as network modelling or catchment management. General development costs that are capitalised are amortised over five years. Where a development project concludes that there is insufficient chance of success of the related investment, it is amortised in full in the same year.

Costs in respect of development costs are capitalised as an intangible asset where the following criteria are met:

- It is technically feasible to create and make the asset available for use or sale;
- There are adequate resources available to complete the development and to use or sell the asset;
- There is the intention and ability to use or sell the asset;
- It is probable that the asset created will generate future economic benefits; and
- The development costs can be measured reliably.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Intangible assets (continued)***Useful economic lives*

Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets in development are not amortised and are transferred to other intangible assets at the point at which they are operational.

Software is amortised over the length of the licence, generally three to five years.

Development costs relating to specific projects are amortised over the life of the related scheme.

**Property, plant and equipment**

Property, plant and equipment comprises:

- i. Freehold land and buildings – comprising land and non-operational buildings.
- ii. Plant and machinery – comprising structures at sites used for water and wastewater treatment; pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- iii. Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- iv. Assets under construction – prior to completion/ commissioning, all capital investment projects are classified as assets under construction.
- v. Other assets – comprising vehicles, computers, mobile plant and meters.

All property, plant and equipment is stated in the statement of financial position at cost or at deemed cost on transition to IFRS, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The costs of repairs to the infrastructure network are recognised in the income statement as they arise.

Expenditure which results in replacement or renewal of infrastructure or enhancements to the operating capability of the infrastructure network is capitalised.

Items of property, plant and equipment that are transferred to the company from customers or developers are initially recognised at fair value in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The corresponding credit is recorded as revenue through non-distributable reserves and released to retained earnings over the expected useful lives of the related assets.

Borrowing costs directly attributable to the construction of qualifying assets, that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Property, plant and equipment (continued)**

Assets are depreciated on a straight-line basis over their estimated operating lives, which are principally as follows

		<u>Years</u>
Land and buildings:	- Land <sup>1</sup>	Not depreciated
	- Buildings	10-60
Plant and machinery:	- Operational structures <sup>2</sup>	15-80
	- Fixed plant	10-40
Infrastructure assets:	- Water mains	100-120
	- Sewers	80-200
	- Reservoirs	200
	- Ancillary structures	10-70
Assets under construction <sup>1</sup> :		Not depreciated
Other:	- Vehicles, computers and mobile plant	3-10

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

<sup>1</sup> Freehold land is not depreciated, nor are assets in the course of construction 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.

<sup>2</sup> Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

**Impairment of tangible and intangible assets**

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. The Greensands Holdings Group has one cash generating unit and the goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount is the higher of value in use and fair value less costs of disposal.

An impairment loss recognised for goodwill is not reversed in a subsequent period. At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Impairment of tangible and intangible assets (continued)**

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Grants and contributions**

Grant and contributions received are treated as either revenue or deferred income in line with IFRS 15 as defined by the nature of the receipt.

Infrastructure receipts associated with new connections are recognised as revenue when they are receivable.

Deemed contributions from the transfer of non-current assets from customers are recognised as revenue through non-distributable reserves and released to retained earnings over the life of the asset.

Grants and contributions receivable in respect of non-current assets are treated as deferred income and released to other income over the useful economic life of those fixed assets.

Grants and contributions received in respect of new connections to the water and sewerage networks are treated as deferred income and released to revenue in line with the expected expenditure they are intended to compensate.

Grants and contributions received in respect of diversions of water mains and sewers are treated as deferred income and recognised as revenue upon completion of the diversion.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in revenue in the period that they become receivable.

**Leases**

The group has adopted IFRS 16 'Leases' with effect from 1 April 2019.

**(i) The Group as lessee**

The group assesses whether a contract is, or contains, a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Leases (continued)**

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The group did not make any such adjustments during the year.

The right-of-use assets comprise the initial measurement of the corresponding lease, lease payments made at or before the commencement day and any direct initial costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented separately from other assets in the notes to the financial statements.

The group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has used this practice with respect to the maintenance element associated with vehicle leases.

**(ii) The Group as lessor**

The sale of income rights relating to aerial 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 credited to the income statement over the life of the lease.

**Non-current asset investments**

Investments held as non-current assets, including investments in subsidiaries, are stated at cost, less, where appropriate, provision for any impairment in value. The carrying values of non-current asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash and short-term bank deposits.

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 1 Accounting policies (continued)

#### Current asset investments

Current asset investments comprise cash on deposit with a maturity of more than three months from the date of acquisition.

#### Inventories

Inventory is held for use in the production of water supply and treatment of wastewater. Raw materials and work in progress are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

#### Deferred revenue

Deferred revenue includes monies received from customers where the related service has not yet been provided. Amounts are deferred to the statement of financial position and released to the consolidated income statement in line with the period of the service provided.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

An environmental provision is made for the costs relating to decommissioned or dormant assets which have been identified as having an environmental impact.

#### Executory contracts

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent. Provisions are not recognised for executory contracts unless they are onerous.

#### Retirement benefits

The Group operated a defined benefit pension scheme which closed to future accrual on 31 March 2020, the assets of which are held separately from those of the Group in independently administered funds. An independent actuary conducts a valuation of this pension scheme every three years.

The liability recognised in the statement of financial position in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the end of the period less the fair value of plan assets. The net interest on the scheme's net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of other comprehensive income.

The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 25.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****1 Accounting policies (continued)****Retirement benefits (continued)**

Profit before taxation and net liabilities are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality and increases to pensions in payment and deferred pensions, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

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 income statement in the period to which they relate. Differences between contributions charged and actually paid are shown as either accruals or prepayments in the statement of financial position.

**Financial instruments**

The group has adopted IFRS 9 'Financial Instruments' from 1 April 2018.

IFRS 9 contains requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires entities to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

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

**Financial assets****(i) Loans receivable**

Loans receivable that have fixed or determinable payments that are not quoted in an active market are classified as 'held to collect'. Loans receivable are measured at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**(ii) Trade receivables and accrued income**

Trade receivables and accrued income are classified as 'held to collect' and measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired, it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The group applies an approach permitted by IFRS 9 for estimating expected credit losses on trade receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the group's historical experience of trade receivable write-offs, and forward-looking macro-economic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

The provision for impairment of trade receivables is calculated by applying estimated recovery rates to various categories of debt, reflecting past collections experience and expectations of future recovery of outstanding receivables at the date of the statement of financial position.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 1 Accounting policies (continued)

#### Financial assets (continued)

##### Impairment of financial assets

All debt type financial assets which are not measured at FVTPL are assessed for indicators of impairment at each reporting date using a forward looking approach by identifying expected credit losses ('ECL's). ECLs are defined as the difference between the contractual cash flows that are due in accordance with the contract and the cash flows that the group expected to receive, discounted at the original effective interest rate.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

Based on that analysis at the end of the reporting period, the impairment on the Group's assets, other than trade receivables, are considered to be immaterial and no allowance has been recognised in these financial statements.

##### Derecognition of financial assets

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

##### Financial liabilities

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

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

Issue costs in relation to index-linked and variable rate bonds are separately disclosed within creditors.

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

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

##### Derecognition of financial liabilities

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 1 Accounting policies (continued)

#### Financial liabilities (continued)

##### Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to inflation risk in line with the Group's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 23.

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

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

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

##### Embedded derivatives

In accordance with IFRS 9, the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

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

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

### 2 Critical accounting judgements and key sources of estimation uncertainty

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

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

#### Critical accounting judgements

Critical judgements, apart from those involving estimations, that are applied in the preparation of the financial statements are discussed below:

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****2 Critical accounting judgements and key sources of estimation uncertainty (continued)****Critical accounting judgements (continued)****(i) Revenue recognition in relation to new connections, infrastructure charges, requisitions, diversions and adoptions**

As described in Note 1 Accounting Policies, the Group receives income from developers and third parties for new connections, infrastructure charges, requisitions, diversions and adoptions either in cash or, for adoptions, in the form of infrastructure assets.

In selecting its accounting policy for the recognition of revenue from these services, the Group uses judgment to determine

- the customer of each contract;
- the performance obligation; and
- whether the service is distinct from the ongoing provision of water and wastewater services.

The Group considers that these services are contracts with the developer and not the future occupiers of the property and as such the developer is considered the customer for these services.

The promise to undertake the activity is separately identifiable from any other services that may be being provided to the developer as there is a separate application process and contract for each of these items and once they have been provided the obligation to the developer is complete. The performance obligation is therefore considered to be the completion of the new connection, requisition, diversion or adoption.

As the future network services are readily available to the occupiers of the property, without the need for them to have made the earlier connection-related transactions, the revenue for these services is deemed to be distinct from revenue from the ongoing provision of water and wastewater services and is therefore recognised on completion of the connection-related service.

The future provision of water services are separate contracts with the owner/occupiers of the property at a later date, and the income for these is recognised as that service is consumed.

During the period, the company recognised income from adoptions of infrastructure assets with a fair value of £11.4 million (2022: £9.9 million), new connections amounting to £4.5 million (2022: £4.1 million), infrastructure charges amounting to £4.4 million (2022: £5.2 million) and requisitions and diversions amounting to £1.2 million (2022: £2.5 million).

**(ii) Amortisation of regulatory settlement**

In 2018–19 an accrual of £135.5 million was recognised for rebates to be made to customers through bills, over the period from 2020 to 2025, as part of a regulatory settlement agreed with Ofwat following its investigation into wastewater treatment compliance, as noted in note 26.

There is no clear accounting standard guidance for the income statement treatment of this regulatory settlement. It was considered whether the settlement should be recognised as an expense; however, given that this is an agreed reduction in customer bills in the future, with a requirement to show this separately on invoicing as required by Ofwat, the most appropriate treatment was concluded to be to treat the invoice reductions as a reduction in revenue in 2018–19.

**(ii) Amortisation of regulatory settlement (continued)**

These rebates are now being made and recorded through revenue, the accrual made in 2018–19 is being unwound on the face of the income statement, also through revenue, in line with the annual profile of the rebates to be made, which is reassessed annually to provide for fluctuations in the future estimates of inflation. See note 27 for detail.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****2 Critical accounting judgements and key sources of estimation uncertainty (continued)****(iii) Provisions and contingent liabilities**

The Group evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation. A provision is made when it is judged that it is probable that an obligation exists for which a reliable estimate can be made. Individual matters are considered carefully to assess the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability.

Matters that are judged to be either possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 36, unless the possibility of transferring economic benefits is remote.

For all the matters set out in note 36, management judge that it is either not possible to measure reliably the outflow of economic benefit or that settlement is not probable.

**(iv) Right to receive water from 1 April 2029 from Portsmouth water**

In February 2021 the Group entered into a contractual arrangement with Portsmouth Water Limited ('Portsmouth Water'), under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant (the Havant reservoir). Once the construction is complete, and Southern Water has laid a pipe, Portsmouth Water will supply, on the request of Southern Water Services Limited, up to 21 million litres of treated water per day from 1 April 2029. Following a detailed review of the complex contractual arrangement, and with a better understanding of the contractual terms of the agreement, which require both parties to complete certain activities to enable the water to be provided, the Group has formed the judgment that this contract should be accounted for as an executory contract until such time that both parties have fulfilled their obligations and the right to water can be met. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The fixed contractual payments over the period from 2021 to 2100 total £658 million and the volumetric charge will be recognised as water is supplied, from 1 April 2029. An annual review of the performance obligations of both parties will be performed to assess whether the contract is an executory contract.

**(v) Property, plant and equipment**

The Group recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances a significant length of the network or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when assessing whether the length of network replaced enhances the network. In addition, management capitalises time and resources incurred by the Group's support functions on capital programmes based on judgments made in respect of the proportion of capital work performed by these functions.

**Sources of Estimation Uncertainty**

The key assumptions about the future and other key sources of estimation uncertainty at the reporting period end that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

**(i) Goodwill**

An impairment review on goodwill is conducted at least annually. Goodwill is reviewed annual for impairment by comparing the fair value of the group less costs to sell. The fair value is based on the recent investment by a fund managed by Macquarie Asset Management into the group. Whilst high levels of headroom were identified at 31 March 2023 significant reductions to the calculated recoverable value in future years could lead to a material impairment given the large values held.

An assessment of the recoverable amount of goodwill (£85.1 million) allocated to the excess of cash paid by Greensands Investments Limited for the fair value of assets acquired from Southern Water Capital, the then ultimate parent company of the Southern Water Group of companies, has been undertaken. The directors consider the recoverable amount to be most sensitive to the achievement of the 2023 budget and business plan of the next AMP period (2020 to 2025) of Southern Water, the group's only operating company.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****2 Critical accounting judgements and key sources of estimation uncertainty (continued)****(i) Goodwill (continued)**

Budgets comprise forecasts of revenue, staff costs, overheads and interest based on current and anticipated market conditions that have been considered and approved by the Board. Whilst the Group is able to manage most of the revenues generated by Southern Water, the cost projections are open to uncertainty due to factors such as unexpected weather events, inherent credit risk associated with its customer base, availability of finance at acceptable rates and regulatory pressures.

However, the directors having assessed the outlook of the future performance and cash flows of the Group are satisfied that the book value of the group is supportable in comparison to the Regulatory Capital Value (RCV) of Southern Water. Therefore, no provision for impairment has been made (2022: £nil).

**Consideration of impairment associated with company investments and intercompany receivables is given in note 7.**

**(ii) Derivative financial instruments**

Event	+1% increase (£m)	-1% increase (£m)
Interest rates	312.3	(394.7)
Inflation rates	(966.0)	797.2

The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 31 March 2023. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +-1%. Multiple inflation linked derivatives contain an inflation floor optionality. These floors kick in in case of a deflation (e.g. less than 0% inflation) over periods specified on a derivative level.

**(iii) Measured income accrual**

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. The calculation is sensitive to estimated consumption for measured customers. Actual consumption may differ from the estimate made which could impact future operating results positively or negatively. Given the nature of the balance it is not practical to assess how this estimate will change in the next 12 months.

Sensitivity analysis shows that the measured accrual would vary by £2.0 million and £6.0 million if consumption estimates were between 1% and 3% above or below those predicted. The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of consumption.

Measured accrual sensitivity analysis	31 March 2023	Sensitivity			
		1%	3%	-1%	-3%
Measured accrual balance (£m)	223.5	2.0	6.0	-2.0	-6.0

The value of household billings raised in the year ended 31 March 2023 for consumption in prior years was £225.6 million. The value of these billings was lower than the accrual made at 31 March 2022 of £233.6 million. The estimation difference was £7.9 million (3.4%) and this has been recognised in the current year's turnover. This difference is slightly higher than normally expected, with customer usage patterns remaining particularly difficult to predict since COVID-19.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****2 Critical accounting judgements and key sources of estimation uncertainty (continued)****(iv) Impairment of trade receivables**

The impairment of trade receivables at each reporting date is calculated by segmenting customer debt based on historic debt collection and payment performance, demographic information and the age of debt outstanding. In general for each segment, forecast cash collection rates are estimated using this range of data and other macro-economic assumptions, which then determines a corresponding provision percentage. This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward-looking macro-economic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

In March 2022, an additional charge of £10.3m was recognised to reflect the expected impact that the cost of living would have on the macro-economic environment. At March 2023, a provision of £9.6m has been maintained due to continued high inflation and falling household incomes. This is a significant judgment as the overall impact of the pressure of the rising cost of living is continuing to evolve.

The assessment of the future impact of these economic factors was based on the Ofwat Cost of living survey, published in December 2022. The findings of the survey showed an increase in the proportion of customers expecting to struggle to pay household bills.

The value of the provision for doubtful debts as at 31 March 2023 was £260.1 million (2022: £283.9 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Sensitivity analysis shows that the impairment provision would vary by £2.5 million and £7.6 million if cash collections estimates were between 1% and 3% above or below those predicted.

The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of cash collection. The company's experience is that cash collection in general could vary by 3.5% from expectations.

Impairment provision sensitivity analysis	31 March 2023	Sensitivity			
		1%	3%	-1%	-3%
Impairment provision estimate (£m)	260.1	2.5	7.6	-2.5	-7.6

**(iv) Retirement benefit obligations**

The Group operates a defined benefit scheme as well as a defined contribution scheme. Under IAS 19 'Employee Benefits' the Group has recognised an actuarial loss of £11.5 million for the year to 31 March 2023 (2022: loss of £18.4 million).

The pension cost and liabilities under IAS 19 are assessed in accordance with directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on the CMI 2021 model with a smoothing factor of 7.0 and a 1.25% p.a. allowance for future longevity improvement.

The major assumptions used to measure schemes' liabilities, along with sensitivities to changes in those assumptions and future funding obligations are set out in note 25 of the financial statements.

**(v) Provisions**

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process, actual costs may be different from the estimated provision. Details of provisions are disclosed in note 27 and the value provided at 31 March 2023 was £5.5 million (2022: £6.5 million) based on an agreed schedule of works required. The company estimates that actual costs could vary up to +/- 10% due to fluctuations in prices.

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 2 Critical accounting judgements and key sources of estimation uncertainty (continued)

#### (vi) Climate change

Climate change is one of our principal risks, see page 33, and the group is continually developing its assessment of the impact this risk has on the assets and liabilities presented in the financial statements.

As set out in the Strategic Report of Southern Water Limited, which includes the risk section on pages 120 to 132 and the protecting and improving the environment section on pages 59 to 68, the natural environment in which the company operates is constantly changing and this influences how water and wastewater services will be delivered in the future and our long-term strategy is focussed on identifying, managing and mitigating climate related risks.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified in the Strategic Report and the sustainability disclosures as referenced above. There has been no material impact identified on the financial reporting judgments and estimates. In particular, the directors considered the impact of climate change in the following areas:

- the carrying value and useful economic life of property, plant and equipment
- the value of inventory held
- provisions and liabilities.

The estimated useful lives of property, plant and equipment and the depreciation charged are reviewed at the end of each reporting period, for assets impacted by climate change, environmental legislation or changes in operational strategy. This may result in the acceleration of depreciation for any assets deemed to have shorter useful economic lives than originally planned. No material changes to asset lives and depreciation were made in the current financial year. The company does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising.

The group is exposed to potential asset write-downs as a result of extreme weather events, most notably through flooding or subsidence. In these circumstances, any assets identified as having been damaged beyond repair would be fully written down. No such charges were required in the current year.

Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk. It is expected that any impact identified through these processes would materialise over a longer period of time, rather than a single year, no impact from this was identified in the current year.

### 3 Changes in significant accounting policies

There are no new major standards applicable for the year ended 31 March 2023. A number of amendments however are effective for periods beginning from 1 January 2022. These changes had no material impact on the group's accounting policies.

### 4 Segmental analysis

The directors believe that the whole of the Group's activities constitute a single class of business. The Group's revenue is generated wholly from within the United Kingdom. The Southern Water executive leadership team is considered to be the Group's chief operating decision maker. The executive leadership team review all internal management information on a single segment basis and accordingly no segmental information is provided in this report.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****5 Income**

An analysis of the group's income is as follows:

<b>Continuing operations</b>	<b>2023</b>	2022
	<b>£m</b>	£m
Water and sewerage services:		
Household – measured	<b>492.7</b>	542.5
Household - unmeasured	<b>109.9</b>	113.8
Non-household - measured	<b>131.8</b>	110.2
Non-household - unmeasured	<b>4.3</b>	4.0
<b>Total water and sewerage services</b>	<b>738.7</b>	770.5
Bulk supplies	<b>6.2</b>	5.4
Infrastructure charge receipts	<b>4.4</b>	5.2
Trade effluent	<b>7.4</b>	7.6
Cesspools	<b>6.2</b>	5.8
New connections	<b>4.5</b>	4.1
Adoptions (see note (a) below)	<b>11.4</b>	9.9
Other services	<b>13.7</b>	15.0
<b>Total revenue before amortisation of regulatory settlement</b>	<b>792.5</b>	823.5
Amortisation of regulatory settlement (see note (b) below)	<b>23.2</b>	21.0
<b>Total revenue</b>	<b>815.7</b>	844.5
Other operating income (see note (c) below)	<b>1.8</b>	1.8
Other income	-	0.1
Profit on disposal of fixed assets	<b>1.6</b>	1.5
Interest receivable (note 10)	<b>4.7</b>	0.7
<b>Total income</b>	<b>823.8</b>	848.6

- a) Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.
- b) As reported in note 26 the company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

To ensure that customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in forecast outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflects the seriousness of the breaches identified in the investigation.

These rebates are now being made and recorded through the water and sewerage services revenue shown above. The provision for these rebates made in the financial statements for 2018–19 is also being released through revenue in line with the annual profile of the rebates to be made.

Amortisation of £25.0 million in the year ended 31 March 2023 is shown net of changes for future inflation estimate of £1.8 million.

- c) Other operating income in the current year relates to the release of deferred grants and contributions relating to non-current assets from the balance sheet, as amortised in line with the useful economic life of the related assets, and rents receivable.

**Notes to the consolidated financial statements (continued)**  
**For the year ended 31 March 2023**

**6 Group operating (loss) for the year**

	<b>2023</b> <b>£m</b>	2022 £m
Group loss for the year	<b>(26.2)</b>	(2.8)
Group loss for the year has been arrived at after charging/(crediting):		
Depreciation on:		
- Owned assets	<b>328.5</b>	303.9
- Lease assets	<b>4.2</b>	3.7
	<b>332.7</b>	307.6
Amortisation of intangible assets	<b>19.8</b>	21.8
Profit on disposal of property, plant and equipment	<b>1.6</b>	1.5
Research and development expenditure	<b>0.6</b>	0.8
Rentals under operating leases (see note (a) below):		
- Properties	<b>0.1</b>	0.2
- Vehicles	<b>3.9</b>	2.9
Employee costs (note 8a)	<b>83.0</b>	74.8
Amortisation of grants and contributions (see note 28)	<b>(1.7)</b>	(1.7)
Regulatory settlement	<b>23.2</b>	21.0
Fees payable to the company's auditor in respect of:		
- statutory audit of the company's financial statements	<b>0.8</b>	0.5
- other services pursuant to legislation (see note (b) below)	<b>0.1</b>	0.1
- all other services	<b>0.2</b>	0.1
<b>Total audit and non-audit fees</b>	<b>1.1</b>	0.7

Other services pursuant to legislation and other non-audit services primarily relate to regulatory assurance fees.

- (a) The group has adopted IFRS 16 'Leases' with effect from 1 April 2019. Rentals under operating leases comprise payments on leases that have been assessed as short-term (12 months or less) agreements and leases of low value assets (£5,000 or less) (see Note 1 Accounting Policies for more information on the company's approach to IFRS 16 Leases).
- (b) Other services pursuant to legislation and other non-audit services primarily relate to regulatory assurance fees.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****7 Loss of the parent company**

The loss for the financial year dealt with in the financial statements of the parent company is £40.1m (2022: £38.2m). The company has taken advantage of an exemption not to prepare a company only income statement.

At the reporting date the company has conducted an impairment review based on the consideration of the overall value of the Greensands Holdings group. A comparison has been made between the Regulatory Capital Value (RCV) of Southern Water Services, as the operating company, to the value of investments held in the group at various consolidation levels moving all the way up to the ultimate controlling parent, Greensands Holdings Limited. Accordingly, an impairment of £nil (2022: £nil million) has been recognised in the income statement for the year.

In order to undertake the impairment assessment, judgement has been made regarding the level of premium to RCV that is appropriate to consider. Typically this reflects historic transactions within the water industry and reviewing the market capitalisation of listed water companies. Additionally, consideration has been given to continued economic uncertainty and the performance of Southern Water relative to its peers.

Having taken into account the above, the directors believe that £970.7 million in relation to the amounts owed by group undertakings is impaired.

The recoverable amount of the GSE group is £117.5 million (2022: £136.2million), which is considered to be its fair value measurement under level 2 as described in the accounting policies. The full cumulative impairment write down made by the company is £970.7 million (2022: £970.7 million).

The value of impairment will continue to be reviewed annually to see whether the impairments remain or whether there are indications of an improvement in the position, for example an increase in the likely premium to RCV achievable at Southern Water.

**8 Employee information**

	<b>2023</b>	2022
	<b>£m</b>	£m
<b>(a) Group employee costs</b>		
Wages and salaries	<b>120.1</b>	107.6
Social security costs	<b>13.8</b>	12.3
Pension costs - Defined contribution	<b>15.1</b>	13.2
- Defined benefit		-
<b>Total employee costs</b>	<b>149.0</b>	133.1
Less: charged as capital expenditure	<b>(66.0)</b>	(58.3)
<b>Charged to the income statement</b>	<b>83.0</b>	74.8

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

**(b) Average number of persons employed by activity**

The average monthly numbers of persons (including executive directors) employed by the Group during the year was:

	<b>2023</b>	2022
	<b>Number</b>	Number
Operations	<b>1,338</b>	1,279
Customer services	<b>45</b>	35
Corporate centre	<b>1,097</b>	902
	<b>2,480</b>	2,216

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****9 Directors' emoluments**

During the year there were no payments made to directors by the Group in return for services as a director of Greensands Holdings Limited. Payments of £nil were made by one of the ultimate shareholders to two of the directors (2022: £44,110 and £33,218).

**10 Net finance income**

	<b>2023</b> £m	2022 £m
<b>Finance income</b>		
Deposit income on short-term bank deposits	<u>4.7</u>	<u>0.7</u>
	<b>4.7</b>	<b>0.7</b>
<b>Finance costs</b>		
Interest payable on loans	<b>(213.5)</b>	(271.9)
Interest rate swap receipts	-	-
Indexation	<b>(139.8)</b>	(46.6)
Amortisation of issue costs	<b>(1.5)</b>	(1.5)
Amortisation of gilt lock proceeds	<b>0.1</b>	0.1
Amortisation of bond premium	<b>0.7</b>	0.7
Other finance expense (note 26)	<b>(1.6)</b>	(2.3)
	<b>(355.6)</b>	(321.5)
Amounts capitalised on qualifying assets	<b>32.8</b>	15.9
	<b>(322.8)</b>	(305.6)
<b>Fair value gain/ (loss) on derivative financial instruments</b>		
Derivative financial instruments not designated as hedges (note 24)	<b>664.1</b>	(665.6)
<b>Net finance income/ (cost)</b>	<b>346.0</b>	(970.5)

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.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.10% to expenditure on such assets (2022: 2.10%).

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****11 Taxation**

	<b>2023</b> £m	2022 £m
<b>Current tax:</b>		
UK corporation tax on profits/ (loss) for the year at 19% (2022: 19%)	-	-
Adjustments in respect of prior years	<b>18.9</b>	-
<b>Total current tax charge</b>	<b>18.9</b>	-
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	<b>90.5</b>	(147.2)
Adjustment in respect of prior years	<b>(17.9)</b>	0.1
Effect of corporation tax rate change	-	68.7
<b>Total deferred tax charge/ (credit)</b>	<b>72.6</b>	78.4
<b>Total tax charge/ (credit) on profit/ (loss) on ordinary activities</b>	<b>91.5</b>	78.4

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax in the UK (19%) due to the following factors:

	<b>2023</b> £m	2022 £m
<b>Profit/(Loss) on ordinary activities before tax</b>	<b>321.4</b>	(971.7)
<b>Current tax:</b>		
UK corporation tax on profits/ (loss) for the year at 19% (2022: 19%)	<b>61.1</b>	(184.6)
Permanent differences	<b>1.8</b>	28.5
Deferred tax assets not recognised	-	24.7
Differences between current and deferred tax rates	<b>33.6</b>	(15.8)
Impact of tax rate changes	-	68.7
Adjustment in respect of prior years – current tax	<b>18.9</b>	-
Adjustment in respect of prior years – deferred tax	<b>(23.9)</b>	0.1
<b>Total tax charge/ (credit) for the year</b>	<b>91.5</b>	(78.4)

**Factors that may affect future tax charges:**

The Spring Finance Bill 2023 confirmed that the main rate of corporation tax increased to 25% from 1 April 2023 (from 19%). All of our deferred assets and liabilities will reverse after 1st April 2023 and therefore this has been calculated at 25% rate.

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.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****11 Taxation (continued)**

<b>Deferred Taxation</b>	<b>2023</b> <b>£m</b>	2022 £m (*Restated)
Accelerated capital allowances	767.6	773.4
Pensions	(25.5)	(25.0)
Tax losses	(174.5)	(39.7)
Other temporary differences	(294.0)	(505.6)
	<u><b>273.6</b></u>	<u>203.2</u>
<b>Movement in deferred tax position</b>		
Deferred tax provided at 1 April	203.2	*294.9
Prior year adjustment	(23.8)	0.1
Deferred tax charge taken to income statement	90.5	(147.2)
Deferred tax charge taken to equity	(2.2)	(3.5)
Effect of corporation tax rate change – income statement	5.9	68.7
Effect of corporation tax rate change – equity	-	(9.8)
Deferred tax provided for at 31 March	<u><b>273.6</b></u>	<u>*203.2</u>
Arising on income and expenses recognised in other comprehensive income:		
Tax credit on actuarial losses on defined benefit pension scheme	<b>(2.2)</b>	(3.5)
Deferred tax movement due to rate change	-	(9.8)
<b>Total deferred tax credits</b>	<u><b>(2.2)</b></u>	<u>(13.3)</u>

**Company**

The tax charge for the year can be reconciled to the income statement as follows:

	<b>Company</b> <b>2023</b> <b>£m</b>	Company 2022 £m
<b>Profit before taxation</b>	<u><b>211.0</b></u>	<u>140.0</u>
UK corporation tax rate at 19% on profit/(loss) for the year (2022: 19%)	<b>40.1</b>	26.6
Permanent differences	-	1.5
<b>Total tax charge for year</b>	<u><b>40.1</b></u>	<u>28.1</u>

The Spring Finance Bill 2023 confirmed that the main rate of corporation tax increased to 25% from 1 April 2023 (from 19%). All of our deferred assets and liabilities will reverse after 1st April 2023 and therefore this has been calculated at 25% rate.

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**12 Goodwill**

<b>Group</b>	<b>£m</b>
Carrying amount at 1 April 2022	85.1
<b>Net book value at 31 March 2023</b>	<b>85.1</b>

Goodwill represents a single cash generating unit, being the excess of cash paid by Greensands for the fair value of assets acquired from Southern Water Capital, the then ultimate parent company of the Southern Water group of Companies, less amortisation charged up to the date of transition to IFRS from UKGAAP on 1 April 2014.

Goodwill is reviewed annually for impairment by comparing the fair value of the group less costs to sell the carrying value of the assets. The fair value is based on valuation implied by the recent investment by a fund managed by Macquarie Asset Management into the group.

Other indicators considered are, the financial performance, operating performance and future changes to the operating environment of its only operating company Southern Water Services.

To date, the recoverable amount is greater than the book value and therefore no impairment have been recognised in respect of intangible fixed assets or property, plant and equipment.

**13 Intangible assets**

	Externally generated		
	Assets in development £m	Other £m	Total £m
<b>Cost</b>			
At 1 April 2022 *	45.9	185.2	231.1
Additions	29.8	-	29.8
Transfers	(35.2)	35.2	-
Disposals	-	(0.9)	(0.9)
<b>At 31 March 2023</b>	<b>40.5</b>	<b>219.5</b>	<b>260.0</b>
<b>Amortisation</b>			
At 1 April 2022	-	131.1	131.1
Charge for the year	-	19.8	19.8
Disposals	-	(0.9)	(0.9)
<b>At 31 March 2023</b>	<b>-</b>	<b>150.0</b>	<b>150.0</b>
<b>Net book amount</b>			
<b>At 31 March 2023</b>	<b>40.5</b>	<b>69.5</b>	<b>110.0</b>
At 31 March 2022	45.9	54.1	100.0

\*The prior year cost brought forward values, £46.4m, £53.7m and £100.1m respectively have been restated to align with the presentation at Southern Water Services Ltd.

Intangible assets, which generally relate to the implementation of computer software, are transferred from assets under development to other intangible assets at the point at which they are deemed operational.

Other intangible assets consists of IT software with a net book value of £68.7 million (2022: £51.4 million), and development projects with a net book value of £0.8 million (2022: £2.7 million).

The Group currently does not have any internally generated intangible assets.

Included within additions above is £0.1 million (2022: £2.9 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £3.7 million (2022: £3.7 million).

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**14 Property, plant and equipment**

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

	Land & buildings £m	Plant & machinery £m	Infra-structure assets £m	Assets under construction £m	Other £m	Total £m
<b>Cost</b>						
At 1 April 2021	1635.7	3,780.0	2,951.1	782.2	723.8	<b>9,872.8</b>
Additions	-	-	-	582.0	-	<b>582.0</b>
Transfers	2.2	439.1	182.5	(674.3)	50.5	-
Reclassifications	-	-	-	(8.8)	(3.5)	<b>(12.3)</b>
Disposals	-	(6.3)	(0.5)	-	(10.8)	<b>(17.6)</b>
At 31 March 2022	1,637.9	4,212.8	3,133.1	681.1	760.0	<b>10,424.9</b>
Additions	-	-	-	707.7	-	<b>707.7</b>
Transfers	1.8	383.4	176.8	(623.0)	61.0	-
Disposals	-	(8.4)	(0.5)	-	(18.3)	<b>(27.2)</b>
<b>At 31 March 2023</b>	<b>1,639.7</b>	<b>4,587.8</b>	<b>3,309.4</b>	<b>765.8</b>	<b>802.7</b>	<b>11,105.4</b>
<b>Depreciation</b>						
At 1 April 2021	851.7	1,662.2	216.7	-	532.6	<b>3,263.2</b>
Charge for the year	43.1	175.0	35.8	-	53.7	<b>307.6</b>
Reclassifications*	-	-	-	-	(0.4)	<b>(0.4)</b>
Disposals	-	(6.3)	(0.5)	-	(10.8)	<b>(17.6)</b>
At 31 March 2022	894.8	1,830.9	252.0	-	575.1	<b>3,552.8</b>
Charge for the year	43.0	189.6	38.3	-	61.8	<b>332.7</b>
Disposals	-	(8.4)	(0.5)	-	(18.3)	<b>(27.2)</b>
<b>At 31 March 2023</b>	<b>937.8</b>	<b>2,012.1</b>	<b>289.8</b>	<b>-</b>	<b>618.6</b>	<b>3,858.3</b>
<b>Net book amount</b>						
<b>At 31 March 2023</b>	<b>701.9</b>	<b>2,575.7</b>	<b>3,019.6</b>	<b>765.8</b>	<b>184.1</b>	<b>7,247.1</b>
At 31 March 2022	743.1	2,381.9	2,881.1	681.1	184.9	6,872.1

Freehold land is stated at a cost of £51.7 million at 31 March 2023 and 31 March 2022 and is not depreciated.

The group's interest in land and buildings are almost entirely freehold.

Other property, plant and equipment consists of vehicles with a net book value of £10.0 million (2022: £7.8 million), and computer hardware and IT infrastructure with a net book value of £176.6 million (2022: £179.6 million).

Included within additions above is £32.8 million (2022: £13.0 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing costs'. The cumulative net book value of the borrowing costs capitalised amount to £274.7 million (2022: £241.9 million).

**Assets held under finance leases**

Included in the amounts shown above are the following amounts in relation to property, plant and equipment held under finance leases:

	Land & buildings £m	Infra-structure assets £m	Other £m	Total £m
Net book amount at 01 April 2021	15.8	11.4	2.9	30.1
Additions	-	-	6.8	6.8
Depreciation charge for the year	(1.6)	(0.1)	(2.0)	(3.7)
Net book amount at 31 March 2022	14.2	11.3	7.7	33.2
Remeasurement due to change in lease payments	0.5	2.4	-	2.9
Additions	-	-	4.6	4.6
Depreciation charge for the year	(1.7)	(0.2)	(2.3)	(4.2)
<b>Net book amount at 31 March 2023</b>	<b>13.0</b>	<b>13.5</b>	<b>10.0</b>	<b>36.5</b>



**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**15 Other non-current assets**

<b>Non-current receivables</b>	<b>Group 2023 £m</b>	Group 2022 £m (Restated)*
Prepayments	<u>10.9</u>	<u>*11.8</u>

\* The prior year has been restated following a re-analysis of prepayments previously disclosed as current. The figure of £11.8 million represents the value of prepayments where the goods or services paid for were not due to be received within 12 months of the balance sheet date. See note 18 for further detail.

<b>Amounts owed by group undertakings</b>	<b>Company 2023 £m</b>	Company 2022 £m
Amounts owed by group undertakings	1,021.2	1,021.2
Impairment	<u>(970.7)</u>	<u>(970.7)</u>
	<u>50.5</u>	<u>50.5</u>

All amounts due from group undertakings are unsecured, interest free and repayable on demand. The company has offered its support to group companies and is not intending to recall these balances within the next 12 months.

Please refer to note 7 for further details surrounding the impairment disclosed above.

**16 Investments**

	<b>Group 2023 £m</b>	Group 2022 £m
Other external investments		
At 1 April	<u>0.1</u>	<u>0.1</u>
<b>Total investments as at 31 March</b>	<u>0.1</u>	<u>0.1</u>

The investment above represents a non-controlling interest of 7.17% in a private limited company called, Landlord TAP Limited. The company owns a national web portal set up as part of a Water UK initiative to improve data on tenants and thereby increase collections with the aim of reducing customer receivables impairment.

	<b>Company 2023 £m</b>	Company 2022 £m
Greensands Europe Limited		
At 1 April	-	-
Additions	<u>997.8</u>	<u>997.8</u>
<b>Total investments at 31 March</b>	<u>997.8</u>	<u>997.8</u>

A full list of subsidiaries is disclosed in note 40. Please refer to note 7 for further details surrounding the impairment loss disclosed above.

**17 Inventories**

	<b>Group 2023 £m</b>	Group 2022 £m
Raw materials	7.2	6.0
Work in progress	<u>3.2</u>	<u>4.2</u>
	<u>10.4</u>	<u>10.2</u>

The company does not hold any inventory.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****18 Trade and other receivables**

	<b>Group 2023 £m</b>	Group 2022 £m (Restated) *
Trade receivables	<b>347.1</b>	361.3
Provision for impairment	<b>(256.1)</b>	(278.0)
Net trade receivables	<b>91.0</b>	83.3
Net accrued income	<b>76.2</b>	75.1
Prepayments	<b>25.3</b>	*15.1
Other receivables	<b>24.9</b>	16.5
	<b>217.4</b>	190.0

\* The prior year has been restated following a re-analysis of prepayments of £23.5 million previously disclosed as current. £11.8 million has been reclassified from current to non-current (see note 15) and the amount of £15.1 million now stated in the table above reflects the value of prepayments where the goods or services paid for were due to be received within 12 months of the balance sheet date.

Trade receivables comprise balances from contracts with customers where the company has performed some or all of its contractual obligations.

The directors consider that the carrying values of trade and other receivables are reasonable approximations of their fair values.

**Provision for impairment**

Movements on the impairment provision were as follows:

	<b>Group 2023 £m</b>	Group 2022 £m
At 1 April	<b>(283.9)</b>	(253.9)
Net Impairment charge	<b>(12.0)</b>	(29.9)
Net amounts written off during the year	<b>35.8</b>	(0.1)
<b>At 31 March</b>	<b>(260.1)</b>	(283.9)

At each reporting date, the Group evaluates the recoverability of trade receivables and records allowances for impairment of receivables based on experience.

The following table provides information regarding the ageing of receivables that are specifically provided for:

	<b>Group 2023 £m</b>	Group 2022 £m
Current	-	-
1-2 years	-	-
2-3 years	-	0.1
3-4 years	<b>0.1</b>	0.2
more than 4 years	<b>11.8</b>	20.8
	<b>11.9</b>	21.1

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****18 Trade and other receivables (continued)**

A collective provision is recorded against assets which are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	<b>Group 2023 £m</b>	Group 2022 £m
Current	<b>79.9</b>	80.0
1-2 years	<b>45.5</b>	42.1
2-3 years	<b>34.7</b>	38.1
3-4 years	<b>32.4</b>	32.8
more than 4 years	<b>120.3</b>	122.0
	<b><u>312.8</u></b>	<u>315.0</u>

The amounts above are reconciled to gross and net receivables in the tables below:

<b>At 31 March 2023</b>	<b>Gross £m</b>	<b>Provision £m</b>	<b>Group Net £m</b>
Accrued income – not due	<b>80.2</b>	<b>(4.0)</b>	<b>76.2</b>
Trade receivables			
Not due	<b>22.3</b>	-	<b>22.3</b>
Overdue not specifically provided	<b>312.8</b>	<b>(244.2)</b>	<b>68.6</b>
Overdue and specifically provided	<b>11.9</b>	<b>(11.9)</b>	-
	<b><u>427.2</u></b>	<b><u>(260.1)</u></b>	<b><u>167.1</u></b>

<b>At 31 March 2022</b>	Gross £m	Provision £m	Group Net £m
Accrued income – not due	81.0	(5.9)	75.1
Trade receivables			
Not due	25.2	-	25.2
Overdue not specifically provided	315.0	(256.9)	58.1
Overdue and specifically provided	21.1	(21.1)	-
	<b><u>442.2</u></b>	<b><u>(283.9)</u></b>	<b><u>158.4</u></b>

	<b>Company 2023 £m</b>	Company 2022 £m
Prepayments	<b><u>0.3</u></b>	<u>0.3</u>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****19 Trade and other payables**

	<b>Group 2023 £m</b>	Group 2022 £m
Trade payables	<b>74.8</b>	26.8
Capital creditors and capital accruals	<b>198.0</b>	189.1
Corporation tax	<b>18.9</b>	-
Taxation and social security	<b>4.8</b>	3.1
Accruals	<b>154.2</b>	133.4
Deferred revenue	<b>49.3</b>	33.0
	<b><u>500.0</u></b>	<u>385.4</u>

The directors consider that the carrying values of trade and other payables are not materially different from their fair values.

Included in deferred revenue above are contract liabilities from contracts with customers where some or all of the performance obligations of the company have not yet been fulfilled of £2.9 million (2022: £2.0 million).

	<b>Company 2023 £m</b>	Company 2022 £m
Amounts owed to group undertakings	<b>101.1</b>	61.0
Accruals	<b>0.3</b>	0.3
	<b><u>101.4</u></b>	<u>61.3</u>

Amounts due to group undertakings comprise group tax relief. These amounts are unsecured, interest free and repayable on demand.

The directors consider that the carrying values of trade and other payables are not materially different from their fair values.

**20 Current borrowings**

	<b>Notes</b>	<b>Group 2023 £m</b>	Group 2022 £m
<b>Current</b>			
Class A £150m – 3.816% index linked 2023	21 (iii), (iv)	-	260.5
Class A £60m – 0.000% index linked 2025	21 (ix)	<b>12.1</b>	10.7
Class A £40m – 0.000% index linked 2026	21 (ix)	<b>7.9</b>	7.0
£35.3m/(\$45m) Facility Agreement 2023 – fixed rate 3.384%	21 (ii), (x)	<b>35.2</b>	-
Bond premium deferred	21 (vii)	<b>0.7</b>	0.7
Deferred gilt lock proceeds	21 (viii)	<b>0.1</b>	0.1
Unamortised debt issuance costs	21 (vi)	<b>(1.5)</b>	(1.5)
Swap break costs	21 (xiii)	-	(3.4)
<b>Current borrowings excluding finance leases</b>		<b><u>54.5</u></b>	<u>274.1</u>
Obligations under finance leases		<b>4.0</b>	3.7
<b>Total current borrowings including finance leases</b>		<b><u>58.5</u></b>	<u>277.8</u>

Further descriptions about the above items are given in note 21 'Total borrowings'.

## Notes to the consolidated financial statements (continued)

### For the year ended 31 March 2023

#### 21 Total borrowings

An analysis of the external loans is shown below:

Loans and other borrowings:	Notes	Group 2023 £m	Group 2022 £m
Class A £350m 6.192% fixed rate 2029	(i), (ii), (iii)	349.0	368.8
Class A £150m 3.706% index linked 2034	(iii), (iv)	288.9	296.0
Class A £35m 3.706% index linked 2034	(iii), (iv)	61.1	69.0
Class A £350m 6.640% fixed rate 2026	(i), (ii)	349.4	362.7
Class A £150m 3.816% index linked 2023	(iii), (iv)	-	260.5
Class A £150m 5.000% fixed rate 2041	(i), (ii)	147.4	146.2
Class A £200m 4.500% fixed rate 2052	(i), (ii)	197.4	197.3
Class A £300m 5.125% fixed rate 2056	(i), (ii)	292.9	293.0
Class A £175m 2.780% fixed rate 2031	(ii)	174.3	174.2
Class A £75m 2.960% fixed rate 2036	(ii)	74.6	74.6
Class A £375m 2.385% fixed rate 2029	(ii)	371.5	370.8
Class A £450m 3.010% fixed rate 2038	(ii)	444.2	443.8
Class A £300m 1.626% fixed rate 2027	(ii)	296.3	295.3
Class A £60m – 0.000% index linked 2025	(iv), (ix)	29.6	36.6
Class A £40m - 0.000% index linked 2026	(iv), (ix)	27.5	31.4
Artesian £165m 4.076% index linked 2033	(iii), (iv)	317.9	328.6
Artesian £156.5m 3.635% index linked 2032	(iv)	294.2	261.9
<b>Total Class A debt</b>		<b>3,716.2</b>	<b>4,010.7</b>
£75m Facility Agreement 2025 – Libor plus 4.000%	(v)	49.4	50.2
£150m Facility Agreement 2025 – Libor plus 5.250%	(v)	100.3	102.0
£100m Facility Agreement 2026 – Libor plus 5.250%	(v)	67.3	68.4
£250m Facility Agreement 2025 – Libor plus 5.25%	(v)	166.8	170.0
£50m Facility Agreement 2025 – Libor plus 2.500%	(v)	49.0	49.6
£175m Facility Agreement 2025 – fixed rate 3.930%	(ii)	174.4	174.1
£25m Facility Agreement 2025 – fixed rate 3.650%	(ii)	24.9	24.8
£75m Facility Agreement 2028 – fixed rate 3.940%	(ii)	74.4	74.3
£52m Facility Agreement 2030 – fixed rate 4.030%	(ii)	51.6	51.5
£35.3m/(\$45m) Facility Agreement 2023 – fixed rate 3.384%	(ii), (x)	35.3	35.1
£19.6m/(\$25m) Facility Agreement 2025 – fixed rate 3.681%	(ii), (x)	19.5	19.5
£19.6m/(\$25m) Facility Agreement 2028 – fixed rate 4.020%	(ii), (x)	19.4	19.5
Eurobonds 12.000% 2038 (note 38)	(xi)	-	-
Term Loan Facility Agreement – SONIA + margin	(xiv)	400.0	-
Unamortised debt issuance costs	(vi)	(6.9)	(8.4)
Swap break costs	(xiii)	-	(131.6)
Bond premium deferred on issue	(vii)	6.2	6.9
Deferred gilt lock proceeds	(viii)	4.3	4.4
Obligations under finance leases		36.5	33.3
<b>Total borrowings</b>		<b>4,988.6</b>	<b>4,754.3</b>
<b>Disclosed as current borrowings</b>	20	<b>58.5</b>	<b>277.8</b>
<b>Disclosed as non-current borrowings</b>		<b>4,930.1</b>	<b>4,476.5</b>
		<b>Company 2023 £m</b>	<b>Company 2022 £m</b>
Loans from group undertakings		<b>0.1</b>	<b>0.1</b>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****21 Total borrowings (continued)**

Class A 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.

Notes:

- (i) The Group has entered into swap agreements that convert Class A fixed rate debt into either floating or index-linked debt in accordance with the Group's financial risk management policy.
- (ii) Fixed rate bonds are recognised net of issue costs, discounts and inclusive of premiums (where applicable) on issue and are carried at amortised cost using the effective interest rate method.
- (iii) The bond premiums referred to in note (ii) above also apply to various index-linked bonds. The premiums date back to 2003 when the related bonds were issued 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 these bonds. The premiums are carried at amortised cost using the effective interest rate method.
- (iv) The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £139.8 million (2022: £46.6 million) has been taken to the income statement as part of finance costs.
- (v) Floating rate funds have been recognised net of associated issue costs and are being carried at amortised cost using the effective interest rate method.
- (vi) Unamortised debt issuance costs represent issue fees paid by SWSF and SWGF that are not otherwise accounted for within the amortised cost of specific loans. 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 loans advanced at the time the costs were incurred. As at 31 March 2023 unamortised debt issuance costs amounted to £6.9 million (2022: £8.4 million) of which £1.5 million (2022: £1.5 million) represents the short-term amount which is disclosed separately in note 21.
- (vii) The deferred bond premium represents the additional book value of the Class A Artesian £156.5 million loan issued in 2004. The premium is being amortised over the life of the bond.
- (viii) Prior to the issue of the Class A £300 million bond in the year to 31 March 2008, SWSF entered into a gilt lock agreement, resulting in the receipt of £6.3 million, which was advanced to SWS along with the proceeds of the bond issue. The proceeds have been deferred and are being released to the income statement over the life of the loan.
- (ix) The Class A £60 million loan is index-linked with an interest rate of 0.00% until August 2025. The Class A £40 million loan is index-linked with an interest rate of 0.00% until May 2026. Amounts for scheduled repayments due in the year to 31 March 2024 have been shown as current borrowings in the year to 31 March 2023 (see note 21).
- (x) The Group has entered into cross currency swap agreements that fix the Sterling rate required to pay interest on loan funds drawn in US Dollars in accordance with the Group's financial risk management policy.
- (xi) The Eurobond loan includes £nil of accrued interest (2022: £nil million). Compound interest is charged at 12%. No interest was paid in the current or prior year. On 11 June 2021, the Eurobond loan was restructured and exchanged in a debt for equity swap. Further descriptions are provided in note 39.
- (xii) Revolving credit facilities drawdowns accrue interest at Libor plus an applicable margin between 0.30% and 1.50%, determined by reference to the credit rating of the company.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****21 Total borrowings (continued)**

(xiii) The swap break costs represent costs that originated prior to securitisation when a swap was entered into, to act as a hedge for the future issue of bonds under securitisation. The swap was closed out and break costs were incurred when the bonds were issued in July 2003. The accounting treatment of these costs mirror the amortised cost value of opposing related bonds referred to in note (iii) above. These bonds are inclusive of premiums that compensate the swap break costs suffered.

(xiv) The Term Loan Facility of £400 million was utilised on 2 March 2023 for a period of six months. Interest is calculated on a daily basis for the period of utilisation at SONIA+0.70% for the first three months, and SONIA+0.90% for the remaining three months.

<b>The maturity profile of borrowings disclosed within this note is given below:</b>	<b>2023</b> <b>£m</b>	<b>2022</b> <b>£m</b>
<b>Borrowings excluding finance leases:</b>		
Between one and two years	<b>1003.3</b>	441.4
Between two and five years	<b>821.9</b>	648.9
After five years	<b>3,072.3</b>	3,356.6
	<b>4,897.6</b>	4,446.9
On demand or within one year	<b>54.5</b>	274.1
	<b>4,952.1</b>	4,721.0
<b>Finance leases:</b>		
Between one and two years	<b>3.7</b>	3.0
Between two and five years	<b>8.2</b>	7.0
After five years	<b>20.6</b>	19.6
	<b>32.5</b>	29.6
On demand or within one year	<b>4.0</b>	3.7
	<b>36.5</b>	33.3
<b>Borrowings including finance leases:</b>		
Between one and two years not by instalments	<b>1007.1</b>	444.4
Between two and five years not by instalments	<b>830.1</b>	654.8
After five years not by instalments	<b>3,092.9</b>	3,376.2
	<b>4,930.1</b>	4,475.4
On demand or within one year	<b>58.5</b>	278.9
	<b>4,988.6</b>	4,754.3

The group leases various offices and vehicles and has a lease on its outfall pipes.

Vehicle leases have terms of between four and five years. Leases on office buildings have terms of between 15 and 99 years from commencement date. The outfall lease had an initial term of 99 years and commenced on 1 April 1997.

Obligations relating to vehicle leases include some commercial vehicle leases with optional residual value balloon payments due at the end of the lease period, where the minimum lease payments (including finance charges) have been prepaid at the start of the lease. If the group opts not to pay the balloon payment, it must return the vehicle to the lessor.

All lease obligations are denominated in sterling.

The fair value of the group's lease obligations is approximately equal to their carrying amount.

The group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 14.

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**22 Leases**

This note provides information for leases where the group is a lessee.

**i) Amounts recognised in the statement of financial position**

The statement of financial position shows the following amounts relating to leases:

	<b>2023</b>	2022
	<b>£m</b>	£m
<b>Right of use assets within property, plant and equipment:</b>		
Buildings	<b>13.0</b>	14.2
Infrastructure	<b>13.5</b>	11.3
Other	<b>10.1</b>	7.7
	<u><b>36.6</b></u>	<u>33.2</u>
<b>Lease liabilities</b>		
Current	<b>4.0</b>	3.7
Non-current	<b>32.5</b>	29.6
	<u><b>36.5</b></u>	<u>33.3</u>

Additions to the right-of-use assets during the financial year to 31 March 2023 were £4.6 million (2022: £6.8 million).

**ii) Amounts recognised in the income statement**

The income statement shows the following amounts relating to leases:

	<b>31 March</b>	31 March
	<b>2023</b>	2022
	<b>£m</b>	£m
<b>Depreciation charge of right-of-use assets</b>		
Buildings and infrastructure	<b>(1.9)</b>	(1.7)
Other	<b>(2.3)</b>	(2.0)
	<u><b>(4.2)</b></u>	<u>(3.7)</u>
Interest expense (included in finance costs)	<b>(1.0)</b>	(0.8)
Expense relating to short-term leases (included in operating costs)	<b>(4.0)</b>	(3.1)
	<u><b>(4.0)</b></u>	<u>(3.1)</u>

**iii) Amounts recognised in the statement of cash flows**

	<b>31 March</b>	31 March
	<b>2023</b>	2022
	<b>£m</b>	£m
Repayments of principle	<b>4.2</b>	2.4
Interest element included in interest paid	<b>1.0</b>	0.8
<b>Total cash outflow for leases</b>	<u><b>5.2</b></u>	<u>3.2</u>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****22 Leases (continued)****iv) The group's leasing activities and how these are accounted for**

The group leases various offices and vehicles.

Rental contracts are typically made for fixed periods, but may have extension options.

Contracts may contain both lease and non-lease components. For leases of vehicles for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the year to 31 March 2019, leases of property, plant and equipment were classified as either finance leases or operating leases, see note 1 for details. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments included in the measurement of the lease liability comprise (where applicable):

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.
- the lease liability is presented as a separate line in the statement of financial position.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Southern Water has a lease on its outfall pipes which contains variable lease payments. These payments will increase by RPI every 10 years. The next review date is on 1 April 2023 and the lease expires on 31 March 2096.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise assets less than £5,000.

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**23 Financial instruments**

The following table provides a comparison by category of the carrying amounts of the Group's financial assets and financial liabilities at 31 March 2023 and 31 March 2022.

	Group 2023 £m	Company 2023 £m	Group 2022 £m	Company 2022 £m
<b>Financial instruments by category</b>				
<b>Financial assets</b>				
Derivative financial instruments designated as FVTPL*				
- Non-current	89.3	-	45.9	-
- Current	-	-	-	-
	<u>89.3</u>	<u>-</u>	<u>45.9</u>	<u>-</u>
Held to maturity investments				
- Non-current	0.1	-	0.1	-
Trade and other receivables				
- Current (excluding prepayments)	192.1	-	174.9	-
Short term investments				
- Current	-	-	285.0	-
Cash and cash equivalents				
- Current	202.7	-	276.5	-
	<u>394.9</u>	<u>-</u>	<u>736.5</u>	<u>-</u>
<b>Total financial asset</b>	<u><u>484.2</u></u>	<u><u>-</u></u>	<u><u>782.4</u></u>	<u><u>-</u></u>
<b>Financial liabilities</b>				
Derivative financial instruments designated as FVTPL*				
- Non-current	1,655.3	-	2,188.9	-
	<u>1,655.3</u>	<u>-</u>	<u>2,188.9</u>	<u>-</u>
Borrowings				
- Current (including lease liabilities)	58.5	-	277.8	-
- Non-current (including lease liabilities)	4,930.0	101.6	4,476.5	61.3
Trade and other payables				
- Current	481.1	0.1	385.4	0.1
	<u>5,469.6</u>	<u>101.7</u>	<u>5,139.7</u>	<u>61.4</u>
<b>Total financial liabilities</b>	<u><u>7,124.9</u></u>	<u><u>101.7</u></u>	<u><u>7,328.6</u></u>	<u><u>61.4</u></u>

\*Fair value through profit and loss.

There are no liabilities offset against assets and no assets offset against liabilities where there is no legal right to do so.

The below table analyses derivative financial instruments held on the statement of financial position.

	Group 2023 Assets £m	Group 2023 Liabilities £m	Group 2022 Assets £m	Group 2022 Liabilities £m
<b>Derivative financial instruments</b>				
Derivative financial instruments not designated as hedges:				
Interest rate swaps	-	-	-	-
RPI swaps	83.9	(1,655.3)	45.6	(2,188.9)
Cross currency swaps	5.4	-	0.3	-
<b>Total derivative financial instruments</b>	<u>89.3</u>	<u>(1,655.3)</u>	<u>45.9</u>	<u>(2,188.9)</u>
Derivative financial instruments can be analysed as follows:				
Current	-	-	-	-
Non-current	89.3	(1,655.3)	45.9	(2,188.9)
	<u>89.3</u>	<u>(1,655.3)</u>	<u>45.9</u>	<u>(2,188.9)</u>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****23 Financial instruments (continued)**

The nominal value of the interest rate swaps held at 31 March 2023 are shown in the table below:

<b>Counterparty</b>	<b>Notional £m</b>	<b>Start Date</b>	<b>Maturing in</b>	<b>Mandatory break</b>
Lloyds Bank	99.3	2016	2037	-
ING Bank	77.8	2016	2037	-
SMBC Nikko	75.0	2016	2037	-
UBS	75.0	2016	2037	-
Bank of America	50.0	2016	2037	-
National Australia Bank	44.1	2016	2037	-
Banco Santander	20.0	2016	2037	-
JP Morgan	50.0	2017	2056	2029
National Australia Bank	92.1	2017	2039	2025
Banco Santander	13.2	2017	2039	2025
SMBC Nikko	70.2	2017	2039	2025
Lloyds Bank	150.0	2016	2041	-
Alum Bay & NatWest SPV*	89.4	2016	2041	-
Lloyds Bank	50.0	2016	2031	-
NatWest SPV*	9.5	2016	2031	-
BNP Paribas	200.0	2016	2051	-
Alum Bay & NatWest SPV*	185.4	2016	2051	-
Morgan Stanley	250.0	2015	2055	-
Morgan Stanley ILCA	250.0	2015	2055	2025
Alum Bay & NatWest SPV*	206.0	2015	2055	-
Bank of America	150.0	2037	2046	-
Alum Bay & NatWest SPV*	31.9	2037	2046	-
Bank of America	50.0	2037	2046	-
Alum Bay & NatWest SPV*	37.7	2037	2046	-
JP Morgan	441.2	2037	2046	-
Alum Bay & NatWest SPV*	185.1	2037	2046	-

\* Series of future inflation payments have been stripped from the bank swaps with the result that nominal to real cash flows occur between company and bank, and the residual inflation cash flows are paid to the SPV. Investors into the SPV are established pension and insurance companies.

None of the interest rate swaps are due to be repaid in the next 12 months.

**Interest rate benchmark reform**

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The company has exposures to IBORs on its financial instruments that will be reformed as part of these market-wide initiatives. The company's main IBOR exposure at the report date is sterling LIBOR. The alternative reference rate for sterling LIBOR is the Sterling Overnight Index Average (SONIA).

On 5 March 2021, the Financial Conduct Authority announced that panel bank submissions for all LIBOR settings will cease as at 31 December 2021, after which representative LIBOR rates will no longer be available. The company completed the process of amending contractual terms or implementing appropriate fallback provisions in response to IBOR reform by the end of 2021.

The company anticipates that IBOR reform will impact its operational and risk management processes. The main risks to which the company is exposed as a result of IBOR reform are operational. For example, renegotiating borrowing contracts through bilateral negotiation with counterparties, implementing new fallback clauses with its derivatives counterparties, updating contractual terms and revising operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****23 Financial instruments (continued)**

In accordance with IFRS 9 the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. None were identified during the year or previous year.

**i) Financial risk management objectives and policies**

The principal financial risks to which the Group is exposed are interest rate, liquidity and RPI risks. The Board has approved policies for the management of these risks.

**Interest rate risk**

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

The weighted average effective interest rates at the statement of financial position dates by class of debt were as follows (based on loan book values including accrued accretion):

	<b>Group 2023</b>	Group 2022
	%	%
<b>By class of debt (all classed as financial liabilities)</b>		
Class A	<b>4.08</b>	4.15
Artesian	<b>4.18</b>	3.51
Greensands	<b>4.83</b>	5.04

The weighted average interest costs at the statement of financial position dates were as follows (based on loan nominal values):

	<b>Group 2023</b>	Group 2022
	%	%
Fixed	<b>7.36</b>	7.12
Floating	<b>5.65</b>	4.77
Indexed	<b>5.74</b>	4.91

**Liquidity risk**

The Group raises funds, as required, to ensure that it has sufficient cash and/or facilities to fund the business of Southern Water Services Limited for the next twelve months.

**Credit risk**

Trade receivables neither past due nor impaired relate to domestic and retail customers whose history of payments supports no impairment being made.

**RPI risk and sensitivity analysis**

The principal market risks are interest rates and movements in RPI. Interest rates on the Group's loans are currently either fixed or fully effective swap instruments are in place to swap floating rates for fixed. RPI impacts indexation charged on index-linked loans and swaps. These instruments form an economic hedge with the Group's revenues and regulatory assets, which are also linked to RPI inflation.

The Group also notes that increases in inflation and other economic matters such as the continued impact of COVID-19 will increase uncertainty around these risk areas in the short term.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****23 Financial instruments (continued)****Interest sensitivity analysis**

The following table details the sensitivity of the group's profit before tax and equity to changes in interest rates. The sensitivity analysis has been based on the amount of net debt in place at the reporting date and, as such, is not indicative of the years then ended.

<b>Increase/(decrease) in profit before tax and equity</b>	<b>Group 2023</b>	Group 2022
1% increase in interest rate	<b>(25.2)</b>	(29.2)
1% decrease in interest rate	<b>25.2</b>	29.2

**Inflation sensitivity analysis**

The following table details the sensitivity of profit before tax to changes in the RPI on the group's index-linked borrowings. The sensitivity analysis has been based on the amount of index-linked debt held at the reporting date and, as such, is not indicative of the years then ended.

<b>Increase/(decrease) in profit before tax and equity</b>	<b>Group 2023</b>	Group 2022
1% increase in RPI	<b>(15.8)</b>	(11.8)
1% decrease in RPI	<b>15.8</b>	11.8

For further details about Group financing matters please refer to the 'Capital structure, liquidity and other financial matters' section of the Strategic Report contained within these financial statements on page 2.

**ii) Maturity of financial liabilities and financial instruments**

The maturity profile of the Group's financial liabilities at 31 March 2023 and 31 March 2022 is disclosed within note 22.

The table below analyses the Group's derivative financial instruments into relevant maturity profiles based on the remaining period at the reporting date.

	Within one year £m	Within two to five years £m	Within five to 25 years £m	After 25 years £m	Total £m
<b>At 31 March 2023</b>					
Derivative financial instruments – asset	-	-	83.9	-	83.9
Derivative financial instruments – liability	-	(78.1)	(1,152.3)	(424.9)	(1,655.3)
	-	(78.1)	(1,068.4)	(424.9)	(1,571.4)

	Within one year £m	Within two to five years £m	Within five to 25 years £m	After 25 years £m	Total £m
<b>At 31 March 2022</b>					
Derivative financial instruments – asset	-	-	45.9	-	45.9
Derivative financial instruments – liability	-	(60.2)	(1,457.1)	(671.7)	(2,188.9)
	-	(60.2)	(1,411.2)	(671.7)	(2,143.0)

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****23 Financial instruments (continued)****iii) 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 2023 and 2022.

	<b>Group 2023 Book value £m</b>	<b>Group 2023 Fair value £m</b>	Group 2022 Book value £m	Group 2022 Fair value £m
<b>Financial assets</b>				
Cash and cash equivalents	<b>202.7</b>	<b>202.7</b>	276.5	276.5
Current derivatives – interest rate swaps				
Non-current asset investments	<b>0.1</b>	<b>0.1</b>	0.1	0.1
Non-current derivatives – interest rate swaps	-	-	-	-
Non-current derivatives – RPI swaps	<b>83.9</b>	<b>83.9</b>	45.6	45.6
Non-current derivatives – cross currency swaps	-	-	0.3	0.3
	<b><u>286.7</u></b>	<b><u>286.7</u></b>	<b><u>322.5</u></b>	<b><u>322.5</u></b>
<b>Financial liabilities</b>				
Current borrowings (including leases)	<b>58.5</b>	<b>58.5</b>	277.8	277.8
Non-current borrowings (including leases)	<b>4,930.1</b>	<b>4,936.8</b>	4,476.5	5,080.4
Non-current derivatives – interest rate swaps	-	-	-	-
Non-current derivatives - RPI swaps	<b>1,655.3</b>	<b>1,655.3</b>	2,188.9	2,188.9
Non-current derivatives – cross currency swaps	-	-	-	-
	<b><u>6,643.9</u></b>	<b><u>6,650.6</u></b>	<b><u>6,943.2</u></b>	<b><u>7,547.1</u></b>

Derivative activity is undertaken by subsidiaries in the Group, Greensands Senior Finance Limited, Southern Water (Greensands) Financing Plc, Southern Water Services Limited, Southern Water Services (Finance) Limited (SWSF), Greensands Financing Plc and Greensands Finance Limited, 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.

In November 2018 work was undertaken to amend the inflation-linked swaps held at Southern Water Services (Finance) Limited. Firstly, swaps were legally re-assigned from Southern Water Services (Finance) Limited to Southern Water Services Limited, before extending mandatory breaks from 2019 to 2025 on swaps with a notional value of £177.0 million, and re-couponsing the receipt leg to increase the interest receivable of the extension period.

Other swaps with maturity dates of 2031, 2037, and 2041 were extended until 2046 by acquiring new instruments starting from the maturity date of the existing agreements.

These extensions, along with the existing remaining long-dated swaps, were then bifurcated with the result of increasing the interest receivable.

Upfront payments from Southern Water to the co-ordination bank/counterparties were required for all of these amendments, with the amounts totalling £113.6 million. The change in fair value of the related swap instruments immediately resulting from this restructure has been deferred to the balance sheet for amortisation in line with the related re-couponsed period.

In December 2019 a further restructure took place to separate accretion related cash flows from the 2055 swap resulting in an upfront cash receipt of £140.0 million. The change in fair value of the related swap instrument immediately resulting from this restructure has been deferred to the balance sheet for amortisation in line with the term of the related new instrument.

No derivative activity is undertaken by the company.

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

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 23 Financial instruments (continued)

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 statement of financial position dates.

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

#### iii) Fair values of financial assets and financial liabilities

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

Fair values of other non-current liabilities, current trade and other payables, provisions and current trade and other receivables have been estimated as not materially different from book value and have been excluded from the table above. The same can be said for non-current asset investments; however, this balance has been displayed in the table above.

In accordance with IFRS 13 'Fair Value Measurement', the financial instruments carried at fair value on the statement of financial position have been classified as level 2 for fair valuation purposes, being valued by reference to valuation techniques using observable inputs other than quoted prices in active markets for identical assets and liabilities. The future cash flows have been discounted at a rate that reflects credit risk.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****24 Deferred tax liabilities**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2023</b> £	2022 £ (*Restated)
Deferred tax liabilities	<b>767.7</b>	773.5
Deferred tax assets	<b>(494.1)</b>	*(570.3)
	<b><u>273.6</u></b>	<b><u>*203.2</u></b>

Deferred tax is provided as follows:

	<b>Accelerated tax depreciation £m</b>	<b>Revaluation of financial instruments £m</b>	<b>Retirement benefit obligations £m</b>	<b>Losses and other timing differences £m</b>	<b>Total £m</b>
At 1 April 2021	609.3	(261.7)	(22.8)	*(29.9)	*294.9
(Credit)/charge to income statement	(35.1)	(118.3)	6.7	(0.5)	(147.2)
Prior year adjustment:					
- Charge to income statement	0.1	-	-	-	(0.1)
- Credit to other comprehensive income	-	-	(3.5)	-	(3.5)
Effect of change in tax rate					
- Charge/(credit) to income statement	185.6	(120.0)	4.4	(1.3)	68.7
- Credit to other comprehensive income	-	-	(9.8)	-	(9.8)
<b>At 1 April 2022</b>	<b><u>759.9</u></b>	<b><u>(500.0)</u></b>	<b><u>(25.0)</u></b>	<b><u>*(31.7)</u></b>	<b><u>*203.2</u></b>
Effect of change in tax rate					
- Charge/(credit) to income statement	0.6	91.4	1.7	(3.2)	90.5
Prior year adjustment:					
(Credit)/ charge to income statement	7.2	-	-	(31.0)	(23.8)
Charge to other comprehensive income	-	-	(2.2)	-	(2.2)
Effect of change in tax rate:					
Income statement	-	-	-	5.9	5.9
Other Comprehensive Income	-	-	-	-	-
<b>At 31 March 2023</b>	<b><u>767.7</u></b>	<b><u>(408.6)</u></b>	<b><u>(25.5)</u></b>	<b><u>(60.0)</u></b>	<b><u>273.6</u></b>

Deferred Tax Liability shows that the balance is made up of a deferred tax liability arising on accelerated capital allowances and other short-term timing differences, and deferred tax assets arising on the fair value revaluation of financial instruments and the pension deficit.

At the reporting date the group has unused tax losses of £203.3m (2022: £164.2m) with a deferred tax asset of £50.8m (2022: £41.0m). A deferred tax asset has not been recognised due to the uncertainty of suitable taxable profits in the foreseeable future on which to utilise the losses.

Future tax relief of £99.2m (2022: £267.6m) is expected to be available for accrued interest that will be deductible for tax purposes on a paid basis. No deferred tax benefit has been recognised in respect of these interest deductions, as it is probable that they will not reverse in the foreseeable future and there is uncertainty over the availability of suitable taxable profits against which these may be offset.

The total amount of deferred tax asset unprovided is £1.3m (2022: £107.9m). At present it is not envisaged that the unwinding of the underlying temporary differences will give rise to a tax benefit in the foreseeable future.

Deferred tax liabilities have not been discounted.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****25 Retirement benefit obligations**

The deficit associated with retirement benefit obligations has increased to £73.0 million (2022: £59.9 million). The decrease in the deficit over the year is principally due to the significant increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities. This has been offset to some extent by high short term price inflation increasing benefits. There has also been a significant decrease in the assets primarily as a result of the negative impact on the LDI funds of increasing yields.

**Pension schemes operated**

The Group principally operates one defined benefit pension scheme (final salary) and one defined contribution scheme, 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 scheme closed to accrual with effect from 31 March 2020.

The Trustees are responsible for administering the Fund which is held separately from the company. Legal and General and Blackrock are unit registrars for Southern Water Pension Scheme unit holdings, and appoint custodians at individual pooled fund level (not client holding level). The directors of SWS are responsible for setting the accounting assumptions for the fund for inclusion in these financial statements.

As part of the Group's interactions with both the Trustees and, when required, the Pensions Regulator, the Group looks to agree a long-term funding and risk management strategy for the pension liability. Following on from regular dialogue with the Trustees, and discussions and correspondence with the Pension Regulator regarding the deficit, the SWS Board agreed with both the Trustees and the Pensions Regulator a long-term funding solution for the scheme in 2018.

The main risks of the scheme are as follows:

a) Asset volatility:

For the purpose of setting the contribution requirements, the calculation uses a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio – whereas under FRS 101, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a significant proportion of their assets in growth assets. The returns on these assets may be volatile and are not correlated to the value placed on the liabilities. This means that the deficit may be volatile in the shorter term, which may result in an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the statement of financial position.

However, the Group believes that return-seeking assets offer an appropriate level of return over the long term for the level of risk that is taken. Furthermore, the scheme's other assets are well-diversified by investing in a range of asset classes, including liability-driven investments, government bonds and corporate bonds.

b) Changes in bond yields:

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the Group's contribution requirements. However, in this scenario the scheme's investment in corporate and government bonds is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

c) Life expectancy:

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The scheme does not contain a hedge against increases in future life expectancy.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****25 Retirement benefit obligations (continued)**

## d) Inflation risk:

The majority of the scheme's benefit obligations are linked to inflation and higher out-turn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the scheme's assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature, e.g. corporate bonds and government bonds, or have an indirect link to inflation, e.g. equities.

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 2023 amounted to £13.9 million (2022: £13.2 million). At the balance sheet date, £1.3 million of contributions were outstanding for payment and were paid on 4 April 2023 (2022: £nil).

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 2019 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:

	<b>2019 SWPS</b>
	% per annum (pa)
Return on investments: pre-retirement	FI Gilt curve + 65 bps
Return on investments: post-retirement (pensioner/non-pensioner)	FI Gilt curve + 65 bps
Salary growth	2.50%
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% per annum)	3.00%

The term 'FI Gilt curve' refers to the generally available fixed interest gilt yield curve agreed by the Trustees and the Group for the purposes of the 2019 actuarial valuation.

The assets of the scheme had a market value of £755.6 million at 31 March 2019. This was sufficient to cover 76% of the scheme's benefits. The weighted average duration of the scheme liabilities is 16 years.

The timing and quantum of future contributions in relation to the deficit have now been agreed with the Trustees and Pensions Regulator. The first payment was made in November 2018 and payments up to March 2021 totalled £51.4 million. On 1 April 2021 the Group made a scheduled contribution of £17.7 million and on 31 March 2022 an additional one-off lump sum deficit contribution of £59.6 million into the Southern Water Pension Scheme covering agreed deficit contributions through to March 2025.

Future contributions will be dependent on levels of RPI, and based on the assumptions made at 31 March 2019 the expected base deficit contributions over the period from 1 April 2025 to 1 April 2029 will be paid annually and total £101.7 million.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****25 Retirement benefit obligations (continued)****IAS 19 – assumptions, asset, liability and reserves disclosures**

The group has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the scheme for funding purposes and those adopted by the group to measure the scheme's liabilities in the financial statements, as well as adjusting for benefit accrual and benefits paid by the scheme.

The major assumptions used by the actuary are set out in the table below:

	<b>2023</b> <b>% per</b> <b>annum</b>	2022 % per annum
Price inflation (RPI)	<b>3.25</b>	3.50
Price inflation (CPI)		
- RPI less 1% pa up to 2030	<b>2.25</b>	2.50
- Equal to RPI thereafter)	<b>3.25</b>	3.50
Rate of increase in salaries (no longer applicable following cessation of accrual)	<b>N/A</b>	N/A
Rate of increase of pensions in payment:		
MIS* members only***	<b>2.25</b>	2.50
Old section** members only***	<b>3.25</b>	3.50
New section and ex FSLP (RPI max 5%)***	<b>3.15</b>	3.35
Post-5 April 1988 GMP (CPI max 3%)***	<b>2.00</b>	2.15
All sections post 31 March 2013 service (RPI max 2.5%)***	<b>2.20</b>	2.25
Rate of increase for deferred pensions	<b>2.25</b>	2.50
MIS* members only***		
Old section** members only***	<b>3.25</b>	3.50
New section and ex FSLP (RPI max 5%)***	<b>3.15</b>	3.35
Post-5 April 1988 GMP (CPI max 3%)***	<b>2.00</b>	2.15
All sections post 31 March 2013 service (RPI max 2.5%)***	<b>2.20</b>	2.25
Discount rate	<b>4.65</b>	2.75

\* 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 5% per annum cap on increases that apply to other sections of the scheme.

\*\*\* Pension increase assumptions allow for caps and floors where appropriate based on a statistical model (the Black Scholes model).

Assumptions regarding mortality experience are set based on advice, published statistics and experience. The base mortality tables are unchanged from 2021 and reflect the best estimate basis from the Trustees' 2019 Actuarial Funding Valuation. Improvements rates have been updated to use the most recently available CMI model (CMI 2021), using a smoothing factor of 7.0 (2022: 7.5) and long-term improvement rate of 1.25% (2022: 1.25%).

	<b>2023</b> <b>Years</b>	2022 Years
Longevity at age 65 for current pensioners		
Male	<b>23.9</b>	24.3
Female	<b>26.1</b>	26.4
Longevity at age 65 for future pensioners		
Male	<b>22.6</b>	23.0
Female	<b>24.7</b>	24.9

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**25 Retirement benefit obligations (continued)**

The assets and liabilities in the scheme and the expected rates of return at 31 March 2023 and 31 March 2022 were:

	Value at 2023 £m	Value at 2022 £m
Equities	79.7	200.5
Government bonds	203.8	151.3
Non-government bonds	260.7	348.0
Cash	68.6	79.6
<b>Total market value of plan assets</b>	<b>612.8</b>	<b>779.4</b>
Total value of plan liabilities	(685.8)	(839.3)
<b>Accrued deficit in the plan</b>	<b>(73.0)</b>	<b>(59.9)</b>
Related deferred tax asset	13.9	25.0
<b>Net retirement benefit obligations</b>	<b>(59.1)</b>	<b>(34.9)</b>

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price. The equity holding quoted includes a number of small holdings in other return seeking assets (such as hedge funds, DGF etc). The government bond and cash allocation set out above includes £158.9 million held in a Liability Driven Investment (LDI) portfolio to mitigate interest rate risks arising from the liabilities.

<b>Reconciliation of the present value of the scheme liabilities</b>	<b>2023 £m</b>	<b>2022 £m</b>
At 1 April	839.3	888.0
Past service cost	-	-
Interest expense	22.5	18.6
Experience loss/(gain) on liabilities	108.3	22.7
Actuarial (gain)/loss on liabilities:		
- due to changes in demographic assumptions	(1.6)	(0.8)
- due to changes in financial assumptions	(238.8)	(48.0)
Benefits paid	(43.9)	(41.2)
<b>Scheme liabilities at 31 March</b>	<b>685.8</b>	<b>839.3</b>

**Sensitivity analysis of the scheme liabilities**

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

	<b>Change in assumption</b>	<b>Impact on scheme liabilities (£m)</b>
Discount rate	+ 0.1% p.a.	(8.6)
	- 0.1% p.a.	8.8
Price inflation (RPI measure)*	+ 0.1% p.a.	7.0
	- 0.1% p.a.	(6.9)
Mortality	+ 1 year	30.0
	- 1 year	(28.7)

\* These movements have been calculated assuming that changes in the inflation assumption affect all inflation-linked assumptions.

The above sensitivity analysis illustrates the impact expected to be seen from reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**25 Retirement benefit obligations (continued)**

<b>Reconciliation of the value of the scheme assets</b>	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
At 1 April	779.4	771.5
Interest income	20.9	16.3
Return on assets (less)/greater than discount rate	(143.6)	(44.5)
Employer contributions	-	77.3*
Benefits paid	(43.9)	(41.2)
<b>Bid value of scheme assets at 31 March</b>	<b>612.8</b>	<b>779.4</b>

The net return on scheme assets was a loss of £122.7 million (2022: loss of £28.2 million).

\* On 31 March 2022 the company made an additional one-off lump sum deficit contribution of £59.6 million into the Southern Water Pension Scheme.

<b>Total cost recognised as an expense</b>	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Past service cost	-	-
Net interest cost	1.6	2.3
<b>Total income statement expense before deduction for tax</b>	<b>1.6</b>	<b>2.3</b>

<b>Analysis of the amounts recognised in other comprehensive income</b>	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Loss due to liability experience	108.3	22.7
Gain due to changes in demographic assumptions	(1.6)	(0.8)
Gain due to changes in financial assumptions	(238.8)	(48.0)
Loss on plan assets greater than discount rate	143.6	44.5
<b>Total loss recognised in OCI before adjustment for tax</b>	<b>11.5</b>	<b>18.4</b>

The cumulative amount of actuarial losses recognised in other comprehensive income is £267.6 million (2022: £237.7 million).

<b>Analysis of the movement in the scheme deficit during the year</b>	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Deficit in the scheme at 1 April	(59.9)	(116.5)
Employer's contributions	-	77.3
Employer's past service cost	-	-
Financing charge	(1.6)	(2.3)
Actuarial loss	(11.5)	(18.4)
<b>Deficit in the scheme at end of year</b>	<b>(73.0)</b>	<b>(59.9)</b>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****26 Regulatory settlement liability**

	<b>2023</b>	2022
	<b>£m</b>	£m
At 1 April	<b>78.8</b>	99.8
Settlements in year	<b>(25.0)</b>	(23.9)
Reassessments of provision for changes in future inflation estimates	<b>1.8</b>	2.9
<b>At 31 March</b>	<b><u>55.6</u></b>	<u>78.8</u>

<b>Included in:</b>	<b>2023</b>	2022
	<b>£m</b>	£m
Current liabilities	<b>27.4</b>	25.0
Non-current liabilities	<b>28.2</b>	53.8
	<b><u>55.6</u></b>	<u>78.8</u>

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25 reflecting the seriousness of the breaches identified in the investigation. These amounts have been provided for in the financial statements at outturn prices and are reassessed each year to account for the impact of inflation. After reassessment at 31 March 2023, the profile for release of the provision is as follows:

<b>Year Ending:</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
AMP6 Bill Rebate (2017/18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	5.05	5.90	17.46
Provision (Nominal)	35.75	23.93	25.03	27.38	28.23	140.32

Southern Water has given a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

**27 Provisions for liabilities**

	<b>Environmental obligations</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Balance 1 April 2021	<b>5.7</b>	<b>2.5</b>	<b>8.2</b>
Utilised in year	<b>(1.0)</b>	<b>(2.5)</b>	<b>(3.5)</b>
Increase in year	<b>1.8</b>	<b>-</b>	<b>1.8</b>
<b>Balance at 31 March 2022</b>	<b><u>6.5</u></b>	<b><u>-</u></b>	<b><u>6.5</u></b>
Balance 1 April 2022	6.5	-	6.5
Utilised in year	(1.3)	-	(1.3)
Increase in year	0.3	-	0.3
<b>Balance at 31 March 2023</b>	<b><u>5.5</u></b>	<b><u>-</u></b>	<b><u>5.5</u></b>

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****27 Provisions for liabilities (continued)**

<b>Included in:</b>	<b>2023</b>	<b>2022</b>
	<b>£m</b>	<b>£m</b>
Current liabilities	<b>2.2</b>	1.5
Non-current liabilities	<b>3.3</b>	5.0
	<b>5.5</b>	<b>6.5</b>

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and commitments made for environmental ecology work following the South Hampshire abstraction inquiry for the period up to 2030. No reimbursement is expected.

Other provisions at 31 March 2021 included £1.5 million relating to the payment of compensation for missed appointments under Southern Water's Guaranteed Standards of Service Scheme. All payments have now been made and the provision fully released as at 31 March 2022.

Also included in other provisions at 31 March 2021 was £1.0 million related to the Environment Agency investigation (further explanation below) which has now been paid.

Environment Agency

The Group has been subject to a detailed investigation regarding permit breaches at some of its wastewater treatment works during the period 2010–15.

On 9 July 2021, the Group was sentenced and fined £90.0 million plus £2.5 million of costs for these historic offences against the previous provision of £1.0 million made in the year to 31 March 2020, giving rise to a charge to the income statement in the year to 31 March 2022 of £91.5 million. As a result, provisions for liabilities relating to this Environment Agency investigation are now £nil (2022: £nil).

The Group is seeking to work proactively with the Environment Agency to resolve its separate investigation into sampling compliance and reporting issues 2013 and 2017 (inclusive). The Southern Water Board has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from this separate investigation and further details are provided in note 37 Contingent liabilities, to these accounts.

**28 Other non-current liabilities**

	<b>Grants &amp; contributions</b>	<b>Deferred Revenue</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Balance at 1 April 2022	26.9	12.3	39.2
Increase in year	3.1	-	<b>3.1</b>
Released to income statement	(1.7)	(0.3)	<b>(2.0)</b>
<b>Balance at 31 March 2023</b>	<b>28.3</b>	<b>12.0</b>	<b>40.3</b>

These grants and contributions relate to property, plant and equipment.

Deferred revenue of £12.0 million (2022: £12.3 million) relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by the Group. The income will be credited to the income statement evenly over the life of the lease.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****29 Called up share capital**

	<b>Group and Company 2023 £m</b>	Group and Company 2022 £m
<b>Authorised</b>		
921,874,025 Ordinary shares of £1 each	-	-

	<b>Group and Company 2023 £m</b>	Group and Company 2022 £m
<b>Allotted and fully paid</b>		
Ordinary shares of £1 each		
At 1 April	-	921.9
Conversion of shares to Ordinary no-par value	-	(921.9)
At 31 March	<u>-</u>	<u>-</u>

	<b>Group and Company 2023 Number of shares</b>	Group and Company 2022 Number of shares
<b>Allotted and fully paid</b>		
Ordinary shares of no-par value		
At 1 April	6,799,482,777	-
Conversion of shares to no-par value	-	921,874,025
Eurobonds instrument restructure	-	1,645,360,313
Share issue	-	4,232,248,439
At 31 March	<u>6,799,482,777</u>	<u>6,799,482,777</u>

**30 Share premium account**

	<b>Group and Company 2023 £m</b>	Group and Company 2022 £m
At 1 April	-	4.5
Balance transferred to stated share capital account (see note 31)	-	(4.5)
At 31 March	<u>-</u>	<u>-</u>



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****31 Stated share capital account**

	<b>Group 2023 £m</b>	Group 2022 £m
At 1 April	<b>1,998.9</b>	-
Conversion of shares to no-par value (see note 29)	-	926.4
Shares issued for cash (see note 29)	-	1,072.5
At 31 March	<b><u>1,998.9</u></b>	<u>1,998.9</u>
	<b>Company 2023 £m</b>	Company 2022 £m
At 1 April	<b>1,998.9</b>	-
Conversion of shares to no-par value (see note 29)	-	926.4
Shares issued for cash (see note 29)	-	1,072.5
At 31 March	<b><u>1,998.9</u></b>	<u>1,998.9</u>

**32 Other reserves**

In June 2021, the quoted Eurobonds issued by Greensands Europe Limited, to the shareholders of Greensands Holdings Limited, were exchanged in a non-cash transaction for 1.65 million no par value shares in Greensands Holdings Limited. On recognition of the Eurobonds in the accounts of GHL, the fair value was determined to be nil.

On consolidation an inter-company receivable of £1,606.7m is recorded to eliminate the payable portion in Greensands Europe, resulting a non-distributable reverse of £1,606.7m in the statement of financial position of the consolidated accounts.

**33 Non-distributable reserve**

	<b>Group 2023 £m</b>
Balance at 1 April 2021	76.9
Profit for the financial year	9.9
Transfer to retained earnings	(1.7)
Balance at 31 March 2022	<u>85.1</u>
Profit for the financial year	11.4
Transfer to retained earnings	(1.9)
<b>Balance at 31 March 2023</b>	<b><u>94.6</u></b>

Non-distributable reserves are comprised of the value of sewer adoptions previously recognised at fair value, deferred and amortised to the income statement over the life of the related assets. Under IFRS 15 the group recognises the fair value upon adoption i.e. the point at which control of the asset is obtained, through profit and loss to non-distributable reserves and is released to retained earnings in line with the amortisation of the related assets.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****34 Retained losses**

	<b>Group 2023 £m *Restated</b>
Restated Balance at 1 April 2021	*(2,623.6)
Loss for the financial year	(893.3)
Other comprehensive expense for the year	(5.1)
Transfer from non-distributable reserve	1.7
Balance as at 31 March 2022	<u>*(3,530.2)</u>
Profit for the financial year	229.9
Other comprehensive expense for the year	(9.3)
Transfer from non-distributable reserve	1.9
<b>Balance at 31 March 2023</b>	<b><u><u>(3,319.1)</u></u></b>

	<b>Company 2023 £m</b>	<b>Company 2022 £m</b>
Balance at 1 April	<b>(1,011.7)</b>	(973.5)
Loss for the financial year	<b>(40.1)</b>	(38.2)
<b>Balance at 31 March</b>	<b><u><u>(1,051.8)</u></u></b>	<u><u>(1,011.7)</u></u>

**35 Notes to the cash flow statement**

	<b>2023 £m</b>	<b>2022 £m</b>
<b>Continuing operations</b>		
Operating loss	<b>(26.2)</b>	(2.8)
Adjustments for:		
Fair value of sewer adoptions	<b>(11.4)</b>	(9.9)
Depreciation of property, plant and equipment	<b>332.7</b>	307.6
Amortisation of intangible assets	<b>19.8</b>	21.8
Receipt of grants and contributions	<b>3.1</b>	6.5
Difference between pension charge and cash contributions	<b>(-)</b>	(77.4)
Amortisation of grants and contributions	<b>(1.7)</b>	(1.7)
<b>Operating cash flows before movements in working capital</b>	<b><u>316.3</u></b>	<u>244.1</u>
Increase in inventories	<b>(0.3)</b>	(3.9)
Increase in receivables	<b>(22.8)</b>	(6.7)
Increase in payables	<b>81.1</b>	14.7
Decrease in regulatory settlement liability	<b>(23.2)</b>	(21.0)
Decrease in provisions	<b>(0.9)</b>	(1.8)
<b>Net cash from operating activities</b>	<b><u><u>350.2</u></u></b>	<u><u>225.4</u></u>

On 31 March 2022 the company made an additional one-off lump sum deficit contribution of £59.6 million into the Southern Water Pension Scheme covering the 1 April 2022 contribution under the previous Schedule of Contributions of £20.6 million plus a further prepayment of £39.0 million in relation to deficit contributions due in future years.

**Notes to the consolidated financial statements (continued)**

For the year ended 31 March 2023

**35 Notes to the cash flow statement (continued)**

<b>Investments</b>	<b>2023 £m</b>	<b>2022 £m</b>
Cash on deposit	-	285.0

Investments comprise cash on deposit with a maturity date of more than 3 months from the date of acquisition. The carrying amount of these assets is equal to their fair value.

<b>Cash and cash equivalents</b>	<b>2023 £m</b>	<b>2022 £m</b>
Cash and bank balances	<b>202.7</b>	276.5

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash and short-term bank deposits. The carrying amount of these assets is equal to their fair value.

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

<b>Analysis of net debt (including changes in liabilities from financing activities)</b>	<b>At 1 April 2022</b>	<b>Cash Flow changes</b>	<b>Fair value adjustments</b>	<b>New finance leases</b>	<b>Other non-cash changes</b>	<b>At 31 March 2023</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	276.5	(73.8)	-	-	-	<b>202.7</b>
Net liabilities from financing activities:						
Term facilities/ index linked loans (note 21)	(4,721.0)	(92.6)	-	-	(138.5)	<b>(4,952.1)</b>
Lease liabilities (note 22)	(33.3)	4.2	-	(7.4)	-	<b>(36.5)</b>
Foreign currency swaps (note 23)	0.3	-	5.0	-	-	<b>5.3</b>
Interest rate swaps (note 23)	(2,143.3)	(87.1)	659.1	-	-	<b>(1,571.4)</b>
Total liabilities from financing activities	(6,897.3)	175.5	664.1	(7.4)	(138.5)	<b>(6,554.7)</b>
Net debt	<b>(6,620.8)</b>	<b>(249.3)</b>	<b>664.1</b>	<b>(7.4)</b>	<b>(138.5)</b>	<b>(6,351.9)</b>

Other non-cash changes of £1,496.1 million relate to amortisation of loan issue costs, gilt lock proceeds, deferred proceeds and the Eurobond restructure. Bank loan fair value movements include Eurobond interest, indexation, effective interest and capitalised interest.

**Balances at 31 March 2023 comprise:**

	<b>Non-current assets</b>	<b>Current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	-	202.7	-	-	<b>202.7</b>
Derivative financial instruments	89.3	-	-	(1,655.3)	<b>(1,566.0)</b>
Unamortised debt issuance costs	-	-	1.5	5.4	<b>6.9</b>
Gilt lock proceeds	-	-	(0.1)	(4.2)	<b>(4.3)</b>
Borrowings due within one year	-	-	(55.9)	-	<b>(55.9)</b>
Borrowings due after one year	-	-	-	(4,898.8)	<b>(4,898.8)</b>
Leases	-	-	(4.0)	(32.5)	<b>(36.5)</b>
Net debt	<b>89.3</b>	<b>202.7</b>	<b>(58.5)</b>	<b>(6,585.4)</b>	<b>(6,351.9)</b>

## Notes to the consolidated financial statements (continued)

For the year ended 31 March 2023

### 35 Notes to the cash flow statement (continued)

Borrowings due within one year relate to amounts that are repayable on demand or within 12 months of the balance sheet date (see note 20).

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, and excludes cash on deposit with a maturity of more than three months from the date of acquisition which are shown as current asset investments in the statement of financial position.

### 36 Contingent liabilities

There are currently two significant ongoing investigations being conducted by the Environment Agency of which one is also being considered by Ofwat.

As has been reported previously, the Group continues to assist the EA in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. This investigation is ongoing and there have not been any significant developments during the year. It is unknown when the investigation stage will be concluded, and if or when any charges against the company are likely, or how many charges may be brought, or how any specific charges might be framed. As the investigation is ongoing, and as the EA has not stated what its intentions are so far as the next steps in the investigation are concerned, the Southern Water Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, or its timing (which could be several months or years), but will keep the situation under review.

As has been reported in the media, in November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all water and wastewater companies in England and Wales. In March 2022, Ofwat opened enforcement cases into six water companies (not Southern Water). However, all water and wastewater companies in England and Wales remain subject to their ongoing investigation as they continue to review the information they have gathered. As the investigations are ongoing, and as neither the EA nor Ofwat have stated what their intentions are so far as the next steps in the investigations are concerned, the Southern Water Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from these investigations, or its timing (which could be several months or years), but will keep the situation under review.

The Southern Water Board has taken these investigations extremely seriously and has continued to monitor and support the work of the Risk and Compliance directorate, which continues to deliver a programme of improvements to the Group's non-financial regulatory reporting including the collection, verification, reporting and assurance of data.

As well as the ongoing EA and Ofwat investigations, companies of the size and scale of Southern Water Services Limited are sometimes subject to civil claims, disputes and potential litigation. The directors consider that, where a liability is probable, and where it is possible to be estimated reasonably, an appropriate position has been taken in reflecting such items in these financial statements.

There is an ongoing claim in respect of property search income going back six years. A number of property search companies claim the return of amounts paid in respect of CON29DW water and drainage search reports, which they allege should have been provided to them either free of charge or for a nominal fee in accordance with the Environmental Information Regulations. It is a highly complex group action against multiple defendants across the sector, with many legal, factual, and evidential issues to be resolved. It is proceeding in phases, with the stage 1 trial expected in late 2023, and it is not anticipated to be concluded for several years. The Southern Water Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this claim, or its timing, but will keep the situation under review.

Contractors submit claims to the Group 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 Services Limited's valuation.

The Group had no contingent liabilities for capital claims at the period end (2022: £nil).

Greensands Holdings Limited, the parent company is party to a cross group guarantee whereby it provides a guarantee over the borrowings of Greensands UK Limited, Greensands Senior Finance Limited, Greensands Junior Finance Limited, Southern Water (Greensands) Finance Limited, Greensands Europe Limited and Greensands Investments Limited.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****37 Financial commitments**

(a) Capital commitments are as follows:

	<b>2023</b> <b>£m</b>	2022 £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	<b>682.5</b>	1,179.0
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	<b>18.4</b>	22.3
Right to receive water from Portsmouth Water <sup>1</sup>	<b>700.9</b>	658.0

<sup>1</sup> In February 2021 the Group entered into a contractual arrangement with Portsmouth Water Limited ('Portsmouth Water'), under which after constructing the reservoir, and Southern Water have laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day from 1 April 2029 as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £658 million over the period to 2100, using a discount rate of 4.98%, being the nominal return on capital allowed per the PR19 final determination, is £137.3 million at 31 March 2023 (2022: £130.8 million). The volumetric charge will be recognised as water is supplied, from 1 April 2029.

(b) The group as lessee

	<b>2023</b> <b>£m</b>	2022 £m
Lease payments under operating leases recognised as an expense in the year	<b>4.0</b>	3.1

As at 31 March 2023 and 2022, the group had no outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of vehicles and land and buildings.

Operating leases are charged to the income statement over the lease term and comprise short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less).

**38 Related party transactions**

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Greensands Holdings Limited is owned and controlled by a consortium of investors.

On 8 September 2021, under an agreement reached with the GHL's existing shareholders, a fund managed by Macquarie Asset Management acquired a majority stake in GHL, investing £1 billion of equity to recapitalise and implement a more sustainable financing strategy for the Greensands group.

The capital injection will enable the company to invest significantly to upgrade its assets with £2 billion to be invested over the next four years of the current regulatory period.

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****38 Related party transactions (continued)**

The transactions and balances with the Group's related parties (i.e. the shareholders) are summarised below.

	<b>2023</b>	2022
	<b>£m</b>	£m
<b>Eurobond interest</b>		
IIF Int'l SW UK Investment Ltd	-	11.6
Phildrew Nominees Ltd	-	7.6
National Nominees Ltd	-	2.9
Sky Brace Investments Ltd	-	1.8
Sumaya Investments Ltd	-	1.8
Falkirk Council - Falkirk Council Pension Fund	-	0.1
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	-	0.4
Hermes Infrastructure Fund LP	-	7.8
SW Holdings LP	-	0.7
Simcoe Yeoman Water Ltd	-	2.5
<b>Total Eurobond interest payable to related parties</b>	<b>-</b>	<b>37.2</b>
<b>Loans and other borrowings greater than one year:</b>		
<b>Eurobonds – Shareholder loans</b>		
IIF Int'l SW UK Investment Ltd	-	-
Phildrew Nominees Ltd (UBS IIF)	-	-
Phildrew Nominees Ltd (UBS IINF)	-	-
Phildrew Nominees Ltd (UBS I4F)	-	-
Phildrew Nominees Ltd (UBS IUSTEF)	-	-
Phildrew Nominees Ltd (UBS IIF (A) LP)	-	-
Phildrew Nominees Ltd (UBS IIF (B) LP)	-	-
Phildrew Nominees Ltd (UBS IIF (C) LP)	-	-
National Nominees Ltd - Motor Trades Association of Australia Super Fund	-	-
National Nominees Ltd – Prime Super	-	-
Sky Brace Investments Ltd	-	-
Sumaya Investments Ltd	-	-
Falkirk Council - Falkirk Council Pension Fund	-	-
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	-	-
Hermes Infrastructure Fund LP	-	-
Hermes Infrastructure Fund Spring I LP	-	-
Hermes Infrastructure Fund Spring II LP	-	-
Hermes Infrastructure Fund Spring III LP	-	-
SW Holdings LP	-	-
Simcoe Yeoman Water Ltd	-	-
Accrued interest	-	-
<b>Total Eurobonds – Shareholder loans</b>	<b>-</b>	<b>-</b>

Greensands Europe Limited (the **Issuer**) issued £359,725,975 in aggregate principal amount of notes (the Notes 'Eurobonds') to the shareholders of its ultimate parent company, Greensands Holdings Limited. In 2016 a Payment in Kind (PIK) exercise was undertaken, which capitalised £489,788,024 of accrued interest. If not previously repaid or purchased, the Notes will be repaid by the Issuer at par on 31 March 2038 (the **Maturity Date**).

On 11 June 2021, a restructure of the Eurobond instruments issued by Greensands Europe Ltd and held by existing shareholders took place. As a result, each holder of the Eurobonds, dated 15th October 2007, transferred all their respective legal and beneficial right, title and interests in the instruments to Greensands Holdings Limited. As consideration for the transfer, Greensands Holdings Limited issued ordinary shares of no-par value to each noteholder. As the Eurobonds were held by shareholders in the same proportion as their shareholding in the company the transaction resulted in no overall change in the percentage of shares held by each group of shareholders.



**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****38 Related party transactions (continued)**

On the date of the swap, the full balance of Eurobonds including accrued interest (£1,606.7m) was transferred to Greensands Holdings Limited in the form of an intercompany loan in exchange for the issuance of Ordinary no-par shares in Greensands Holdings Limited. On the date of the transfer, a fair value exercise was carried out and it was determined that the shares issued were deemed to have a fair value of £nil. Accordingly, a fair value adjustment for the full amount of £1,606.7m was recognised.

On consolidation, the associated intercompany debtor and intercompany creditor created in Greensands Holdings Limited and Greensands Europe Limited respectively, are eliminated. In addition, the fair value adjustment for the shares issued, in exchange for the Eurobond creditor position, is reversed and the full value of £1,606.7m is moved to other reserves.

**39 Subsidiaries**

As at 31 March 2023 the company held 100% 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.

<b>Company</b>	<b>Registered address</b>	<b>Activity</b>
Greensands UK Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water (Greensands) Financing plc	Southern House, Yeoman Road, Worthing	To raise debt finance
Greensands Junior Finance Limited	Southern House, Yeoman Road, Worthing	To raise debt finance
Greensands Senior Finance Limited	Southern House, Yeoman Road, Worthing	To raise debt finance
Greensands Investments Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Greensands Finance Holdings Limited	Southern House, Yeoman Road, Worthing	Holding company
Greensands Finance Limited	Southern House, Yeoman Road, Worthing	Holding company
Greensands Financing Plc	Southern House, Yeoman Road, Worthing	To raise debt finance
Southern Water Capital Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water Investments Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water (NR) Holdings Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water (NR) Limited	1 Exchange Crescent, Conference Square, Edinburgh	Non-trading activities
SWS Group Holdings Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
SWS Holdings Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water Limited	Southern House, Yeoman Road, Worthing	Intermediate parent company for Southern
Southern Water Services Limited	Southern House, Yeoman Road, Worthing	Supply of Water and Wastewater Services
Southern Water Services Finance Limited*	Ugland House, PO Box 309, George Town, Grand Cayman	To raise debt finance
SW (Finance) I plc	Southern House, Yeoman Road, Worthing	To raise debt finance

**Notes to the consolidated financial statements (continued)****For the year ended 31 March 2023****39 Subsidiaries (continued)**

<b>Company</b>	<b>Registered address</b>	<b>Activity</b>
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	To raise debt finance
Southern Water Services Group Limited	Southern House, Yeoman Road, Worthing	Non-trading activities
Southern Water Industries Limited	Southern House, Yeoman Road, Worthing	Dormant
Bowsprit Holdings Limited	Southern House, Yeoman Road, Worthing	Dormant
Monk Rawling Limited	Southern House, Yeoman Road, Worthing	Dormant
Bowsprit Property Development Limited	Southern House, Yeoman Road, Worthing	Property development
EcoClear Limited	Southern House, Yeoman Road, Worthing	Dormant
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Dormant
Southern Water Retail Services Limited	Southern House, Yeoman Road, Worthing	Dormant

\*The country of incorporation for this company is the Cayman Island, but is UK tax resident.

On 13 October 2021, two entities, SW (Finance) I plc and SW (Finance) II Limited, were incorporated as part of the process to remove the Cayman Islands-registered entity, SWSF. Both of the new companies are wholly-owned by Southern Water Services Limited.

On 26 October 2021, the company commenced the process of obtaining lender consents to substitute SW (Finance) I plc and SW (Finance) II Limited as Issuer/Borrower of the Bonds and Artesian loans currently held by Southern Water Services (Finance) Limited and on 26 November 2021, the STID Proposal\* in connection with the consent process was approved.

\*STID Proposal means a proposal or request made by the Security Group Agent in accordance with the Security Trust and Intercreditor Deed (STID) proposing or requesting the Borrower Security Trustee to concur in making any modification, giving any consent or granting any waiver under or in respect of any Common Document.

All of the above subsidiary companies are wholly-owned by ordinary shares and incorporated within the United Kingdom unless stated otherwise.

**40 Post balance sheet events**

On 7 July 2023 Fitch announced its decision to downgrade the Class A Unwrapped Debt of SW (Finance) I to BBB (negative outlook) from BBB+ (negative outlook). As a consequence of the Fitch credit rating action, a credit rating downgrade Trigger Event has occurred. Further details regarding the implications of a Trigger Event can be found on page 16.

## Independent auditor's report to the members of Greensands Holdings Limited

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- the financial statements of Greensands Holdings Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the company statement of financial position;
- the consolidated statement of changes in equity;
- the company statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 40.

The financial reporting framework that has been applied in their preparation is applicable law, IFRSs as issued by the IASB and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty relating to going concern

We draw attention to note 1 in the financial statements, which indicates that the planned equity raise of £550 million, which is required to have sufficient liquidity over the going concern period, has not been committed at the date of signing the financial statements. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Companies (Jersey) Law 1991 and tax legislation;
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following, and our specific procedures performed to address it are described below:

1. Revenue recognition – valuation of unbilled water accrual:

For customers with meters, the revenue recognised depends upon the volume of water supplied, including an estimate of the sales value of water supplied between the date of the last meter reading and the year end. The most judgemental area of the estimation of unbilled revenue related to the usage estimate, which is based on historical data and assumptions around consumption patterns. Incorrect estimates of water consumption could lead to overstatement of revenue in the period. We have identified a potential risk of fraud in relation to this and performed following procedure to address the risk:-

- obtained an understanding of the relevant controls around valuation of unbilled water accrual;
- for a sample of customers where revenue is accrued, recalculated the accrual based on the billing and consumption patterns over the last three years derived from meter readings and historical billing;
- performed analytical review procedures to assess accuracy and reasonableness of unbilled water accrual;
- for a sample of customers where payments have been received in advance, tested the payment received to bank statement; and
- performed a retrospective review of historical accuracy of the estimate.

2. Provision for Bad and Doubtful Debt (Expected Credit Loss)

The expected credit loss provision is a key estimate and considered (and disclosed) by management as a key source of estimation uncertainty in the financial statements. The SWS customer base is diverse and regulation mandates that SWS continue to supply water to domestic customers even in the case of default. Around 70% of the provision is determined using the SPSS analytical model with assumptions made on the forecast collectability of debts across both invoiced amounts and accrued revenues based on historical collection data. The remaining element of the provision is determined manually. An affordability overlay provision of £9.6m was recognised as of FY23 (FY22: £10.3m) in respect of macro-economic factors such as high inflation and interest. Given the level of judgement associated with this, we have assessed this to be a fraud risk.

We have:

- obtained an understanding of relevant controls around bad debt provisioning;
- used data analytics to recalculate, using the data inputs, the provision computed by the provisioning model;
- tested the completeness and accuracy of the data used in the provisioning model;
- evaluated the completeness and valuation of the non-model based provision balance through assessing the reasonableness of the provisioning rates using historical trends and checking for consistency with FY22;
- used the cash collection performance in the year against current year billing, prior year and budgets to evaluate the completeness of the provision;
- verified a sample of cash collections to third party evidence;
- challenged management on the basis of the affordability overlay adjustment and data sources used for its calculation, particularly considering correlation between macroeconomic factors with historic bad debt trends and cash collection trends in the current and comparative periods;
- assessed the overall bad debt provision and overlay adjustment by benchmarking against peer companies and reviewing post year end cash collection performance; and
- assessed the disclosures provided regarding the key sources of estimation uncertainty, and sensitivities disclosed.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the

appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance including the audit committee and reviewing internal audit reports. and

### **Report on other legal and regulatory requirements**

#### **Matters on which we are required to report by exception**


Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept by the parent company, or returns proper 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.

We have nothing to report in respect of these matters.

#### **Use of our report**

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.



Lucy Openshaw, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
United Kingdom  
28 July 2023