Greensands Holdings Limited
Annual Report and Financial statements for the year ended 31 March 2022

Contents

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Registered no. JE98700

Introduction

Greensands Holdings Limited ('GSH' or 'the company') is the ultimate parent company of Southern Water Services Limited (Southern Water) and all other group companies 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 mainly based upon the activities of this company. This information is fully supported by GSH and has been adopted from the Southern Water Annual Report which is published on the Southern Water website. Sections 1 and 2 that follow contain reviews of GSH and Southern Water for the year to 31 March 2022, respectively.

1) Greensands Holdings Limited

Strategic Report:

The Business

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

This section sets out the financial performance and structure of the Group as well as the corporate governance in place at GSH. A summary of the activities, performance and key risks relating to Southern Water is described in section 2 from page 16.

S172(1) Statement
As stated above, GSH acts as a holding company for Southern Water Services Limited. The section 172(1) statement describing how the board of Southern Water Services takes into account the interests of the group's key stakeholders can be found in the annual report and financial statements for Southern Water Services which are published on its website (www.southernwater.co.uk).

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 48 to 64.

Consolidated income statement

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

Income statement	Years ended 31 March	
	2022	2021
	£m	£m
Revenue	**823.5**	784.2
Amortisation of regulatory settlement payments	**21.0**	35.6
Total revenue	**844.5**	819.8
Other operating income	**1.8**	1.7
Operating costs before regulatory settlement	**(398.5)**	(369.4)
Court fine and costs	**(91.5)**	
Trade receivables impairment charge	**(29.9)**	(34.8)
Depreciation, net of amortisation	**(329.2)**	(293.0)
Operating (loss)/profit before regulatory settlement	**(2.8)**	124.3
Profit on disposal of fixed assets	**1.5**	0.8
Other income	**0.1**	-
(Loss)/profit before interest and tax	**(1.2)**	125.1
Net finance costs	**(304.9)**	(389.5)
Fair value (losses)/gains on derivative financial instruments	**(665.6)**	(357.9)
Loss before tax	**(971.7)**	(622.3)
Tax credit	**78.4**	67.6
Loss for the financial year	**(893.3)**	(554.7)

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

Revenue

Revenue increased to £823.5 million (2021: £784.2 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 £21 million because of tariff changes.

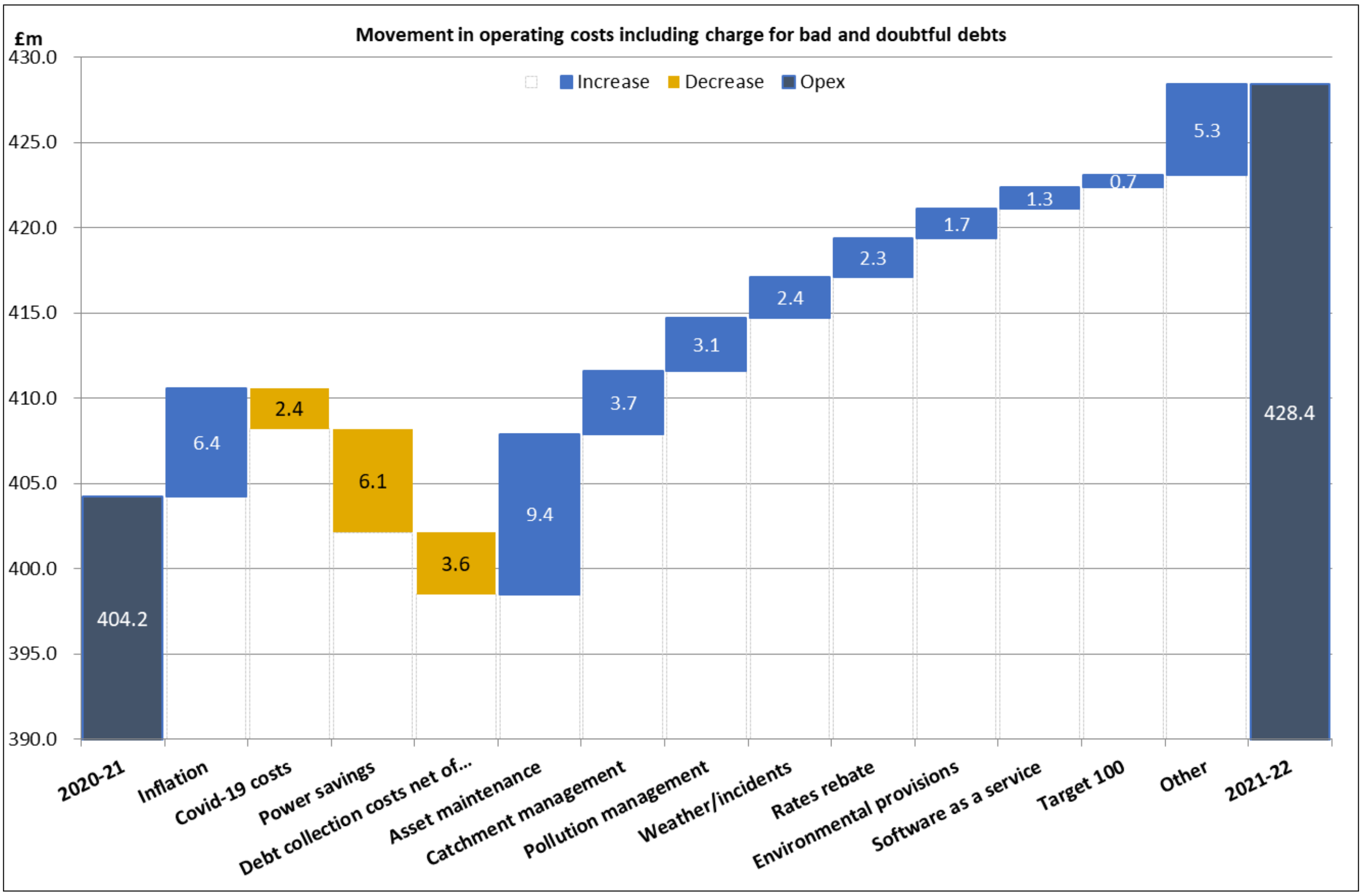
In the current year we billed £13 million more than we estimated at March 2021 for 2020–21 household consumption and this is therefore included within our revenues for 2021–22. In addition, we experienced a recovery of non-household revenues by £8 million following the resumption of trading following the more extensive lockdown for Covid-19 in the prior year.

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.

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 £24.2 million from £404.2 million to £428.4 million. This increase is explained in the chart below:



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

- COVID-19 – during 2020–21 there were additional one-off costs Southern Water incurred, excluding the impact on debt collection, in relation to the pandemic.
- Power savings – Following the successful hedging of wholesale power costs, Southern Water achieved a total cost saving of £6.1 million in 2021–22.
- Debt collection costs – as life has started to return to normal, following the impact of COVID-19 over the past two years, Southern Water has restarted the debt collection processes. The increased costs of debt collection activities have been offset by a reduction in the bad debt charge resulting in a net year-on-year reduction of £3.6 million in operating costs. This reduction would have been significantly larger were it not for the pressure currently being experienced on household budgets, from rising inflation. Southern Water's overall bad debt charge for the year was £29.9 million (2021: £34.8 million) and includes an additional £10 million to reflect the impact of the current economic situation on the expected future recovery of debt.

The impact of these cost reductions has been offset by a number of cost increases including:

- Asset maintenance – Southern Water increased maintenance expenditure of the wastewater treatment assets by £9.4 million to improve wastewater compliance and operational performance and reduce the risk of equipment failures.
- Catchment management – as part of the Water Industry National Environment Programme (WINEP), Southern Water are undertaking investigations and implementing schemes to improve the quality and quantity of drinking water supplies to make the catchments more resilient to our business operations, working with key stakeholders including the agricultural sector to reduce pollution risks. In addition, Southern Water started developing an approach to embed natural capital considerations into the investment decision-making process. This will enable Southern Water to value the environmental and social outcomes of projects delivered. These activities increased operating costs by £3.7 million this year.
- Pollution management – Southern Water increased the surveying, jetting and proactive maintenance of the sewerage network by £3.1 million as part of a pollution reduction programme.

- Weather/incidents – Southern Water incurred an additional £2.4 million compared to the prior year responding to weather related incidents. For example storm Eunice in February.
- Rates rebate – following a successful appeal in 2020–21, Southern Water received a one-off net reduction in business rates charges of £2.3 million in 2020–21.
- Environmental provisions – in 2018–19 Southern Water made an environmental provision for ecological work to be undertaken on the Rivers Itchen and Test and the Candover Stream between 2018 and 2030. Southern Water has reviewed the likely future work required to meet these obligations and increased the provision held in respect of this work by £1.7 million in 2021–22.
- Software as a Service (SaaS) – during the year, 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. Southern Water had no SaaS arrangements in place in 2020–21 and the impact on operating costs is an increase of £1.3 million in 2021–22.
- Target 100 – additional costs incurred in support of Southern Water's water efficiency campaign to help customers reduce their personal use to 100 litres a day by 2040.

Court fine and costs

As disclosed on page 19, 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 £329.2 million (2021: £293.0 million) following the completion and commissioning of a large number of capital investment schemes and the acceleration of depreciation in relation to assets at Weirwood water supply works where planning is underway for a major refurbishment. 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 £1.3 million (2021: profit of £125.1 million), a 101% decrease, the majority of which relates to the court fine and costs described above.

Financing costs and profit before tax

Net finance costs decreased by £84.6 million to £304.9 million (2021: £389.5 million). This decrease is largely driven by a decrease in the Eurobond interest of £131.0 million due to the Eurobond restructure, offset by higher indexation on index-linked debt of £26.0 million and a lower level of interest capitalised during the year of £16.9 million.

The fair value loss on derivative financial instruments amounted to £665.6 million (2021: loss £357.9 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 the index-linked instruments. As government gilt yields are constantly moving and inflation has increased significantly over the past few months, the valuation of the 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 loss before tax for the year amounted to £971.7 million (2021: £622.3 million).

Taxation

We have recognised a total tax credit to the income statement of £78.4 million (2021: £67.6 million). This differs from the credit that may be expected of £184.6 million, based on the loss before tax of £971.7 million and the current period tax rate of 19%, as described in note 11. The difference is primarily due to the disallowance of the court fine and costs from the tax calculation together with the announcement made in the Government's Budget Statement in March 2021 that the rate of corporation tax would be increasing from 19% to 25%, effective from 1 April 2023. As a result of this tax rate change, a charge of £69.1 million has been recognised in the income statement for the impact of this on our deferred tax balance.

Cash flow statement
Overall, cash and cash equivalents decreased in 2021-22 by £140.7 million (2021: £159.7 million increase). This movement of £300.4 million principally results from the refinancing activities that Southern Water undertook during the year. Further details of the year-on-year movements are provided below.

	Years ended 31 March			
	2022 £m	2021 £m	Movement £m	Explanation
Proceeds from share issue	**1,072.5**	-	1072.5	In September 2021, a 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 million was invested into the company.
Net interest related transactions	**(217.4)**	(178.1)	(39.3)	In total, the net cash outflow in relation to interest increased by £39.3 million. The principal reason for this was an increase in break costs and make whole amounts associated with repaying loans early using a proportion of the proceeds from the capital investment from a fund managed by Macquarie Asset Management (MAM).
Net movement on borrowings	**(470.6)**	411.0	(881.6)	Following the equity injection by a fund managed by MAM, £470.6 million of debt held by the group was repaid. In 2021, loan repayments of £696.2 million were offset by proceeds from new bonds issued under the company's sustainable finance Framework totalling £1,107.2 million.
Movements in short-term investments	**(285.0)**	25.0	(310.0)	Funds held on deposit for periods greater than six months increased by £285.0 million in the year following the equity injection by a fund managed by MAM.
Settlement of court fine and costs	**(92.5)**	-	(92.5)	Payment of the court fine and costs relating to the EA prosecution as disclosed on page 5.
Other	**(147.7)**	(98.2)	(49.5)	The net cash movement from operating activities and the company's capital investment programme. The reduction is largely driven by the increase in the capital investment programme with increased cash expenditure by £130.8 million and additional lump sum deficit payments made into the final salary pension scheme of £59.8 million offset by receipts on derivative financial instruments of £140.3 million.
	(140.7)	159.7		

*The prior year has been restated to reflect cash held on short-term deposit at 31 March 2020.

Consolidated statement of financial position

	31 March 2022 £m	31 March 2021 £m
Non-current assets	7,103.3	6,821.6
Current assets (excluding cash)	497.0	204.8
Cash and cash equivalents	276.5	417.2
Total assets	7,876.8	7,443.6
Current liabilities	(689.8)	(418.8)
Non-current liabilities	(7,066.2)	(8,684.8)
Total liabilities	(7,756.0)	(9,103.6)
Total net assets	120.8	(1,660.0)
Total equity	120.8	(1,660.0)

At the end of the year to 31 March 2022, we had non-current assets of £7,103.3 million (2021: £6,821.6 million), an increase of £281.7 million from March 2021. 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 £304.0 million. These increases in asset values were offset by a decrease in the value of non-current financial derivative assets of £22.3 million.

Overall, during 2021–22 our capital investment in property, plant and equipment was £569.7 million (2021: £393.5 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 increased to £497 million (2021: £204.8 million). Following the investment from Macquarie, funds held on deposit for more than six months were £285.0 million (2021: £nil). In addition, following the relaxation of COVID restrictions during 2022, the value of the accrual for non-household revenue increased by £2.7 million at March 2022. The combined impact saw current assets increase £292.2 million in the year.

Current liabilities increased to £689.8 million (2021: £418.8 million). This was mainly caused by loans of £278.2 million, which are due to be repaid during 2022–23 being re-classified within current liabilities at March 2022, together with an increase in the level of creditor accruals of £109.7 million. The higher level of accruals was largely the result of the acceleration of our capital investment programme which increased capital accruals by £88.7 million. These increases were offset by the repayment of a £100 million revolving credit facility.

At 31 March 2022, non-current liabilities totalled £7,066.2 million (2021: £8,684.8 million). This decrease of £1,618.6 million was principally the result of the following:

- The financial restructure of the group's Eurobond loans originally held by the group's ultimate shareholders. The bonds were exchanged in a debt for equity swap removing the total liability from non-current liabilities (2021: £1,569.6 million). This is disclosed on page 11.
- The early repayment of external debt totalling £370.6 million using the proceeds from the equity investment by a fund managed by Macquarie Asset Management.
- A re-classification to short-term creditors of loans totalling £278.2 million which are due for repayment in 2022–23 offset by indexation on our inflation linked bonds of £42.5 million
- An increase in the derivative financial instrument liability of £685.2 million.
- A decrease in the deferred tax liability of £91.6 million as a result of the loss recorded for the year and the change in the corporation tax rate effective from 1 April 2023.
- A reduction in retirement benefit obligations of £56.6 million. The final salary pension scheme was closed to future accrual on 31 March 2020. During the year, lump sum deficit payments totalling £77.3 million were made into the scheme, but these were offset by the movement in market conditions at 31 March 2022, which increased the deficit by £18.4 million, together with past service and financing costs of £2.3 million.
- The transfer of £21.6 million of the regulatory settlement provision to short-term liabilities for rebates that will be applied through bills to customers during 2022–23.

Net assets were £120.8 million at 31 March 2022 (2021: net liabilities of £1,660.0 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:

Southern Water's dividend policy is formulated to ensure a fair balance of reward between customers and investors. To deliver on its vision for the successful delivery of its 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 its actual level of gearing. This recognises Southern Water's management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, the company will take into account all aspects of its performance. This would reflect its 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 its successes.
3. Southern Water will consider its financial resilience ahead of any dividend decision and whether any financial outperformance should be reinvested to benefit customers. This consideration will include taking into account the interests of its employees, other stakeholders, and the company's pension schemes.

   Southern Water's 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:

   a. headroom under debt covenants
   b. the impact on the company's credit rating
   c. the liquidity position and ability to fulfil licence conditions
   d. key areas of business risk.
4. It will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
5. Southern Water will publish its dividend policy annually (as part of the Annual Report) and highlight any changes.

No dividends in Southern Water Services were declared or paid in 2021–22 (2021: £4.0 million).

Historically, the tests described above were not applied to the interim dividends of £4.0 million paid in 2020–21 to Southern Water Services Group (SWSG) as this dividend payment was instantly offset by a corresponding interest receipt from SWSG and therefore immediately repaid to the company in a 'dividend loop', resulting in no net cash outflow for the company. As part of the investment by Macquarie Asset Management into the group in September 2021, the inter-company loan has been repaid by SWSG, removing the requirement for these dividend loop payments.

The Board has not approved the payment of preference share dividends for 2021–22 (2021: £nil). Preference share dividends are disclosed as interest in the financial statements and an accrual totalling £12.2 million in relation to the cumulative liability is included within the financial statements of Southern Water.

No dividend has been proposed or paid by GSH in the period or subsequently.

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, pages 42 to 46, for a detailed review of the Group's going concern position.

Net debt: RCV	Hold co %	Mid co %	SWS %
2019–20 performance	90	76	67
2020-21 performance	94	80	70
2021-22 performance	77	70	63
Covenanted lock-up level	92	85	75
Covenanted default level	95	95	95

Consolidated EBITDA to cash interest cover	Hold co Times
2019–20 performance	2.8
2020-21 performance	2.7
2020-22 performance	2.6
Covenanted default level	2.0

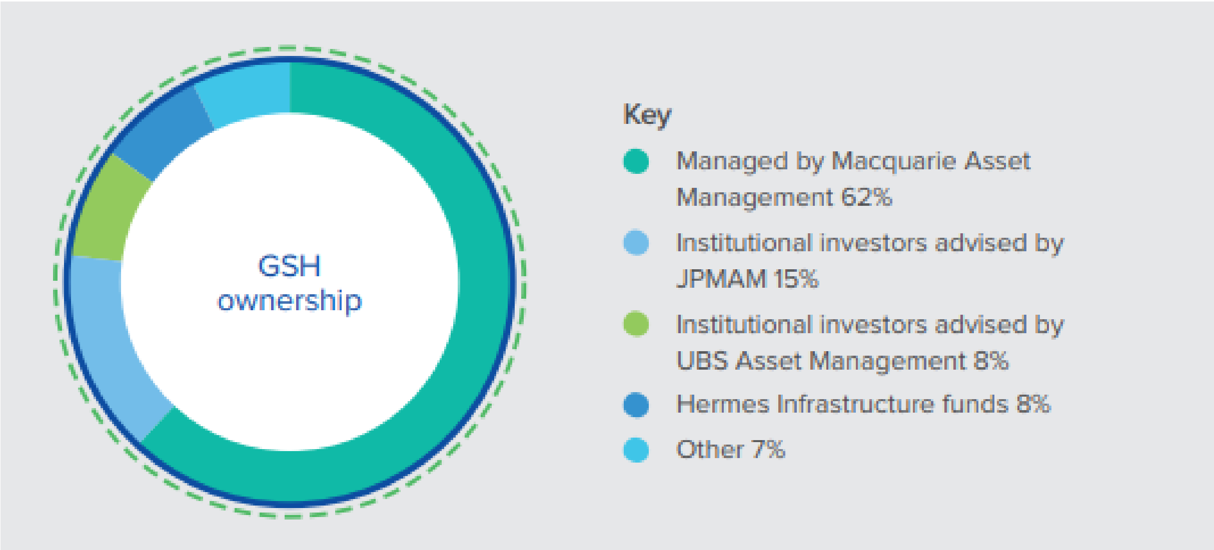
Capital structure, liquidity and other financial matters

Capital structure, ownership and borrowing covenants

Ownership

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

In September 2021, a fund managed by Macquarie Asset Management (MAM) acquired a majority stake in GSH, 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. None of the proceeds were paid to the existing shareholders of GSH.



MSCIF Wight Bidco Ltd – funds managed by Macquarie Asset Management on behalf of long-term investors including pension funds and insurance companies.

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.

IIF Int'l SW UK ParentCo Ltd - a constituent entity of the Infrastructure Investments Fund (IIF), a fund advised by J.P. Morgan Asset Management, a large-scale global asset manager advising institutional investors.

Hermes Infrastructure funds – Hermes Infrastructure is part of Federated Hermes International, formerly Hermes Investment Management and is a specialist infrastructure manager operating a diversified, well-established, UK-focused shared investment platform. With £4.1bn of assets under management, Hermes Infrastructure is one of the UK's largest direct investors.

Other – other minor shareholdings held by infrastructure investment companies.

Group structure

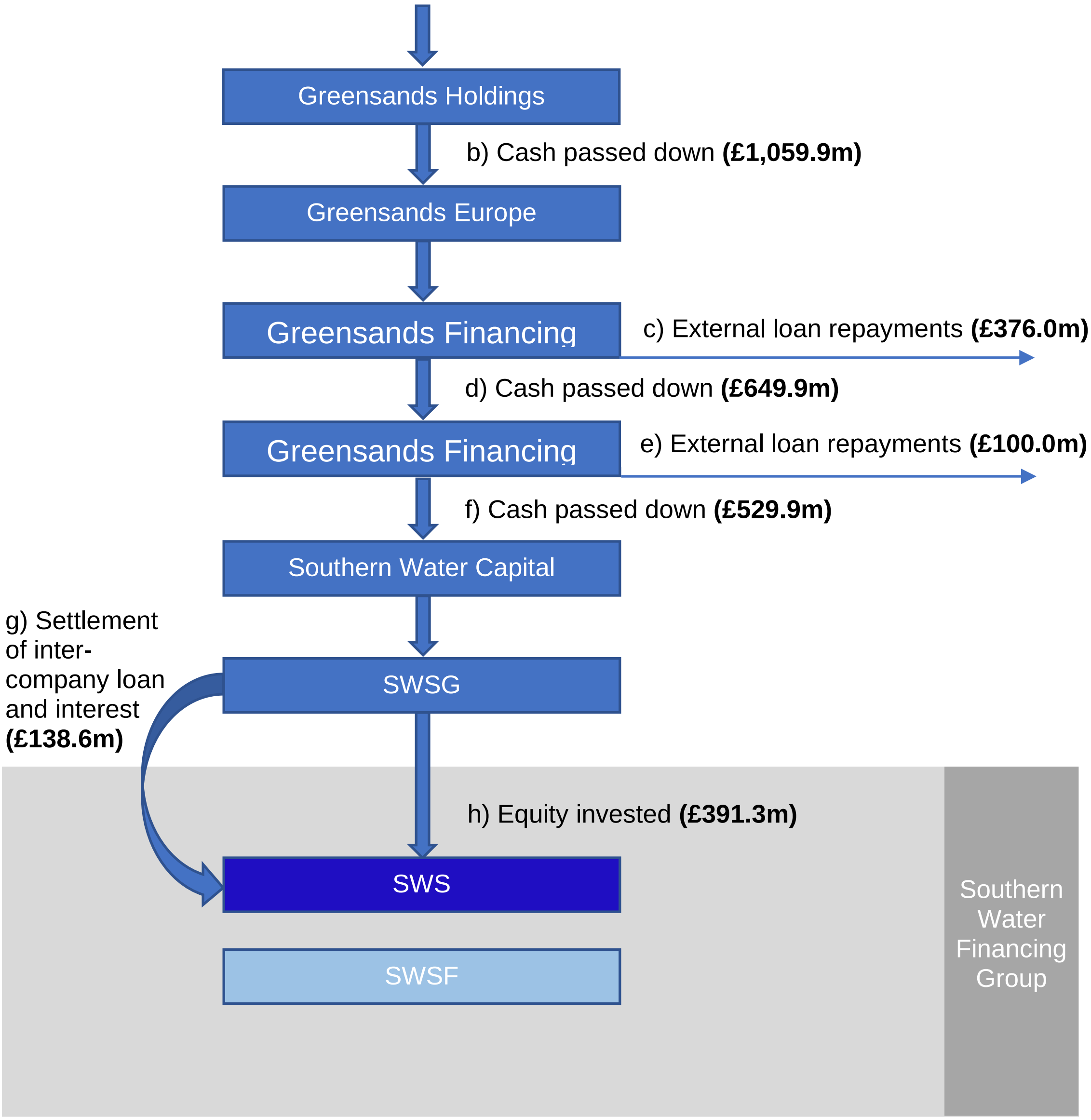
In September 2007, the Greensands group of companies was established for the purpose of the acquisition of 100% of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water, from the Royal Bank of Scotland (investing £1.9 billion of equity and debt to finance 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, a fund managed by Macquarie Asset Management (MAM) 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 funds flow from the investment by MAM are shown in figure 1 below.

Fig.1

a) Investment by a fund managed by Macquarie Asset Management **(£1,072.5m)**



Footnote:
a) Investment made into the Group by Macquarie Asset Management to acquire 62% of the shares in GSH
b) Cash passed down the group by GSH in the form of investments and redemption of inter-company loans
c) Repayment of external debt held at SWGF
d) Cash passed down the group by 'Holdco' in the form of investments and redemption of inter-company loans
e) Repayment of external debt held at GSF Ltd
f) Cash passed down the group by 'Midco' in the form of investments and redemption of inter-company loans
g) Settlement of inter-company loan of £130.0m and interest to the date of redemption of £8.6m
h) Equity invested into SWS

Corporate Level	Companies	Description
Greensands Holdings	Greensands Holdings Ltd (GSH)	The ultimate parent company for the group.
Greensands Europe	Greensands Europe (GSE)	Intermediate holding company. Listed (Jersey) Eurobonds held by shareholders in proportion to their equity were converted to an inter-company loan with GSH in June 2021.
Greensands financing companies 'Holdco'	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 SWSL. The security granted to the lenders of this financing is limited to the share capital of GSH. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWSL is fully protected, and fully isolated, from a default at any Greensands company.
Greensands financing companies 'Midco'	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 SWSL is fully protected, and fully isolated, from a default at any Greensands company.
Southern Water Capital	Southern Water Capital (SWC) Southern Water Investments Limited	Intermediate holding companies established 2002 as part of a previous ownership structure.
Southern Water Services Group	Southern Water Services Group (SWSG)	Intermediate holding company established as part of a previous ownership structure.
Southern Water Financing Group	SWS Group Holdings SWS Holdings Southern Water Services Limited (SWS) Southern Water Services (Finance) (SWSF) SW (Finance) I plc SW (Finance) II Limited	SWS is the regulated water and wastewater company. SWSF was incorporated to raise finance on behalf of SWSL. 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 SWSL 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 Holding Ltd is incorporated in Jersey, but UK tax resident. The company was incorporated in Jersey because Jersey law allows 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 is incorporated in the Cayman Islands, but is UK tax resident. SWSF was established for the express purpose of raising debt finance on behalf of SWSL. 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 is no longer necessary, and we are in the process of replacing SWSF with two new UK incorporated companies, SW (Finance) I plc and SW (Finance) II Limited.

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

The credit ratings shown here were updated in the summer/autumn of 2021 in response to the company's 2021 results, the outcome of the EA prosecution and the new equity investment by a fund managed by Macquarie Asset Management. The outlook for Standard and Poor's rating improved from Negative to Stable Outlook, the outlook for Fitch moved from Ratings Watch Negative to Negative, and the outlook for Moody's remained Stable.

A further credit rating downgrade by one or more Rating Agencies would result in a Trigger Event under our Common Terms Agreement which would restrict the payment of dividends and 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.

Corporate Governance Overview

Greensands Holdings Limited (GSH) 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 GSH, holding approximately 62% of the company's equity.

The GSH Board complements and supports the aims of Southern Water for its long-term success. While certain matters are reserved to the GSH Board and/or GSH'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 GSH 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 GSH Board comprises three directors. These directors are appointed by the company's majority shareholder, a fund managed by Macquarie Asset Management. Prior to the change of ownership in 2021, the Board comprised five directors, appointed by the then shareholders.

In September 2021, following the completion of the investment, the previous Board resigned and was replaced by the current Board of Directors.

Board operation

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

On its appointment in September 2021, following the change of majority shareholder, the three directors – Martin Bradley, Mark Mathieson and Will Price – of GSH were also appointed to the Board of Southern Water Services Limited, the operating company within the group. From 1 May 2022, Martin Bradley was replaced on the Board of Southern Water by Steve Fraser. Martin continues to be a director of GSH.

Will Price is, in addition to his roles on the GSH 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 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 GSH Board. Areas of particular focus during the year were largely focused on the investment by a fund managed by Macquarie Asset Management.

The GSH 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 GSH 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 Joint Ultimate Controllers of Southern Water have given undertakings to provide all necessary information to that company, not to cause Southern Water to breach any of its obligations and to ensure that there are not fewer than three independent non-executive directors on the Southern Water Board.

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

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

Role of the Company Secretary

Richard Manning, together with Intertrust Corporate Services (Jersey) Limited, act 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 GSH Board.

Director induction, training and development

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

Board meetings

The Board held a number of meetings during the year largely in relation to the activities surrounding the investment by a fund managed by Macquarie Asset Management. The Board also addressed a number of other matters through written resolutions. The agenda and papers are sent to the Board members in advance of each meeting.

The Board has no standing committees.

Annual General Meeting

As a result of changes in Jersey Company Law, to bring it in line with Company Law in England and Wales, GSH, 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

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 past year has seen Southern Water providing water and wastewater services – life's essentials – whilst coming out of the COVID-19 pandemic. This has been a difficult time for customers and frontline employees have been working in challenging conditions.

Southern Water has set ambitious targets across several areas of performance delivery, with a particular focus on pollutions, leakage and reducing storm overflows. The regulators, communities and the government have quite rightly been asking how the industry can improve performance to enhance protection of the environment while providing high-quality services to customers. The plans Southern Water will put in place and the initiatives contained within them, will require an appropriate funding structure to be agreed with Ofwat, the shareholders and the Board.

The prosecution of the company by the Environment Agency (EA) and subsequent fine in July 2021 for historic breaches during 2010 to 2015 has inevitably led to a need for Southern Water to rebuild the trust and confidence people have in the company to act responsibly and transparently. The company knows that it needs to focus on reducing pollutions, managing its assets and performance improvements, while protecting and enhancing the environment around us.

Southern Water has worked hard to transform the company culture to put in place processes that support several areas including self-reporting, and the high level of self-reporting it makes is now recognised in the sector. The regular updates from the culture dashboard act as a barometer of the company's culture, helping Southern Water to keep track of development and showing how the company's values are met – succeeding together, doing the right thing and always improving. Southern Water continues to provide information via it's website to inform customers and stakeholders about performance, and online Beachbuoy service provides near real-time data to the public about bathing water quality.

Ensuring the resilience of the business

Southern Water's commitment to protecting the environment is at the centre of its purpose and all the work it delivers. The company has started to implement a natural capital approach, creating the first Natural and Social Capital Framework and completing the first natural capital baseline assessment. This way of thinking will help shape plans at a time when the climate and biodiversity around Southern Water are in urgent need of protection, and the company has increasing challenges due to a growing population in its water-stressed region.

Southern Water's Net Zero Plan, published in July last year, showed how it plans to reach net zero carbon emissions by 2030. Tackling carbon emissions is key to reducing the harmful greenhouse gases which cause climate change. That is why the company has been involved in developing the sector's routemap to commit to zero operational emissions by 2030.

Southern Water has also made a commitment to zero pollution by 2040. Meeting this target will not be easy. Pollution reduction is an area where the company has already made improvements and has published its third update to the Pollution and Incident Reduction Plan (PIRP). The plan sets out how the company will invest £145 million to 2025 into a series of projects to reduce pollution incidents. Last year the company recorded 372 pollution incidents, and while this is a 7.5% reduction on the previous year, it is unacceptable and far from where the company wants, and needs, to be.

Reducing spills from storm overflows is a key area of focus, where the company's dedicated Storm Overflow Task Force will develop groundbreaking projects in five catchments over the next two years, using natural solutions such as water gardens and swales to cut or slow the flow of water into the company's systems. This will support the industry's efforts to protect the health of our rivers and seas from pollution. The company would also support moves by Ofwat and the EA to ensure that there is a level playing field for reporting of pollution incidents and storm overflow releases.

Southern Water's Catchment Risk Management team is looking at a variety of projects to use nature-based solutions to challenges across different areas in the region, in both river water catchments and areas where the company relies on underground (groundwater) sources, such as aquifers. To address the urgent threat to the natural capital of the harbours, the company is working with local and national organisations in Pagham, Chichester and Langstone Harbours to develop a coordinated programme of action with the Save our Harbours summits.

Keeping our customers front of mind

The company wants to achieve a high level of customer service and maintain affordability in these challenging economic times. The company is disappointed not to have improved it's position in the Ofwat Customer Measure of

Experience (C-MeX) table for the year finishing 16th out of 17 companies. The company continues to invest in digital services as an enabler and they are constantly improving self-serve options for customers to contact the company.

The COVID-19 pandemic has had an impact on the wellbeing and mental health of people and now inflationary pressures and world events will have a further impact on its customers' financial situation. In February, the company announced a fall in the average combined household bill for water and wastewater treatment services of £5 a month (1.3%), however it knows that affordability is still an issue for many customers, particularly at a time when energy bills are increasing. The company has reached out to those in need to include them on its Priority Services Register, increasing the number of customers on the register by 56%, and providing tailored financial support through our Hardship Fund and other schemes to 140,445 customers.

The company makes sure that it protects the water supply network for the benefit of our customers. Any attempts to compromise the network are taken seriously and the company are prepared to bring prosecutions. Over the past year Southern Water has successfully prosecuted a company and an individual who unlawfully accessed its network.

Southern Water's financial performance

During the year, a fund managed by Macquarie Asset Management acquired a majority stake in the Greensands Holdings Limited, investing over £500 million into Southern Water to enable it to increase its capital investment programme and accelerate its plans to make the necessary improvements to its operational performance, pay the Court fine and reduce gearing.

This process has already begun with capital investment to upgrade the water and wastewater network to provide a better and cleaner service for customers and local communities, totalling a record £617 million, excluding capitalised interest, during 2021–22.

The investment programme includes projects to reduce the levels of phosphorus discharged from the wastewater treatment works, upgrade treatment works to meet the needs of an increasing population and provide greater resilience during extreme weather events. It also aims to improve the resilience to water shortages, particularly in Hampshire, to reduce water the company takes from local waterways and increase expenditure to refurbish water and wastewater assets.

Southern Water's operating profits fell significantly to £16.0 million from £138.8 million in the prior year, largely because of the £90.0 million fine imposed following the Environment Agency's prosecution mentioned above.

Excluding the fine, Southern Water's operating costs increased by £19.8 million, principally from proactive maintenance activities to improve the company's wastewater compliance and pollution performance to reduce the risk of future equipment failures and pollutions from sewer blockages, as well as activities to support the catchment management, natural capital and Target 100 programmes.

No dividends were declared for the year, following the commitment by the Board that the company will not make dividend payments until it is clear that to do so will not undermine the company's financial resilience and its transformation programmes to improve both operational and financial performance.

Being brilliant at the basics – and more

Ensuring that Southern Water has resilient water sources long into the future is fundamental to what it does. The new reservoir planned at Havant Thicket as part of the Water for Life Hampshire programme is a good example of this. Working in partnership with Portsmouth Water, the new reservoir will enable Southern Water to maintain supplies to customers while protecting precious chalk streams.

While the company is working to ensure the delivery of essential services to customers into the future, it knows that its performance needs to improve. The company has made improvements in its delivery, but in some key areas these improvements are still not reaching the targets set for Southern Water by the company's regulators.

The company aims to reduce pollution incidents and minimise leakage. In both these areas, the company improved its performance last year compared to the previous year, however the company is still not meeting its targets.

Southern Water's wastewater treatment works compliance has improved from 10 failed works in 2020 to seven in 2021, however this remains above the target of zero.

In wastewater, the company performed better than the regulator's target for the number of external sewer flooding incidents, due to continued efforts to improve resilience. However, internal flooding incidents increased in 2021, following several severe weather events over the summer period.

The company must lower its Compliance Risk Index (CRI) score. This is only possible by reviewing the whole process from catchment level to customer taps. The importance of water in public health means the company must continue to improve it disappointing CRI score. A key part of this is the upgrading of several of the company's sites.

Southern Water is investing in major upgrades at both its Testwood and Otterbourne water supply works to be delivered by 2030.

Customers want and deserve a good, clean, reliable supply of water and it was positive that as well as seeing no more than 300 customers out of supply during storm Eunice, that Southern Water also met its unplanned water outage target. The company's regulators have confirmed that its incident response during storm Eunice was exceptional. In preparation for this storm, the company made sure that its response was effective by being predictive, prescriptive and preparative.

Southern Water published its sustainable development policy in April 2022, explaining how property developers can work with it to promote water efficiency and neutrality for new constructions. The company's score for serving developer and commercial customers (D-MeX) last year remained static on 15th place in the overall ranking and the company continues to implement its Developer Services improvement programme.

Protecting the environment is at the centre of Southern Water's work and the company received the maximum reward for performing better than its target for water abstraction at the River Itchen. This helps preserve the precious and unique chalk streams there.

Southern Water received a one-star (poor) performance rating in 2021 from the EA. This has gone down from its two-star (requires improvement) performance rating in 2020. The one-star EPA rating is due to four red metrics; pollution, serious pollutions, supply demand balance index (SDBI) and treatment compliance. As a company committed to protecting the environment and serving its customers, Southern Water was disappointed by the assessment, but is striving hard to continue to drive improvements and this is reflected in good signs of performance in 2022.

Southern Water is confident that its new ESG Committee will provide valuable oversight of the development and delivery of the sustainability ambitions.

Challenges we face as a business

Climate change and population growth are a dual threat meaning that the future holds many challenges. The company has been working with local stakeholders to look at how it can take steps towards water neutrality. This means reducing the amount of water used and making water saving and recycling part of customer's daily lives.

To help sustain clean water, reduce floods, capture carbon and provide wildlife habitats, the company has created a £5 million Environment Improvement Fund that is delivering projects to protect the natural environment in Kent, West Sussex and Hampshire over the next three years.

Southern Water's programme to support and incentivise customers to reduce their personal average daily water use to 100 litres by 2040 aims to reduce water consumption by 7% by 2025 and upgrade all its meters to smart meters. At the same time, the company has been working hard to reduce leakage, fixing a record 12,000 pipes.

Reducing blockages is the focus of an ambitious scheme to identify emerging risks, by rolling out up to 22,000 sewer level sensors in Kent, Hampshire, the Isle of Wight and Sussex.

Reflections on the year and our future priorities

Southern Water has entered year three of this current business plan period and the company needs to make sure that it delivers fully on its commitments. Building the strategy towards the next business plan period will require extensive planning to meet the environmental challenges being faced, including climate change, water neutrality and net zero. The company's refreshed environment strategy will help guide it along an adaptive planning pathway.

Working together as a team, it is the company's people that make the business work, and we are exceptionally proud that Southern Water is again rated among the Inclusive Top 50 UK Employers. The company continues to provide learning and development for all the company's employees. Over 8% of the company's people have started or completed an apprenticeship in the last 12 months and a new management academy is being put in place.

In stepping down as Chief Executive Officer, Ian McAulay commented that:

"It has been a privilege to have spent 37 years in the water and environment sector, and to have been able to lead Southern Water since 2017. I would like to thank both the Board and my colleagues for the support they have shown to me in that time. The time is now right to hand over the reins and I wish Lawrence Gosden success in his new role as CEO and have every confidence that he will drive ever increasing levels of performance going forwards.

I am confident that the company has a strong foundation for high-quality performance delivery to take Southern Water towards the resilient water future that we need to have in the South East. I would like the company's employees and suppliers for their hard work and commitment. I know the company can move forward to give its customers and its communities the service and public value they deserve, delivering better and faster into the future."

Regulatory Investigations

As has been reported previously, Southern Water was subject to a detailed investigation by the Environment Agency (EA) regarding permit breaches at some of the company's wastewater treatment works in two areas during the period 2010 to 2015. On 9 July 2021, the company was sentenced and fined £90 million plus £2.5 million of costs for these historic offences.

As has also been reported previously, the company continues to assist the EA in its separate investigation into legacy issues relating to wastewater sampling compliance for the period 2010 to 2017. This is ongoing and the company does not know when the investigation stage will be concluded, and the company does not know if or when any charges against the company are likely, or how many charges may be brought. The EA has not stated what its intentions are so far as the next steps in the investigation are concerned, and as a c

onsequence the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, but will keep the situation under review.

As has been reported in the media, in November 2021 the EA and Ofwat launched an investigation into flow compliance at sewage treatment works belonging to all water and wastewater companies in England and Wales. In March 2022, Ofwat opened enforcement cases into five water companies; Southern Water was not one of those companies. However, all water and wastewater companies in England and Wales remain subject to ongoing investigations as they continue to review the information they have gathered.

In May 2018, chlorate was detected at High Park reservoir. The Drinking Water Inspectorate (DWI) brought a prosecution for a breach of Regulation 31 Water Supply (Water Quality) Regulations 2016 in relation to the storage and use of Hypochlorite at the High Park booster station. The DWI did not pursue a case for unfit water. A guilty plea was entered on 24 May 2022 and the court issued a fine of £16,000.

Principal risks and uncertainties

The group has one operating company, Southern Water. The risks relating to this company are covered in detail on the following pages. The Group faces additional financial risks which are detailed below:

Liquidity and refinancing risk

The Group comprises three separate debt financing structures of Southern Water, Greensands Financing (Midco), and Southern Water (Greensands) Financing (Holdco).

Debt covenant ratios for 2021-22 are all within Trigger and Default levels.

Southern Water has sufficient liquidity in place to finance the business for at least the next twelve months. Southern Water also obtained a waiver from its lenders in February 2021 which allows full use of available liquidity, plus the raising of new finance, even in a Trigger Event scenario of a credit rating downgrade or a breach of a trigger debt compliance ratio.

The going concern statement in the Director's report on page 35 sets out the reliance on distributions from Southern Water Services in order to fund future interest liabilities at Midco and Holdco.

Southern Water risks

Managing risk

The company'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 Board. The company's 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 the company and it's customers by allowing Southern Water to:

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 it's 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 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 the company's analysis to support the Board's determination of risk appetite and to monitor and report against it.

Risk management embedded in business processes

Across the company its risk management approach is embedded within the business units and their business processes. The company 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;
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company 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.

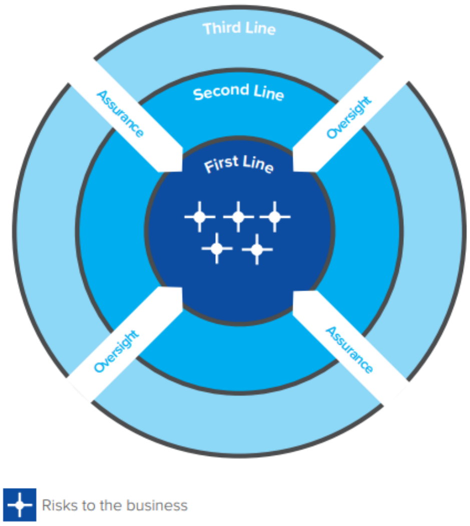
Three lines of defence

The company's 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 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 L ine
- 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.

Always improving

The Board continues to recognise the importance of effective risk and resilience management. Collaborating across the company helps Southern Water to better understand the needs of the key stakeholders and identify any gaps and inconsistencies in the existing framework. As part of the company's regulatory commitments, the company is continuing to improve and enhance its approach to risk and resilience management. The key milestones include:

The next 12 months

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

- Continued training across the company to embed the business partnering model and to develop their enterprise risk profiles and support risk-based decision-making.
- Refreshed approach to reporting of risk to the Board, Board Committees and Executive Leadership Team.
- Lead the risk assessment of the business plan in preparation for the business plan submission to Ofwat.
- Delivering on the company's regulatory commitments to Ofwat through the implementation of a newly implemented Governance, Risk and Control (GRC) system to integrate and support assurance and control work across the company's risk and compliance teams.
- Driving continuous improvement through the company's systems of risk-data capture, analysis, and training work with its business partners across the company.
- Strengthening the company's analytical risk management capabilities to utilise enhanced risk management data and insights to facilitate risk-based decision-making and deliver business intelligence reporting.
- Running interactive risk sessions with the Executive Leadership Team.

- The improvements the company is making to its risk management approach are setting the company up for future success. As the company further embed these improvements, they will be able to demonstrate to their customers and external stakeholders that the decisions they make are considered, well thought through, and demonstrate continued commitment to their 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 the company. 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 Board

The role of the Board is to promote the long-term sustainability of Southern Water 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 Board is responsible for maintaining an effective risk culture and is committed to:

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

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

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

The Board ensures the oversight and monitoring of the company's 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 Board on the company's overall risk appetite, tolerance, culture and strategy. Considering the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our 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 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;

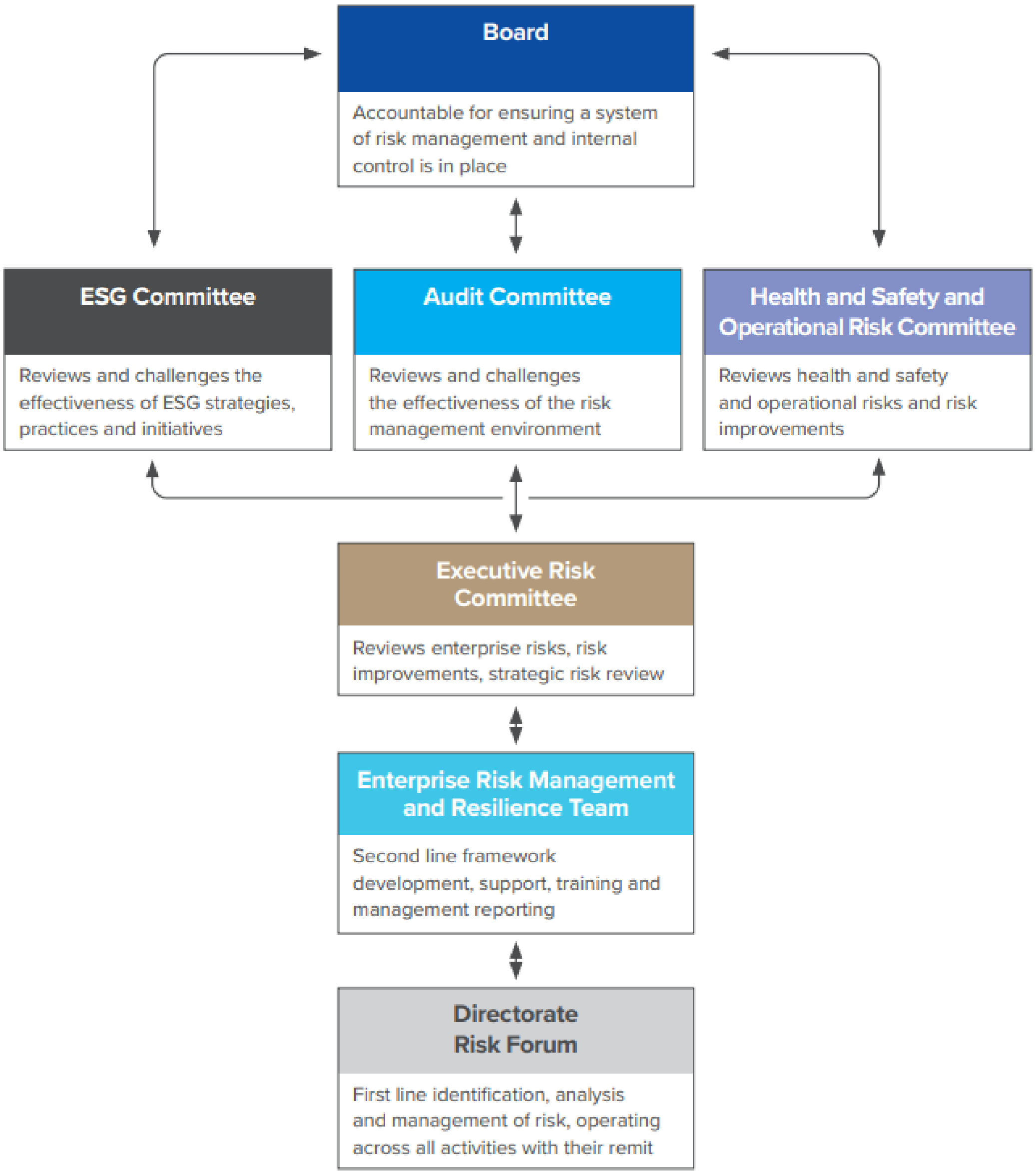
operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

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.

For the upcoming financial year, the Board has approved the formation of an Environmental, Social and Governance ("ESG") Committee. This committee will be tasked with supporting the Board in defining the company's strategy relating to ESG matters and in reviewing practices and initiatives relating to ESG matters, ensuring that they remain effective and up to date.

Key risk and governance responsibilities include:



During the year, to enhance the company's organisational risk governance, the Board decided to change the terms of reference of the Audit and Risk Committees and create two risk-focused committees. The reformed Audit Committee was tasked with focusing on enterprise and corporate risks and the renamed Health and Safety and

Operational Risk Committee with a focus on operational risks.

Prior to the change, the Audit and Risk Committees each met three times during the year. Thereafter, the new committees each met once. Going forward each committee will meet a at least four times a year.

Emerging and principal risk

Southern Water regularly considers new, changing, or emerging risks that could affect its ability to achieve long-term objectives. The company's risk assessment process monitors management information from a wide variety of internal and external sources when considering emerging risks and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur. The company considers its emerging risks as:

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. The company is currently subject to a number of DWI notices; this could lead to a risk of additional financial penalties.	The company 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 its performance related to its business operations and its provision of a sufficient supply of high-quality drinking water.
Environmental	Environmental stakeholders are increasing pressure on water companies to limit impact on the environment. This has emerged as a national debate on the future use of Combined Sewer Overflows and their impact on the environment.	The company continues to reform and implement business practices to reduce pollution incidents and to comply with its licence conditions for abstraction, wastewater discharge and biowaste treatment to improve biodiversity and ecosystems resilience.
Prolonged supply chain disruptions	The risk that the company will experience prolonged supplier risk events due to supply chain disruption caused by labour issues, extreme weather events, Russian-Ukraine conflict, Brexit trade disputes, recovery from the COVID-19 pandemic and cyberattacks or other factors	The company is taking action to boost resilience through negotiations with its suppliers, strengthening its contract management, the use of localised supply chains where possible, refreshing its outsourcing policy, conducting regular supply chain resilience assessments to define strategy and capability build-out to anticipate and mitigate future disruption.
Prolonged macro-economic downturn and accelerated inflation	The risk that a sustained macroeconomic downturn and inflationary pressures will continue to increase the prices of goods and services and significantly raise the cost of doing business, reduce customer/employee buying power and negatively impact its revenues, debt financing and ability to raise future capital.	The company has implemented measures that can help mitigate the adverse impact including the supply chain strategy, budgetary management processes, vulnerable customer support services and enhanced financial performance measures and metrics to assess cashflows and liquidity.

Those risks that have the potential to have a material impact on the company are its 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 Board review the business's principal risks. These may be updated during the year in response to changes in internal and external circumstances.

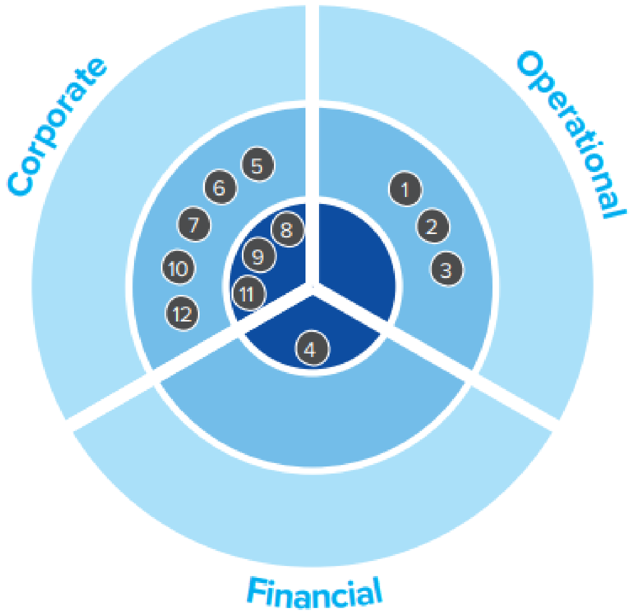
The company currently have 12 principal risks. These are a key feature of our Risk Taxonomy and risk appetite. The company's principal risks reflect its commitment to its values: doing the right thing. succeeding together. always improving. The company reviews its principal risks and their risk components on an annual basis, ensuring emerging risks are reflected and that the current structure adequately reflects the risk context in Southern Water.

In March 2022, the company recommended to the Board to include "People" as a new principal risk to reflect the rising people and skills risk being faced by the company. The "People" risk replaced the former "Transformation" risk, with relevant sub-components from the 2021 "Transformation" risk being split between "Delivery" and "People" in 2022. This appropriately reflects the company's development of its risk management framework and risk management approach.

Principal risks and uncertainties

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	▶ ◀	Southern Water is challenged to manage its water resources through a below average rainfall winter while complying with its regulatory abstraction limits.
2	Wastewater	Operational	▶ ◀	Southern Water is challenged to manage an increase in capacity demand and extreme weather events while meeting its regulatory targets.
3	Customer	Operational	▶ ◀	Southern Water is managing a tight funding regime with the scale of customer service improvement required to deliver its business plan.
4	Financial	Financial	▼	Southern Water is impacted by external factors affecting the availability and cost of capital.
5	Compliance	Corporate	▶ ◀	Southern Water remains under continued scrutiny by its regulators as it transform the business and deliver on its business plan.
6	Climate Change	Corporate	▶ ◀	Southern Water is managing various work programmes for both aspects of climate change, Mitigation and Adaptation.
7	Delivery	Corporate	▶ ◀	Southern Water is managing the delivery of Totex projects which includes its extensive capital investment delivery programme and significant Opex funded strategic projects.
8	Information Technology (IT)	Corporate	▼	The global heightened cyber security risk arising from the Russia/Ukraine conflict and the underlying risk associated with the Network and Information Systems (NIS) Regulation has increased risk in this area.
9	Resources	Corporate	▼	The impact of Brexit and prolonged uncertainty in the global markets in post-COVID operations has increased risk in this area.
10	Health, Safety	Corporate	▶ ◀	Work is underway across the business to embed and enhance its Health, Safety, Security and Wellbeing improvement plan.
11	Corporate Affairs	Corporate	▼	The ongoing debate on the future of Combined Sewer Overflows (CSOs) which could lead to a significant change in the company's operating environment.
12	People	Corporate	▶ ◀	The company is adapting its ways of working to the longer-term impact of the COVID-19 pandemic.

Risk Climate ▲ Improving ▶ ◀ Stable ▼ Deteriorating

Risk Climate ▲ Improving ► ◄ Stable ▼ Deteriorating

Operational risk

1. Water

The company must ensure that it can supply enough good quality drinking water to cater for a growing population of more than 2.6 million people across the region. Should operational water treatment processes or control systems fail, the water supply become contaminated, or our water distribution network fail:
• there is a risk that water could be supplied to customers that is unfit for consumption,
• customers could find their water supply becomes cut off,
• harmful chemicals could be released to the environment.

Executive accountability:
Managing Director – Water

Risk climate: ► ◄

The risk profile has remained static from last year but is still in a challenging position. This has been caused by a below average rainfall winter alongside the amendment of regulatory limits on the amount of water that can be abstracted for water supply in our Western region. Increased demand from the company's customers, continues to place additional stress on its asset infrastructure. The company is also dealing with significant levels of asset risk on some of the key operational sites and this is reflected in key performance metrics including Interruptions to Supply, Compliance Risk Index (CRI), Event Risk Index (ERI) Supply Demand Balance Index (SDBI) and Leakage. Much of this risk position has been mitigated by strong event management and incident management processes, which have helped maintain service levels (most notably during the Storm Eunice event).

Risk driver(s):

• Ageing infrastructure increasing the frequency and severity of asset failure
• Challenge of new asset integration while sites in operation
• Non-adherence to established processes and procedures when under pressure of operational incidents
• Challenges of power resilience on operational sites
• Fluctuation and severity of weather events.

Mitigating strategy:

• Water for Life – Hampshire – programme of significant capital and asset improvements to provide long-term resilience.
• Water First, our improvement programme strengthening internal processes and asset performance.
• Creation of new logistics team that will manage the inventory of materials and equipment in the field including in-sourcing of water tankering capability.
• Implementation of new control centre initiative that will enhance operational response to adverse conditions by boosting control shift resource and out of hours management.

Forecasted business impact:
Medium term

Operational risk

2. Wastewater

The company's region benefits from a high-quality environment, both inland and coastal. The company is fortunate to have some extremely rare habitats, as well as some of the best quality river fishing and coastline in the UK. Reliable wastewater services are essential to maintain public health and protect the environment. Should operational wastewater treatment processes fail, or the company's sewers and pumping stations become blocked or fail, the company's assets may discharge sewage, which is not of the required standard, to the environment. This may cause risks to the environment or public health from pollution and/or sewer flooding. This could lead to prosecution and fines by the Environment Agency and a reduction in stakeholder and customer confidence.

Executive accountability:
Managing Director – Wastewater

Risk climate: ► ◄

The level of risk remains steady but at a high level. The company's performance has been challenging, specifically in light of increased capacity demand, fluctuations in extreme weather events and challenging regulatory targets that are becoming increasingly onerous. A national debate on the use of storm overflows has intensified over the last year. The company is also under significant scrutiny from the general public and stakeholders with respect to is impact on the environment; with a key focus on spills to the environment in rivers, chalk steams and bathing waters.

Risk driver(s):

• Asset capability performance due to ageing infrastructure
• Increase in regional power outages
• Investment requirements to support growth schemes for new housing developments
• Meeting the required standards of wastewater treatment and asset management to protect the environment and/or public health from pollution and/or sewer flooding
• Non-adherence to established processes and procedures when under pressure of operational incidents.

Mitigating strategy:

• Over £1.5 billion investment to 2025 to improve the capacity and capability of the company's wastewater network across the region.
• Storm Overflow Task Force to help reduce the harm from storm overflows.
• Ongoing Pollution Incident Reduction Plan.
• Wholesale strategic programme of projects to support key capability including asset maintenance, digitalisation and improvements to the control centre, and a new approach to logistics.

Forecasted business impact:
Medium term

Risk Climate ▲ Improving
▶ ◀ Stable ▼ Deteriorating

Operational risk

3. Customer

Providing an excellent customer experience is a key objective for the company. Southern Water recognises the importance of prioritising its customers, and that accomplishing its strategic goals is reliant on Southern Water providing the level of service expected by its customers and its regulators. The company may not be able to provide the desired standard of service to its customers if there is inadequate capability in its people, process or systems.

Executive accountability:
Chief Customer Officer

Risk climate: ▶ ◀

The scale of the challenge is significant if the business plan for 2020–25 is to be delivered; the company faces a tight funding regime and the level of customer service improvement required to deliver its plans is significant. The company's performance on key metrics is improving although it remains in the bottom third of companies for both customer satisfaction (C-MeX) and developer satisfaction (D-MeX) scores. There has been no significant change in the risk profile during 2021–22. The company continues to deliver improvements through the Customer Transformation programme (Velocity). Improvements to how the company runs its developer services channels continue to be implemented strengthening performance in this area.

Risk driver(s):

• Customer and wholesale business impact on the company's C-MeX and D-MeX performance
• Manual processes, which may lead to errors that require automating
• Transformation project (Velocity) does not deliver in improvement to cost to serve.

Mitigating strategy:

• The customer transformation project (Velocity) continues to develop the processes and technology that underpin the company's customer service
• Contractual targets in place for customer service provided by third-party suppliers
• Cross functional C-MeX working group established to ensure appropriate accountability and management focus across all relevant parts of the business
• Dedicated team in place to proactively engage with local authorities and new-build developers, to ensure the appropriateness of supply planning and connection
• Specific incident management process and procedures for customers in the event of service impacts
• Process in place to support vulnerable customers affected by operational incidents.

Forecasted business impact:
Medium term

Financial risk

4. Financial

Exposure to financial markets and other macro-economic factors, given the company's requirement to raise finance to fund the capital investment programme and to refinance debt maturities, results in Southern Water being impacted by external factors affecting the availability and cost of capital. A failure to maintain certain credit ratings could lead to an increase in interest cost and reduced availability of capital. This could put pressure on the company's ability to finance its capital investment programme or refinance its existing debt maturities. The company enters into treasury transactions to manage inherent risk and support prudent funding, and not to speculate. The company also manages its internal financial resilience and ability to manage budget overspends and other pressures on its financial position.

Executive accountability:
Chief Financial Officer

Risk climate:

The company's risk profile has deteriorated over the year. The company has seen an improving position in relation to the investment from new shareholders, a fund managed by Macquarie Asset Management. This has injected new capital into the business strengthening the balance sheet, and providing funds for investment, which has resulted in an improved outlook for the company's credit ratings. However, the company has experienced pressure on operating budgets and budget overspends. The company continues to be at risk of a credit rating downgrade as a result of poor operational performance versus the company's peers and the 2019 Price Review Final Determination. The company continues to invest in improving performance. Our credit ratings are provided on page 13.

Risk driver(s):

• Accuracy of forecasts to meet long-term liabilities and obligations.
• Ability to access cost effective capital through maintaining an appropriate credit rating.
• Ability to manage internal cost challenges and pressures.

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, such as the pollution reduction plan
• Continued use of a Sustainable ESG Framework during the year with the issue of dual tranche sustainable bonds.

Risk Climate ▲ Improving
▶ ◀ Stable ▼ Deteriorating

Corporate risk

5. Compliance

Southern Water is a highly regulated business and high standards of compliance are expected. Inadequate resources, processes, structure, capability, culture, governance and assurance could result in failure to meet these high standards consistently. The consequences can be regulatory enforcement, fines, legal action and, in the worst case, the loss of the company's licence to operate as a water and wastewater company. As with all companies Southern Water is also required to comply with corporate legislation (for example Competition Law and the Bribery Act). Existing and changing legal and regulatory requirements encourage the business to operate in an agile way to ensure continued compliance with its obligations.

Executive accountability:
Director of Risk and Compliance

Risk climate: ▶ ◀

The company's risk posture for compliance is complex and has remained static over the last year, albeit at a high level. The company remains under continued scrutiny by regulators. During the year the company was prosecuted by the Environment Agency (EA) for wastewater permit breaches from 2010–15. The company continues to assist the EA with its ongoing investigations into legacy issues relating to wastewater sampling compliance. The Drinking Water Inspectorate (DWI) and the EA continue to monitor the company's delivery of regulatory schemes (outputs) and this is likely to continue in the future.

The company's CRI performance continues to improve but further improvement is required. The company's one-star performance on the EA's Environment Performance Assessment (EPA) has declined from 2020, with four metrics rated as 'Red'. Ofwat continue to focus on Southern Water's performance and compliance with its Section 19 Undertakings. Ofwat and the EA have both begun industry wide investigations into wastewater treatment flow compliance.

Risk driver(s):

• Failure to comply with the requirements of the company's Licence
• Failure to meet the company's obligations with the EA, as reflected in the Environmental Performance Assessment (EPA)
• Meeting the company's Water Quality obligations as reflected in key performance metrics (CRI and ERI) and DWI notices and enforcement.

Mitigating strategy:

• Delivery of key transformation and training programmes in both water and wastewater parts of the business.
• Ensuring appropriate governance through the embedding of a robust three lines of defence compliance model
• A compliance framework with internal monitoring and assurance and an ethical business framework
• Compliance with company procedures is reviewed through self-assessment every six months.

Forecasted business impact:
Short term

Corporate risk

6. Climate change

The impacts of climate change continue to increase the company's related risks, such as impacts on our water resources, increased drought and flooding, and extreme weather events. The company supplies drinking water to a growing population in areas already classified as under 'severe water stress'. If the company is unable to improve its resilience to the extreme weather events predicted by the physical impacts of climate change:
• The company will find it increasingly difficult to supply sufficient water to meet the growing demands of the company's customers though scarcity of water resources, heat stress or contamination by saline intrusion of existing water reserves
• the assets on the company's sites, or its sewer system network, could more easily be overwhelmed by storm events, leading to flooding or pollution in the company's region; and
• the company's coastal sites may become inundated from rising sea levels or at risk of coastal erosion and subsidence.

Executive accountability:
Chief Environment and Sustainability Officer

Risk climate: ▶ ◀

The company is working on both aspects of climate change. Mitigation to reduce its contribution and adaptation to ensure its resilience to the existing and future impact of climate change.

The company's risk profile remains stable. Extreme weather events such as flooding, and storms are becoming more frequent and impact its ability to supply sufficient water to meet the growing demands of the company's customers.

While stringent abstraction licences continue to challenge the company's ability to meet customer demand while also protecting the sustainability of natural resources and the environment.

Risk driver(s):

• Failure to adapt to the long-term effects of climate change
• Challenging regulatory and societal targets
• Increased customer demand
• Fluctuation, severity and frequency of weather events.

Mitigating strategy:

• Climate Change Adaptation Report (published December 2021)
• Net Zero Plan
• 50-year Water Resources Management Plan
• Target 100 water efficiency programme
• Drought Plan
• Investment in new infrastructure
• Drainage Wastewater management plans.

Forecasted business impact:
Medium term

Risk Climate ▲ Improving
▶ ◀ Stable ▼ Deteriorating

Corporate risk

7. Delivery

The company has a planned totex investment programme of £2.1 billion between 2020 and 2025. The company has plans in place to ensure it will deliver this and is working hard to ensure its focus is maintained to complete all works on time. If the company is unable to deliver significant parts of the programme on schedule, the company's ability to provide an excellent service to its customers could be compromised or prevent Southern Water from fulfilling the promises that it has made in its business plan and commitments to the regulators.

Executive accountability:
Chief Operating Officer

Risk climate: ▶ ◀

The scale of the requirements of the capital investment delivery programme combined with a tight financial settlement in the period 2020 to 2025 has maintained risk in this area.

The size and scale of the requirements of the investment delivery programme, plus stringent requirements from regulators to deliver extensive programmes of work continues to exert pressure in this area. Managing changes to the programme delivery within established financial envelopes and contractual relationships is a challenge.

In addition, the company has significant Opex funded strategic projects which will help the performance of the business; the company is also delivering the planning and production of its next business plan.

Risk driver(s):

• Tight Financial Determination from Ofwat has put pressure on capital delivery budgets.
• Challenging delivery efficiencies that are required to deliver value for the wider business.

Mitigating strategy:

• The company has brought significant investment capability in house including:
  − An embedded 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 the company's Final Determination obligations, continually assessing its financing status.

Forecasted business impact:
Medium term

Corporate risk

8. Information Technology (IT)

If the company does not maintain the resilience of its operational and enterprise IT systems, their failure could have a significant impact on the company's business reputation, ability to operate, and the resilience of its operational assets.

Additionally, the company holds and processes personal and payment data about its customers and employees so it is important that this information is treated with respect and in accordance with the requirements of information governance.

Failure to properly protect the data the company holds could lead to reputational damage and loss of confidence from 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: ▼

There has been an increase in the risk climate. The conflict in Ukraine has heightened the overall cyber security risk, in addition to underlying risk associated with the NIS directive. The company continues to rebuild our IT capability. This transformation has been ongoing for the past five years and seen an improvement in the company's IT estate.

Risk driver(s):

• Insufficient cyber security controls and monitoring in place for business systems to avoid malicious attacks
• Technology failure through the use of and dependency on legacy systems
• Mishandling or deliberate sabotage of data
• Inability to monitor and manage operational functions (telemetry and control) or to provide IT supported customer services, including billing or new service provision.
• Weakness in the security of SW's telemetry OT network, where physical access to the network can be obtained.

Mitigating strategy:

• Business continuity processes reducing impact on IT systems
• Active programme for migration of services off heritage 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.

Forecasted business impact:
Long term

Areas impacted:
Customer experience, Business disruption, Brand and Reputation, Legal and Regulatory, Financial.

Risk Climate ▲ Improving
►◄ Stable ▼ Deteriorating

Corporate risk

9. Resources

The nature of the company's business model includes the use of long-term contracts for the provision of critical goods, services and works, as well as some outsourced activities. Some of the company's most critical resources include the supply of chemicals, fuel, and spare parts to ensure continuity of service, as well as the energy required to power the company's operational equipment on a continuous basis, at a commercially viable price.

Inflationary pressures and disruption in production capacity and the global supply chain has reduced availability, delayed supply and driven protracted prices hikes to increase the risk in this area.

There is a risk that a failure to have the required external market capability and capacity, would lead to Southern Water being unable to deliver its commiments to its customers, stakeholders, and shareholders.

Executive accountability:
Chief Operating Officer

Risk climate: ▼

As the company enter the post-COVID-19 period, respond to the impact of BREXIT and the uncertainty in global markets the company's risk climate has deteriorated.

Risk driver(s):

• Russia being one of Europe's largest providers of oil and gas, and sanctions hitting exports, energy prices have subsequently soared to record highs.
• Periods of global disruption can completely transform the sourcing landscape, turning items once considered low-risk commodities into business-critical inputs overnight and impacts on the value of the commodities.

Mitigating strategy:

Hedging strategy is in place for energy cost fluctuations/ increases to manage impact to end customers.
• The Contract Management framework is in place to effectively work with suppliers to mitigate risks of supply and impacts of inflationary issues, with no material impacts occurring.

Forecasted business impact:
Short term

Areas impacted:
Business Disruption, Brand and Reputation, Financial.

Corporate risk

10. Health and safety

The health, safety, security and wellbeing of the company's employees and the public is of the highest priority. The nature of the company's work requires that its employees and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm.

Failure to comply with the company's Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects. The company could be liable for prosecution under the Health and Safety at Work and Corporate Manslaughter Acts, civil claims and employers' liability and professional liability.

Executive accountability:
Chief Executive Officer

Risk climate: ►◄

The company's risk profile remained stable in 2021–22. During the year the company formed a Health and Safety and Operational Risk Committee. The company also undertook a complete review of its processes and procedures and are working on an enhanced improvement plan to reduce its existing risks.

Risk driver(s):

• Incident occurrence from deteriorating assets, trips and hazards, and poor behaviours impact asset security and personal safety
• Failure to adopt standardised approach and guidelines within the business
• Asset damage, disturbance and nuisance from the company's external operating environment.

Mitigating strategy:

• Significant review of our health and safety approach, processes, procedures and capabilities
• Enhancements to the company's safety communications and reporting,
• Continued improvement of training and development programmes.
• A renewed focus at board level with a health safety and operational risk committee.
• Clearly defined strategy, safety protocols and standards in line with legislation and industry best practice
• Front-line team accountability
• Site safety inspections and audits
• Suppliers and delivery partner standards
• Enhanced incident reporting and investigation including near misses and lost time incidents
• Mandatory health, safety and wellbeing training

Forecasted business impact:
Short term

Areas impacted:
Business Disruption, Brand and Reputation, Legal and Regulatory, Financial.

Risk Climate ▲ Improving ►◄ Stable ▼ Deteriorating

Corporate risk

10. Corporate affairs

Failure to effectively monitor and adapt to any changes in the company's political and regulatory frameworks, or a failure to influence change to the political or regulatory landscape, may lead to potential un-forecasted increases in administrative costs, reduced revenue, and ultimately non-compliance.

The company's current business plan and approved pricing structure runs until 2025. The company is under stringent financial constraints, performance incentives and targets, making longer term resilience more challenging.

There is a risk that changes in the political landscape, new legislation and Ofwat's approach to the 2025–30 price review may cause costly consequential impacts on the water sector to which the company will have to adapt.

Executive accountability:
Chief Environment and Sustainability Officer

Risk climate: ▼

The company's risk profile has deteriorated during 2021–22 in relation to the debate on the future of Combined Sewer Overflows (CSOs) which could lead to a significant change in the company's operating environment.

Risk driver(s):

• Inability to meet assumed performance as reflected in Operational Delivery Incentive (ODI) performance
• Ineffective regulatory change horizon scanning
• Lack of influence in shaping the outcomes of change, including in relation to the price review for the period 2025–30
• Ability to adapt and transform the business to meet the changing environments in which we operate
• Inability to influence the perception of the business following past events.

Mitigating strategy:

• Monitor developments in the requirements from all of our regulators on key issues
• Maintain close dialogue with Government, Ofwat and other regulators on key issues
• Work with the company's customers to understand their perception of our delivery, and future ambitions
• Continue to engage constructively with all of the company's regulators in regards to the water scarcity challenges
• Work with the company's regulators on how the company better understands and addresses its customers' needs to enable successful outcomes in the next price review period 2025–30.

Forecasted business impact:
Long term

Areas impacted:
Customer Experience, Brand and Reputation, Legal and Regulatory

Corporate risk

11. People

The attraction, retention, and succession of the right people, with the right skills for the role, is a central part of the company's long-term strategy and our ability to ensure the company is agile and adaptable to change.

The company has designed its people risk framework to support a diverse and inclusive culture that promotes employee engagement and demonstrates the desired conduct and behaviours that align with the company's values. It includes building and retaining an industry-leading workforce and managing its people to upskill and develop the company's talent. This means the company can ensure that it has the right resources to support its operations while implementing HR processes and procedures that support, protect and manage its people, and provide a fair and transparent reward and recognition programme.

Executive accountability:
Director of HR

Risk climate: ►◄

The company's risk profile during 2021–22 has remained consistent – the company's execution plans are comprehensive; however the company continues to face challenges, especially in relation to talent attraction. The company continues to adapt to the longer-term impact of the post-COVID pandemic in relation to employees, contractors and its ways of working.

Risk driver(s):

• Ability to attract and retain the right skills (Technical and STEM) to perform and deliver on the company's strategic priorities
• Regional challenges related to location and reward packages
• Negative impact on employee morale and fatigue through continued change.

Mitigating strategy:

• Ongoing workforce planning analysis and high-level strategic talent reviews take place across the business to assess capability and capacity needs
• Launched employer brand
• The company's Management Academy supports in-role development and career progression
• The company's recruitment strategy streamlines out best route to market
• The company's annual engagement surveys assess its employee satisfaction to develop action plans
• Inclusion and diversity action plan.

Forecasted business impact:
Medium term

Areas impacted:
Customer Experience, Business Disruption, Legal & Regulatory, People, Financial

Directors' report for the year ended 31 March 2022

The directors of Greensands Holdings Limited (Registered Number: Jersey 98700) present their report and the audited financial statements for the year to 31 March 2022.

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 15 and pages 16 to 32.

Future developments

The information regarding future developments of the company can be found in the Strategic Report sections on pages 2 to 15 and pages 16 to 32.

Results and dividends

The consolidated statement of other comprehensive income on page 42 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 2022 (2021: £nil).

Greensands Holdings Limited generated a profit for the financial year of £38.2 million (2021: £44.0 million). The profit this year has been primarily caused by professional fees of £12.2 million and a tax charge of £28.1 million.

Directors and their interests

The directors who held office during the year ended 31 March 2022 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 had any disclosable interests in the shares of the company or the Group.

W Price (Appointed 8 September 2021)
M Mathieson (Appointed 8 September 2021)
M Bradley (Appointed 8 September 2021)
B Somes (Resigned 8 September 2021)
P Hedley (Resigned 8 September 2021)
J Lynch (Resigned 8 September 2021)
H De Run (Resigned 8 September 2021)
S Howard (Resigned 8 September 2021)

Research and development

The improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the Group's strategy to enhance the quality of service to customers and improve methods of working. Research and development charged to the income statement amounted to £0.8 million (2021: £0.6 million).

Employees

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

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

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

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

General information is posted on the Group intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues that may affect the Group.

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

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

Every employee receives training, instruction and supervision to deliver their role, propionate to the specific level of risk. There is an enterprise-wide meeting and consultation structure in place that delivers top down/bottom-up engagement in the health, safety and wellbeing space.

Change is consultative and tested with employee, supply-chain and industry groups. The Group holds multiple Health and Safety engagement events throughout the year, many of which this year focused on wellbeing.

Southern Water recently engaged with Du Pont to conduct an independent assessment of the management of health and safety risk. The results of this assessment form the core of its transformation plan. The transformation plan will deliver cultural, behavioural, process and system improvements over the course of the next several years and well into the next five-year period.

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

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 Group continues and that appropriate training is arranged. It is the policy of the Group 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 Southern Water work better as a group and fosters a culture to ensure that the Group is always doing the right thing for each other, its 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.
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 page 28 of the Strategic Report and note 23 to the consolidated financial statements.

Going concern

The directors believe, after due and careful enquiry, that the group has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the financial statements to 31 March 2022.

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

- The financial position of the company, its cash flows, liquidity position, covenants and borrowing facilities, which are described in the Financial Performance review on pages 2 to 7.

- The company's business activities, together with the factors likely to affect its future development, performance and position, which are set out in the Strategic Report on pages 2 to 15.

- The group has available a combination of cash of £561.1 million (including £55.0 million of cash held in accounts which can only be used in the event of a default) and committed undrawn bank facilities of £510 million (including £80 million which can only be used in the event of a default), totalling £1,071.1 million at 31 March 2022 (2021: £832.6 million). These funds are sufficient to fund the operating and capital investment activities of Southern Water Services Ltd (as set out in the Board approved budget), plus holding company debt service, for a period of at least 12 months from the date of signing the financial statements.

- Southern Water Services Limited obtained a waiver from its lenders in February 2021 which allows full use of available liquidity, plus the raising of new finance, even in a Trigger Event scenario of a credit rating downgrade or a breach of a trigger debt compliance ratio.

- The group regularly needs to raise new finance in order to fund the capital investment programme and to refinance maturing debt and expects to continue raising new finance. The next scheduled bond maturity of £257.1 million (based on the Balance Sheet value at March 2022) is 31 March 2023, and an amortising loan is in its repayment period.

- The group includes covenanted loan structures which are subject to distribution restrictions in certain circumstances. There is sufficient liquidity to operate the group for the foreseeable future at each level of the group that is subject to distribution restrictions.

- This company is part of a group of companies group (Holdco) which has available cash reserves of £28.2 million as at 31 March 2022 (2021: £53.8 million). Further cash of £15.0 million was received as a distribution from the Midco group of companies on 29 July 2022. These funds are sufficient to fund holding company debt service for a period of at least 12 months from the date of signing the financial statements.

- The next scheduled Holdco group company debt maturity is May 2025 and comprises a £50.7 million loan.

- The credit rating of the bonds issued by Southern Water is Baa3/BBB+/BBB+. There is no credit rating at the Holdco group.

The operating company within the group, Southern Water Services Ltd, operates in an industry that is 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.

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

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

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.

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 in order to use the latest emission factors, derived from the UK's GHG Conversion Factors. Version 16_V05 of the Carbon Accounting Workbook (May 2022) has been utilised to prepare the GHG estimations.

Operational boundary

The reporting boundary covers all the Group's operational services and is congruous with the group's financial reporting boundary.

Energy use

	2021–22	2020–21
Area	**kWh**	kWh
Electricity	**458,402,906**	459,873,901
Imported	**396,418,121**	396,768,099
Self-generated	**61,984,786**	63,105,802
Gas	**2,871,346**	2,077,548
Business transport	**13,447,058**	13,373,597
Total incl. self-generation	**474,721,310**	475,325,046
Total excl. self-generation	**412,736,525**	412,219,244

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	**2021–22 (ktCO2e)**	2020–21 (ktCO2e)
1	Direct emissions from activities that the company own or control including combustion of fuel	Gas oil use, Process emissions, Company transport	**63.5**	63.1
2	Indirect emissions from purchase of electricity (location-based)	Grid electricity	**84.5**	91.4
	Indirect emissions from purchase of electricity (market-based)	Grid electricity	**0.0**	9.5
3	Other Indirect emissions	Business travel on public transport/private vehicles, Outsourced activities, Grid electricity transmission and distribution	**18.0**	18.5
Total Gross emissions for Scope 1 & 2	Location-based approach		**148.1**	154.6
	Market-based approach		**63.5**	72.6

* 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

Targets

In order to mitigate the Group’s climate impact it is committed to delivering net zero operational greenhouse gas emissions by 2030 as a water sector. This target was published in March 2019.

Global greenhouse gas and energy intensity metrics

Area	Unit of measurement	2021–22	2020–21
All Group (location-based approach)	Tonnes of CO_2e from Scope 1 and 2 gross emissions per £100,000 turnover	**18.0**	19.7
All Group (market-based approach)	Tonnes of CO_2e from Scope 1 and 2 gross emissions per £100,000 turnover	**7.7**	9.3
All Group energy (incl. self-generation)	kWh/ £100,000 of turnover	**57,647**	60,469
All Group energy (excl. self-generation)	kWh/ £100,000 of turnover	**50,120**	52,422
Water services	kgCO_2e per Megalitre (Ml) of water treated (location-based approach)	**130**	178
Water services	kgCO_2e per Megalitre (Ml) of water treated (market-based approach)	**18**	37
Water services (Electricity incl. self-generation)	kWh/Ml	**537**	718
Water services (Electricity excl. self-generation)	kWh/Ml	**529**	704
Water services (Total energy incl. self-generation)	kWh/Ml	**558**	744
Water services (Total energy excl. self-generation)	kWh/Ml	**549**	730
Wastewater services	kgCO_2e per Megalitre (Ml) of wastewater treated (location-based approach)	**245**	241
Wastewater services	kgCO_2e per Megalitre (Ml) of wastewater treated (market-based approach)	**137**	141
Wastewater services (Electricity incl. self-generation)	kWh/Ml	**662**	623
Wastewater services (Electricity excl. self-generation)	kWh/Ml	**534**	502
Wastewater services (Total energy incl. self-generation)	kWh/Ml	**685**	643
Wastewater services (Total energy excl. self-generation)	kWh/Ml	**557**	523

Note: Turnover 2021–22 reported as £823.5 million for use in intensity metrics. This reflects a reduction of £21.0 million due to an Ofwat regulatory settlement.

Energy efficiency action

Southern Water have continued to invest heavily in energy efficiency throughout 2021- 2022. The Group have invested in multiple areas, covering multiple technologies including:

- Investments of over £4 million on pump refurbishments and replacements across more than 73 sites. Increasing the energy efficiency of delivered water
- Over £2 million investment on VSD drives and control systems, allowing Southern Water to deliver water more efficiently
- £1.2 million investment in aeration systems which improved the efficiency when Southern Water treats its water treating
- Southern Water have also invested in real time control, which allows it to trend its water treatment, resulting in reduced energy demands at water treatment sites

Assurance statement

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

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.

Responsibility statement

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
29 July 2022

Financial statements

Consolidated income statement

For the year ended 31 March 2022

	Note	**2022 £m**	2021 £m (Restated)*
Continuing operations			
Revenue	5	**823.5**	784.2
Amortisation of regulatory settlement	5	**21.0**	35.6
Total revenue		**844.5**	819.8
Other operating income	5	**1.8**	1.7
Operating costs before court fine and costs, trade receivables impairment charge, depreciation and amortisation		**(398.3)**	(369.4)
Court fine and costs		**(91.5)**	-
Trade receivables impairment charge		**(29.9)**	(34.8)
Operating costs before depreciation and amortisation		**(519.7)**	(404.2)
Depreciation and amortisation		**(329.4)**	(293.0)
Total operating costs		**(849.1)**	(697.2)
Operating (loss) / profit	6	**(2.8)**	124.3
Operating (loss) / profit before regulatory settlement		**(23.8)**	88.7
Amortisation of regulatory settlement		**21.0**	35.6
Operating (loss) / profit		**(2.8)**	124.3
Other income	6	**0.1**	-
Profit on disposal of property, plant and equipment	6	**1.5**	0.8
Finance income	10	**0.7**	2.0
Finance costs	10	**(305.6)**	(391.5)
Fair value losses on derivative financial instruments	10	**(665.6)**	(357.9)
Net finance costs	10	**(970.5)**	(747.4)
Loss before taxation		**(971.7)**	(622.3)
Taxation credit	11	**78.4**	68.5
Loss for the financial year		**(893.3)**	(553.8)

* Please refer to Note 1 for explanation regarding prior year changes.

The notes on pages 48 to 109 form part of these financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 March 2022

	Note	**2022 £m**	2021 £m (Restated)*
Loss for the financial year		**(893.3)**	(553.8)
Other comprehensive (expense)/income:			
Items that cannot be reclassified to profit or loss:			
Actuarial loss on pension scheme	25	**(18.4)**	(70.0)
Movement on deferred tax relating to retirement benefit obligations	24	**13.3**	13.3
Total other comprehensive expense for the year, net of tax		**(5.1)**	(56.7)
Total comprehensive expense for the year attributable to the owners of the company		**(898.4)**	(610.5)

*Please refer to note 1 for explanation regarding prior year changes.

Consolidated statement of financial position
as at 31 March 2022

	Note	Group 2022 £m	Group 2021 (Restated)* £m
Non-current assets			
Goodwill	12	**85.1**	85.1
Intangible assets	13	**100.1**	58.6
Property, plant and equipment	14	**6,872.1**	6,609.6
Investments	16	**0.1**	0.1
Derivative financial instruments	23	**45.9**	68.2
		7,103.3	6,821.6
Current assets			
Inventories	17	**10.2**	6.3
Trade and other receivables	18	**201.8**	198.5
Investments		**285.0**	-
Cash and cash equivalents	35	**276.5**	417.2
		773.5	622.0
Total assets		**7,876.8**	7,443.6
Current liabilities			
Trade and other payables	19	**(385.5)**	(288.9)
Borrowings	20, 21	**(274.1)**	(99.3)
Lease liabilities	22	**(3.7)**	(2.5)
Regulatory settlement liability	26	**(25.0)**	(24.2)
Provisions for liabilities	27	**(1.5)**	(3.9)
		(689.8)	(418.8)
Non-current liabilities			
Borrowings	21	**(4,446.9)**	(6,588.3)
Lease liabilities	22	**(29.6)**	(27.2)
Derivative financial instruments	23	**(2,188.9)**	(1,503.7)
Deferred tax liabilities	24	**(242.9)**	(334.5)
Retirement benefit obligations	25	**(59.9)**	(116.5)
Regulatory settlement liability	26	**(53.8)**	(75.6)
Provisions for liabilities	27	**(5.0)**	(4.3)
Other non-current liabilities	28	**(39.2)**	(34.7)
		(7,066.2)	(8,684.8)
Total liabilities		**(7,756.0)**	(9,103.6)
Net assets / (liabilities)		**120.8**	(1,660.0)
Equity			
Called up share capital	29	**-**	921.9
Share premium account	30	**-**	4.5
Stated share capital account	31	**1,998.9**	-
Other reserves	32	**1,606.7**	
Non-distributable reserve	33	**85.1**	76.9
Retained losses	34	**(3,569.9)**	(2,663.3)
Total equity / (deficit)		**120.8**	(1,660.0)

* Please refer to Note 1 for explanation regarding prior year changes.

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 41 to 109 were approved by the Greensands Holdings Limited Board and authorised for issue on 29 July 2022. They were signed on its behalf by:

W Price
Director

Company statement of financial position
as at 31 March 2022

	Note	**Company 2022 £m**	Company 2021 £m
Non-current assets			
Investments	16	997.8	-
Other non-current assets	15	50.5	49.3
		1,048.3	49.3
Current assets			
Trade and other receivables	18	0.3	0.5
		0.3	0.5
Total assets		**1,048.6**	49.8
Current liabilities			
Trade and other payables	19	(61.3)	(37.7)
Non-current liabilities			
Borrowings	21	(0.1)	(59.2)
Total liabilities		**(61.4)**	(96.9)
Net assets / (liabilities)		**987.2**	(47.1)
Equity			
Called up share capital	29	**-**	921.9
Share premium account	30	**-**	4.5
Stated share capital account	31	**1,998.9**	-
Retained losses	34	**(1,011.7)**	(973.5)
Total equity / (deficit)		**987.2**	(47.1)

The company reported a profit for the financial year ended 31 March 2022 of £38.2 million (2021: 44.0 million). Further details can be found in note 7.

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 44 to 109 were approved by the Greensands Holdings Limited Board and authorised for issue on 29 July 2022. They were signed on its behalf by

W Price
Director

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Note	Called up share capital (Note 29) £m	Share premium account (Note 30) £m	Stated share capital account (Note 31) £m	Other reserves (Note 32) £m	Non-distributable reserve* (Note 33) £m	Retained losses (Note 34) £m (Restated)*	Total £m (Restated)*
At 1 April 2020		**921.9**	**4.5**	**-**	**-**	**60.2**	**(2,036.1)**	**(1,049.5)**
Profit/(loss) for the financial year		-	-	-	-	18.2	(572.0)	(553.8)
Other comprehensive income/(loss) for the year:		-	-	-	-	-	-	-
Actuarial loss on pension scheme	25	-	-	-	-	-	(70.0)	(70.0)
Movement on deferred tax relating to retirement benefit obligations	24	-	-	-	-	-	13.3	13.3
Total comprehensive income/(expense) for the year		-	-	-	-	18.2	(628.7)	(610.5)
Reserves transfer**		-	-	-	-	(1.5)	1.5	-
Balance at 31 March 2021		**921.9**	**4.5**	**-**	**-**	**76.9**	**(2,663.3)**	**(1,660.0)**
Profit/(loss) for the financial year		-	-	-	-	9.9	(903.2)	(893.3)
Other comprehensive income/(loss) for the year:	25							
Actuarial loss on pension scheme	24	-	-	-	-	-	(18.4)	(18.4)
Movement on deferred tax relating to retirement benefit obligations		-	-			-	13.3	13.3
Total comprehensive income/(expense) for the year		-	-	-	-	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	-
Balance at 31 March 2022		**-**	**-**	**1,998.9**	**1,606.7**	**85.1**	**(3,569.9)**	**120.8**

* Please refer to Note 1 for explanation regarding prior year changes.

** The non-distributable reserve arose upon adoption of IFRS 15 and relates 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 2022

	Note	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
Balance at 1 April 2020		**921.9**	**4.5**	**-**	**(1,017.5)**	**(91.1)**
Profit and total comprehensive income for the financial year		-	-	-	**44.0**	**44.0**
Balance at 31 March 2021		**921.9**	**4.5**	**-**	**(973.5)**	**(47.1)**
Loss and total comprehensive expense for the financial year		-	-	-	**(38.2)**	**(38.2)**
Stated share capital account transfer	29	(921.9)	(4.5)	926.4	-	-
Issue of share capital		-	-	1,072.5	-	**1,072.5**
Balance at 31 March 2022		**-**	**-**	**1,998.9**	**(1,011.7)**	**987.2**

Consolidated statement of cash flows

For the year ended 31 March 2022

	Note	**2022 £m**	2021* £m (Restated)*
Net cash from operating activities	35	**225.4**	371.3
Investing activities			
Interest received		**0.4**	2.0
Purchase of property, plant and equipment		**(466.1)**	(344.8)
Purchase of intangible assets		**(46.4)**	(30.4)
Proceeds on disposal of property, plant and equipment		**1.2**	0.5
Acquisition of short term investments		**(590.0)**	(280.0)
Maturity of short term investments		**305.0**	305.0
Net cash used in investing activities		**(795.9)**	(347.7)
Financing activities			
Interest paid		**(215.4)**	(178.3)
Net settlements on derivative financial instruments		**45.7**	(94.8)
Repayment of borrowings		**(470.6)**	(696.2)
Repayments of obligations under finance leases		**(2.4)**	(1.8)
Proceeds of new loans		**-**	1,107.2
Proceeds from share issue		**1,072.5**	-
Net cash generated from financing activities		**429.8**	136.1
Net (decrease)/increase in cash and cash equivalents		**(140.7)**	159.7
Cash and cash equivalents at beginning of the year		**417.2**	257.5
Cash and cash equivalents at end of the year		**276.5**	417.2

* Please refer to Note 1 for explanation regarding prior year changes.

Notes to the consolidated financial statements
For the year ended 31 March 2022

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 15.

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.

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 affects 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

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

A number of new standards and amendments are effective for periods beginning from 1 January 2021. Except for the changes noted in the paragraphs below, these changes had no material impact on the company's financial statements.

The IFRS Interpretations Committee (IFRIC) has published two agenda decisions clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for.

In March 2019, the Committee published their agenda decision concluding that SaaS arrangements are likely to be service arrangements, rather than intangible assets under IAS 38 Intangible assets. This is because the customer typically only has a right to receive future access to the supplier's software running on the supplier's cloud infrastructure and therefore the supplier controls the intellectual property (IP) of the underlying software code.

In April 2021, the Committee finalised their agenda decision regarding configuration and customisation costs in implementing SaaS. The guidance clarified that in order for an intangible asset to be capitalised in relation to configuration and customisation costs, it is necessary for there to be control of the underlying software asset or for there to be a separate intangible asset which meets the definition in IAS 38.

The Group's previous policy was to capitalise costs relating to SaaS arrangements and is therefore required to implement a change in accounting policy to align with the agenda decisions. A detailed assessment has been carried out by management to determine the amount of costs that are required to be accounted for differently in accordance with the interpretation.

As a result, the Group identified £4.5 million of costs relating to SaaS arrangements incurred in the year that would have been capitalised under the previous policy. Of the costs incurred in the year, £3.1 million relating to prepaid charges has been deferred to the balance sheet, resulting in £1.4 million being expensed through the income statement in the year to 31 March 2022.

No prior year restatement has been identified in relation to the change in accounting policy.

Prior year restatements

There has been a presentational change in terms of accounting for movements on derivatives to align with accounting standards. As a result, all movements on derivatives have been presented in a single line in the income statement.

Accordingly, on the income statement, income related to settlements on derivatives of £98.7 million has been reclassified from 'interest receivable on swap instruments' within 'finance income' to 'movements on derivative financial instruments' within 'net finance costs' for the year ended 31 March 2021 reducing total 'finance income' from £100.7 million to £2.0 million and reducing 'movements on derivative financial instruments' from £456.6 million to £357.9 million. There is no impact on overall 'net finance costs' of £747.4 million. In addition, on the cash flow statement, £99.7 million of cash inflows received as a result of settlements on derivatives has been reclassified from 'interest received' within investing activities to 'net settlements on derivative financial instruments' (described as 'payments on derivative instruments' in the prior year) within financing activities within the cash flow statement, thereby reducing 'interest received' from £101.7 million to £2.0 million and reducing the 'net settlements on derivative financial instruments' from £194.5 million to £94.8 million.

Cash on deposit with a maturity of more than three months from the date of acquisition of £25.0 million as at 1 April 2020 has been reclassified from 'cash and cash equivalents' to 'investments'. As a result, for the year ended 31 March 2021 the net decrease in short term investments of £25.0 million has been reclassified in the cash flow statement from 'cash and cash equivalents' to 'investing activities'. £280.0 million was placed on deposit disclosed as 'acquisition of short-term investments' and £305.0 million matured in the period and is disclosed as 'maturity of short term investments'.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

Prior year restatement (continued)

In the prior year the Group recognised an intangible asset and associated liability for the right to receive water in the future after the construction of a reservoir by Portsmouth Water at Havant Thicket and Southern Water has laid a pipe to the reservoir. 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 company 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. As a result, the intangible asset and associated liability of £124.6 million have been reversed in the prior year, payments made during 2020–21 of £6.5 million have been reclassified from intangible assets to prepayments due after more than one year and there was a tax adjustment of £0.9 million. Accordingly, non-current assets and intangible fixed assets have reduced by £131.1 million, prepayments increased by £6.5 million, contractual obligations have reduced by £124.6 million and deferred tax decreased by £0.9 million. The taxation credit on the income statement increased from £67.6 million to £68.5 million which increased retained earnings by £0.9 million. On the statement of cash flow, £6.5m has been reclassified from 'purchase of intangible assets' in 'investing activities' to 'net cash from operating activities'. 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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

Going concern

The Group’s business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 3.

The directors have undertaken a detailed review of the company’s liquidity requirements compared with the cash and facilities available, the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk. On the basis of their assessment of the Group’s financial position the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. For this reason they continue to adopt the going concern basis of accounting in preparing the annual financial statements, further details can be found in the Directors’ Report on page 33.

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.

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

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:

<u>New connections</u>
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.

<u>Infrastructure charges</u>
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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

Revenue recognition (continued)

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).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

Intangible assets (continued)

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 safe;
- 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.

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

Property, plant and equipment (continued)

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.

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

		Years
Land and buildings:	- Land[1]	Not depreciated
	- Buildings	10-60
Plant and machinery:	- Operational structures[2]	15–80
	- Fixed plant	10–40
Infrastructure assets:	- Water mains	100–120
	- Sewers	80–200
	- Reservoirs	200
	- Ancillary structures	10–70
Assets under construction[1]:		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.

[1] 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.

[2] 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

Leases (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

1 Accounting policies (continued)

Financial liabilities

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

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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.

Judgements

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

(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 Group recognised income from infrastructure assets with a fair value of £9.9 million (2021: £18.2 million), new connections amounting to £4.1 million (2021: £4.0 million) infrastructure charges amounting to £5.2 million (2021: £5.3 million) and requisitions and diversions amounting to £2.5 million (2021: £1.5 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 on page 99.

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.
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 26 for detail.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

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. As a result, the accounts for the prior year have been restated as disclosed in note 1. 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.

(vi) Climate change

While climate change is a key emerging risk, the Group does not currently consider this to represent a material estimation uncertainty for the financial statements. As set out in the Southern Water’s risk section of this Annual Report on pages 20 to 32, climate change is embedded into everything the Group does, and the long-term strategy is focussed on identifying, managing and mitigating climate related risks. Further details are also set out in the Group’s climate change adaptation report which was published in December 2021.
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. The Group does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising. Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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

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) Impairment

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 2022 budget and business plan of the next AMP period (2020 to 2025) of Southern Water, the group’s only operating company. 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 (2021: £nil).

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

(i) Derivative financial instruments

Derivative financial instruments are sensitive to changes in interest and inflation rates. The following values illustrate the impact based on a movement of one basis point:

		31 March 2022 (£m)
Net derivative financial instruments		2,143.0
Sensitivity:		
Interest rates - SONIA	+ 0.01%	6.4
Inflation rates - RPI	+ 0.01%	(11.8)

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

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

(ii) 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 2022	Sensitivity			
		1%	3%	-1%	-3%
Measured accrual balance (£m)	233.6	2.0	6.0	-2.0	-6.0

The value of household billings raised in the year ended 31 March 2022 for consumption in prior years was £227.9 million. The value of these billings was higher than the accrual made at 31 March 2021 of £214.5 million. The estimation difference was £13.4 million (6.2%) and this has been recognised in the current year's turnover. This difference is higher than normally expected and was driven by the significant change in customer usage patterns, resulting from the response to COVID-19, over the estimation period at March 2021.

(iii) 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. For the year to 31 March 2022 this includes a reflection of the impact of the COVID-19 pandemic to date. The underlying charge to the income statement on this basis was £19.6 million.

To reflect the expected impact that high inflation is having on the macro-economic environment, the company has recognised an additional charge of £10.3 million, for the impairment of trade receivables, to the income statement in 2021–22. This is a significant judgment as the overall impact of the pressure on the cost of living from high inflation 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 May 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 2022 was £283.9 million (2021: £253.9 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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

Sensitivity analysis shows that the impairment provision would vary by £2.7 million and £8.1 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 2022	Sensitivity			
		1%	3%	-1%	-3%
Impairment provision estimate (£m)	283.9	2.7	8.1	-2.7	-8.1

(ii) 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 £18.4 million for the year to 31 March 2022 (2021: £70.0 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 7.5 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.

(iii) 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 2022 was £6.5 million (2021: £8.2 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.

(iv) 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 2022 significant reductions to the calculated recoverable value in future years could lead to a material impairment given the large values held.

3 Changes in significant accounting policies

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. The impact of their adoption is being assessed and is not expected to have a material impact on the Group's financial statements in the period of initial application.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

3 Changes in significant accounting policies (continued)

IFRS 17 (including the June 2020 amendments to IFRS 17)	Insurance Contracts
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts—Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.

5 Income

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

Continuing operations	**2022 £m**	2021 £m (Restated)*
Water and sewerage services:		
Household - measured	**542.5**	511.4
Household - unmeasured	**113.8**	110.6
Non-household - measured	**110.2**	100.3
Non-household - unmeasured	**4.0**	4.0
Total water and sewerage services	**770.5**	726.3
Bulk supplies	**5.4**	4.5
Infrastructure charge receipts	**5.2**	5.3
Trade effluent	**7.6**	7.5
Cesspools	**5.8**	5.2
New connections	**4.1**	4.0
Adoptions (see note (a) below)	**9.9**	18.2
Other services	**15.0**	13.2
Total revenue before amortisation of regulatory settlement	**823.5**	784.2
Amortisation of regulatory settlement (see note (b) below)	**21.0**	35.6
Total revenue	**844.5**	819.8
Other operating income (see note (c) below)	**1.8**	1.7
Other income	**0.1**	-
Profit on disposal of property, plant and equipment	**1.5**	0.8
Interest receivable (note 10)	**0.7**	2.0
Total income	**848.6**	824.3

* Figures have been restated to show £1.2 million previously included within Non-household –measured as Household – measured. Total revenue from water and sewerage services for the year to 31 March 2021 remains as previously stated

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

5 Income (continued)

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 27 the group has been co-operating with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

To ensure that our customers are not disadvantaged as a result of these matters, Southern Water 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.

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. In the prior year the figure of £1.7 million also included £0.3 million of rents and other receivables, which have been reclassified to other (non-operating) income in the current year.

6 Group operating (loss)/profit for the year

Group loss for the year has been arrived at after charging/(crediting):	**2022 £m**	2021 £m
Depreciation on:		
- Owned assets	**303.9**	275.9
- Lease assets	**3.7**	3.4
	307.6	279.3
Amortisation of intangible assets	**21.8**	13.7
Profit on disposal of property, plant and equipment	**1.5**	0.8
Research and development expenditure	**0.8**	0.6
Rentals under operating leases (see note (a) below):		
- Properties	**0.2**	0.1
- Vehicles	**2.9**	1.7
Employee costs (note 8a)	**74.8**	67.6
Amortisation of grants and contributions (see note 28)	**(1.7)**	(1.5)
Regulatory settlement	**21.0**	35.6
Fees payable to the company's auditor in respect of:		
- statutory audit of the company's financial statements	**0.5**	0.5
- other services pursuant to legislation (see note (b) below)	**0.1**	0.1
- all other services	**0.1**	0.1
Total audit and non-audit fees	**0.7**	0.7

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 2022

6 Group operating (loss)/profit for the year (continued)

(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.

7 Profit of the parent company

The profit for the financial year dealt with in the financial statements of the parent company is £38.2 million (2021: £44.0 million). 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 reversal of £nil (2021: £44.7 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 £136.2 million (2021: negative amount of £854.4 million), 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 (2021: £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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

8 Employee information

		2022 £m	2021 £m (Restated)*
(a)	**Group employee costs**		
	Wages and salaries	**107.6**	96.5
	Social security costs	**12.3**	10.9
	Pension costs - Defined contribution	**13.2**	12.5
	- Defined benefit	**-**	0.2
	Total employee costs	**133.1**	120.1
	Less: charged as capital expenditure	**(58.3)**	(52.5)
	Charged to the income statement	**74.8**	67.6

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

* Figures have been restated to show £4.8 million related to employee salary sacrifice schemes as employer pension contributions (previously included within wages and salaries). Total employee costs for the year to 31 March 2021 remains as previously stated.

(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:

	2022 Number	2021 Number
Operations	**1,279**	1,176
Customer services	**35**	37
Corporate centre	**902**	925
	2,216	2,138

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. However, payments of £44,110 and £33,218 were made by one of the ultimate shareholders to two of the directors (2021: £100,000 and £75,000).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

10 Net finance costs

	2022 £m	2021 £m (Restated)*
Finance income		
Deposit income on short-term bank deposits	0.7	2.0
	0.7	2.0
Finance costs		
Interest payable on loans	(271.9)	(401.4)
Interest rate swap receipts	-	-
Indexation	(46.6)	(20.5)
Amortisation of issue costs	(1.5)	(2.0)
Amortisation of gilt lock proceeds	0.1	0.1
Amortisation of bond premium	0.7	0.7
Other finance expense (note 25)	(2.3)	(1.3)
	(321.5)	(424.4)
Amounts capitalised on qualifying assets	15.9	32.9
	(305.6)	(391.5)
Fair value losses on derivative financial instruments		
Derivative financial instruments not designated as hedges (note 23)	(665.6)	(357.9)
Net finance costs	(970.5)	(747.4)

*Please refer to note 1 for explanation regarding prior period changes.

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 2.10% to expenditure on such assets (2021: 4.10%).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

11 Taxation

	2022 £m	2021 £m (Restated)*
Current tax:		
Current year	-	-
Total current tax charge	-	-
Deferred tax:		
Origination and reversal of temporary differences	(147.3)	(68.5)
Adjustment in respect of prior years	0.1	-
Effect of corporation tax rate change	68.8	-
Total deferred tax credit	(78.4)	(68.5)
Total tax credit on loss	(78.4)	(68.5)

* Please refer to note 1 for explanation regarding prior year changes.

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

	2022 £m	2021 £m (Restated)*
Loss before tax	(971.7)	(622.3)
Current tax:		
Tax at the UK corporation tax rate of 19% (2021: 19%)	(184.6)	(118.2)
Permanent differences	28.5	24.5
Deferred tax assets not recognised	24.7	25.2
Differences between current and deferred tax rates	(15.7)	-
Impact of tax rate changes	68.8	-
Adjustment in respect of prior years – deferred tax	0.1	-
Tax credit for year	(78.4)	(68.5)

* Please refer to note 1 for explanation regarding prior year changes.

Factors that may affect future tax charges:

The Finance Bill 2021 was substantively enacted in May 2021 and the increase in main rate of UK corporation tax will change from 19% to 25%, effective 1 April 2023. The majority of our deferred assets and liabilities will reverse after 1st April 2023 and therefore this has been calculated at 25% rate. There is a small value of deferred liabilities which are calculated at 19%.

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.

At the reporting date the group has unused tax losses of £164.2m (2021: £86.2m) with a deferred tax asset of £41m (2021: £16.4m). 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.

In addition to the amount charged to the consolidated income statement, the following amounts relating to tax have been recognised in the consolidated statement of other comprehensive income:

	2022 £m	2021 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Tax credit relating to retirement benefit obligations	(3.5)	(13.3)
Deferred tax movement due to rate change	(9.8)	-
Total deferred tax credit recognised in other comprehensive loss	(13.3)	(13.3)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

11 Taxation (continued)

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

	Company 2022 £m	Company 2021 £m
Profit before taxation	**140.0**	44.7
UK corporation tax rate at 19% on profit/(loss) for the year (2021: 19%)	**26.6**	8.5
Permanent differences	**1.5**	0.7
Permanent differences arising on impairment loss	**-**	(8.5)
Total tax charge for year	**28.1**	0.7

12 Goodwill

Group	**£m**
Carrying amount at 1 April 2021	85.1
Net book value at 31 March 2022	**85.1**

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 annual 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

13 Intangible assets

	Externally generated Assets in development £m	Other £m	Total £m
Cost			
At 1 April 2020	18.4	119.3	**137.7**
Additions	30.2	-	**30.2**
Transfers	(25.8)	25.8	**-**
At 31 March 2021	22.8	145.1	**167.9**
Additions	63.3	-	**63.3**
Transfers	(39.7)	39.7	**-**
At 31 March 2022	46.4	184.8	**231.2**
Amortisation			
At 1 April 2020	-	95.6	**95.6**
Charge for the year	-	13.7	**13.7**
At 31 March 2021	-	109.3	**109.3**
Charge for the year	-	21.8	**21.8**
At 31 March 2022	-	131.1	**131.1**
Net book amount			
At 31 March 2022	**46.4**	**53.7**	**100.1**
At 31 March 2021	22.8	35.8	58.6

* Reclassifications in the current year relate to assets previously presented as tangible.

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 £54.1 million, and development projects with a net book value of £2.7 million.

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

Included within additions above is £2.9 million (2021: £1.0 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 £3.7 million (2021: £1.6 million).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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
Cost						
At 1 April 2020	1609.2	3,465.3	2,843.3	922.9	657.1	**9,497.8**
Additions	-	-	-	393.5	-	**393.5**
Transfers	26.5	323.7	108.3	(534.2)	75.7	**-**
Disposals	-	(9.0)	(0.5)	-	(9.0)	**(18.5)**
At 31 March 2021	1635.7	3,780.0	2,951.1	782.2	723.8	**9,872.8**
Additions	-	-	-	582.0	-	**582.0**
Transfers	2.2	439.1	182.5	(674.3)	50.5	**-**
Reclassifications	-	-	-	(8.8)	(3.5)	**(12.3)**
Disposals	-	(6.3)	(0.5)	-	(10.8)	**(17.6)**
At 31 March 2022	1,637.9	4,212.8	3,133.1	681.1	760.0	**10,424.9**
Depreciation						
At 1 April 2020	808.8	1,523.8	183.0	-	486.8	**3,002.4**
Charge for the year	42.9	147.4	34.2	-	54.8	**279.3**
Disposals	-	(9.0)	(0.5)	-	(9.0)	**(18.5)**
At 31 March 2021	851.7	1,662.2	216.7	-	532.6	**3,263.2**
Charge for the year	43.1	175.0	35.8	-	53.7	**307.6**
Reclassifications*	-	-	-	-	(0.4)	**(0.4)**
Disposals	-	(6.3)	(0.5)	-	(10.8)	**(17.6)**
At 31 March 2022	894.8	1,830.9	252.0	-	575.1	**3,552.8**
Net book amount						
At 31 March 2022	**743.1**	**2,381.9**	**2,881.1**	**681.1**	**184.9**	**6,872.1**
At 31 March 2021	784.0	2,117.8	2,734.4	782.2	191.2	6,609.6

* Reclassifications in the current year relate to intangible assets previously presented as tangible.

Freehold land is stated at a cost of £51.7 million at 31 March 2022 and 31 March 2021 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 £7.8 million, and computer hardware and IT infrastructure with a net book value of £179.6 million.

Included within additions above is £13.0 million (2021: £31.9 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 £241.9 million (2021: £239.2 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 2020	28.9	-	3.5	32.4
Additions	-	-	1.1	1.1
Transfers	(11.7)	11.7	-	-
Depreciation charge for the year	(1.4)	(0.3)	(1.7)	(3.4)
Net book amount at 31 March 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**

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

15 Other non-current assets

	Company 2022 £m	Company 2021 £m
Amounts owed by group undertakings	**1,021.2**	1,021.1
Impairment	**(970.7)**	(971.8)
Amounts owed by group undertakings	**50.5**	49.3

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

	Group 2022 £m	Group 2021 £m
Other external investments		
At 1 April	**0.1**	0.1
Total investments as at 31 March	**0.1**	0.1

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.

	Company 2022 £m	Company 2021 £m
Greensands Europe Limited		
At 1 April	**-**	-
Additions	**997.8**	
Total investments at 31 March	**997.8**	-

A full list of subsidiaries is disclosed in note 39. Please refer to note 7 for further details surrounding the impairment loss disclosed above.

17 Inventories

	Group 2022 £m	Group 2021 £m
Raw materials	**6.0**	4.3
Work in progress	**4.2**	2.0
	10.2	6.3

The company does not hold any inventory.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

18 Trade and other receivables

	Group 2022 £m	Group 2021 £m (Restated)*
Trade receivables	**361.3**	334.4
Provision for impairment	**(278.0)**	(247.5)
Net trade receivables	**83.3**	86.9
Net accrued income	**75.1**	64.7
Prepayments	**26.9**	28.6
Other receivables	**16.5**	18.3
	201.8	198.5

* Please refer to note 1 for explanation regarding prior year changes.

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

Prepayments includes a balance of £6.5 million (2021: £6.5 million) in relation to capacity charge payments made to Portsmouth Water Limited in respect of the Havant Thicket reservoir as described in note 1 – accounting policies, note 2 – critical judgments and note 37 – financial commitments.

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:

	Group 2022 £m	Group 2021 £m
At 1 April	**(253.9)**	(216.4)
Net Impairment charge	**(29.9)**	(34.8)
Net amounts written off during the year	**(0.1)**	(2.7)
At 31 March	**(283.9)**	(253.9)

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:

	Group 2022 £m	Group 2021 £m
Current	**-**	0.1
1-2 years	**-**	0.1
2-3 years	**0.1**	0.2
3-4 years	**0.2**	0.6
more than 4 years	**20.8**	14.5
	21.1	15.5

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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:

	Group 2022 £m	Group 2021 £m
Current	**80.0**	72.7
1-2 years	**42.1**	45.5
2-3 years	**38.1**	37.4
3-4 years	**32.8**	33.9
more than 4 years	**122.0**	103.6
	315.0	293.1

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

At 31 March 2022	**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)**	**-**
	442.2	**(283.9)**	**158.4**

At 31 March 2021	Gross £m	Provision £m	Group Net £m
Accrued income – not due	71.1	(6.4)	64.7
Trade receivables			
Not due	25.8	-	25.8
Overdue not specifically provided	293.1	(231.9)	61.1
Overdue and specifically provided	15.5	(15.6)	-
	405.5	(253.9)	151.6

	Company 2022 £m	Company 2021 £m
Prepayments	**0.3**	0.5

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

19 Trade and other payables

	Group 2022 £m	Group 2021 £m
Trade payables	**26.8**	32.4
Capital creditors and capital accruals	**189.1**	100.5
Corporation tax	**-**	-
Taxation and social security	**3.1**	4.0
Accruals	**133.4**	122.2
Deferred revenue	**33.0**	29.8
	385.4	288.9

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 £2.0 million (2021: £1.3 million).

	Company 2022 £m	Company 2021 £m
Amounts owed to group undertakings	**61.0**	37.7
Accruals	**0.3**	-
	61.3	37.7

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

	Notes	**Group 2022 £m**	Group 2021 £m
Current			
Revolving credit facilities – Libor plus margin		**-**	100.0
Class A £150m – 3.816% index linked 2023	21(iii),(iv)	**260.5**	-
Class A £60m – 0.000% index linked 2025	21 (ix)	**10.7**	
Class A £40m – 0.000% index linked 2026	21 (ix)	**7.0**	
Premium deferred on issue	21(vii)	**0.7**	0.7
Deferred gilt lock proceeds	21 (viii)	**0.1**	0.1
Unamortised debt issuance costs	21 (vi)	**(1.5)**	(1.5)
Swap break costs	21 (xiii)	**(3.4)**	-
Current borrowings excluding finance leases		**274.1**	99.3
Obligations under finance leases		**3.7**	2.5
Total current borrowings including finance leases		**277.8**	101.8

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 2022

21 Total borrowings

An analysis of the external loans is shown below:

Loans and other borrowings:	Notes	Group 2022 £m	Group 2021 £m
Class A £350m 6.192% fixed rate 2029	21(i),(ii),(iii)	**368.8**	371.0
Class A £150m 3.706% index linked 2034	21(iii),(iv)	**296.0**	285.9
Class A £35m 3.706% index linked 2034	21(iii),(iv)	**69.0**	66.8
Class A £350m 6.640% fixed rate 2026	21(i),(ii)	**362.7**	365.5
Class A £150m 3.816% index linked 2023	21(iii),(iv)	**260.5**	253.6
Class A £150m 5.000% fixed rate 2041	21(i),(ii)	**146.2**	146.1
Class A £200m 4.500% fixed rate 2052	21(i),(ii)	**197.3**	197.3
Class A £300m 5.125% fixed rate 2056	21(i),(ii)	**293.0**	292.9
Class A £175m 2.780% fixed rate 2031	21(ii)	**174.2**	174.1
Class A £75m 2.960% fixed rate 2036	21(ii)	**74.6**	74.6
Class A £375m 2.385% fixed rate 2029	21(ii)	**370.8**	370.2
Class A £450m 3.010% fixed rate 2038	21(ii)	**443.8**	443.2
Class A £300m 1.626% fixed rate 2027	21(ii)	**295.3**	294.3
Class A £60m – 0.000% index linked 2025	21(iv),(ix)	**36.6**	44.1
Class A £40m - 0.000% index linked 2026	21(iv),(ix)	**31.4**	35.7
Artesian £165m 4.076% index linked 2033	21(iii),(iv)	**328.6**	318.0
Artesian £156.5m 3.635% index linked 2032	21(iv)	**261.9**	252.2
Total Class A debt		**4,010.7**	3,985.5
Revolving credit facilities – Libor plus margin	21(xii)	**-**	100.0
£125m Facility Agreement 2022 – Libor plus 3.250%	21(v)	**-**	123.9
£75m Facility Agreement 2025 – Libor plus 4.000%	21(v)	**50.2**	77.2
£150m Facility Agreement 2025 – Libor plus 5.250%	21(v)	**102.0**	156.2
£100m Facility Agreement 2026 – Libor plus 5.250%	21(v)	**68.4**	104.0
£250m Facility Agreement 2025 – Libor plus 5.25%	21(v)	**170.0**	260.3
£50m Facility Agreement 2025 – Libor plus 2.500%	21(v)	**49.6**	49.5
£175m Facility Agreement 2025 – fixed rate 3.930%	21(ii)	**174.1**	174.0
£25m Facility Agreement 2025 – fixed rate 3.650%	21(ii)	**24.8**	24.8
£75m Facility Agreement 2028 – fixed rate 3.940%	21(ii)	**74.3**	74.3
£52m Facility Agreement 2030 – fixed rate 4.030%	21(ii)	**51.5**	51.5
£35.3m/($45m) Facility Agreement 2023 – fixed rate 3.384%	21(ii),(x)	**35.1**	35.0
£19.6m/($25m) Facility Agreement 2025 – fixed rate 3.681%	21(ii),(x)	**19.5**	19.4
£19.6m/($25m) Facility Agreement 2028 – fixed rate 4.020%	21(ii),(x)	**19.5**	19.4
Eurobonds 12.000% 2038 (note 38)	21(xi)	**-**	1,569.6
Unamortised debt issuance costs	21(vi)	**(8.4)**	(10.0)
Swap break costs	21(xiii)	**(131.6)**	(139.0)
Bond premium deferred on issue	21(vii)	**6.9**	7.5
Deferred gilt lock proceeds	21(viii)	**4.4**	4.5
Obligations under finance leases		**33.3**	29.7
Total borrowings		**4,754.3**	6,717.3
Disclosed as current borrowings	20	**277.8**	101.8
Disclosed as non-current borrowings		**4,476.5**	6,615.5

	Company 2022 £m	Company 2021 £m
Loans from group undertakings	**0.1**	59.2

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 the Retail Price Index. The increase in the capital value of index-linked loans during the year of £46.5 million (2021: £20.5 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 2022 unamortised debt issuance costs amounted to £4.4 million (2021: £4.5 million) of which £1.5 million (2021: £1.5 million) represents the short-term amount which is disclosed separately in note 20.

(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 2023 have been shown as current borrowings in the year to 31 March 2022 (see note 20).

(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 (2021: £720.1 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 38.

(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.

(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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

21 Total borrowings (continued)

The maturity profile of borrowings disclosed within this note is given below:	2022 £m	2021 £m
Borrowings excluding finance leases:		
Between one and two years	**441.4**	370.8
Between two and five years	**648.9**	1,291.2
After five years	**3,356.6**	4,926.3
	4,446.9	6,588.3
On demand or within one year	**274.1**	99.3
	4,721.0	6,687.6
Finance leases:		
Between one and two years	**3.0**	2.9
Between two and five years	**7.0**	5.8
After five years	**19.6**	18.5
	29.6	27.2
On demand or within one year	**3.7**	2.5
	33.3	29.7
Borrowings including finance leases:		
Between one and two years not by instalments	**444.4**	373.7
Between two and five years not by instalments	**654.8**	1,297.0
After five years not by instalments	**3,376.2**	4,944.8
	4,475.4	6,615.5
On demand or within one year	**278.9**	101.8
	4,754.3	6,717.3

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 2022

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:

	2022 £m	2021 £m
Right of use assets within property, plant and equipment:		
Buildings	**14.2**	15.8
Infrastructure	**11.3**	11.4
Other	**7.7**	2.9
	33.2	30.1
Lease liabilities		
Current	**3.7**	2.5
Non-current	**29.6**	27.2
	33.3	29.7

Additions to the right-of-use assets during the financial year to 31 March 2022 were £1.1 million (2021: £1.1 million).

ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	31 March 2022 £m	31 March 2021 £m
Depreciation charge of right-of-use assets		
Buildings and infrastructure	**(1.7)**	(1.7)
Other	**(2.0)**	(1.7)
	(3.7)	(3.4)
Interest expense (included in finance costs)	**(0.8)**	(0.5)
Expense relating to short-term leases (included in operating costs)	**(3.1)**	(1.8)

iii) Amounts recognised in the statement of cash flows

	31 March 2022 £m	31 March 2021 £m
Repayment of obligations under finance lease	**(2.4)**	(1.8)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 2022 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 2022

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 2022 and 31 March 2021.

Financial assets and liabilities by category	Group 2022 £m	Company 2022 £m	Group 2021 £m	Company 2021 £m
Financial assets				
Derivative financial instruments designated as FVTPL*				
- Non-current	**45.9**	-	68.2	-
- Current	**-**	-	-	-
	45.9	-	68.2	-
Held to maturity investments				
- Non-current	**0.1**	-	0.1	-
Trade and other receivables				
- Current (excluding prepayments)	**174.9**	-	169.9	-
Short term investments				
- Current	**285.0**	-	-	-
Cash and cash equivalents				
- Current	**276.5**	-	417.2	-
	736.5	-	597.2	
Total financial asset	**782.4**	-	655.4	-
Financial liabilities				
Derivative financial instruments designated as FVTPL*				
- Non-current	**2,188.9**	**-**	1,503.7	-
	2,188.9	**-**	1,503.7	-
Borrowings				
- Current (including lease liabilities)	**277.8**	**-**	101.8	-
- Non-current (including lease liabilities)	**4,476.5**	**61.3**	6,615.5	59.2
Trade and other payables				
- Current	**385.5**	**0.1**	288.9	37.2
	5,139.8	**61.4**	7,006.2	96.4
Total financial liabilities	**7,328.7**	**61.4**	8,509.9	96.4

*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.

Derivative financial instruments	Group 2022 Assets £m	Group 2022 Liabilities £m	Group 2021 Assets £m	Group 2021 Liabilities £m
Derivative financial instruments not designated as hedges:				
Interest rate swaps	**-**	**-**	-	-
RPI swaps	**45.6**	**(2,188.9)**	68.2	(1,500.6)
Cross currency swaps	**0.3**	**-**	-	(3.1)
Total derivative financial instruments	**45.9**	**(2,188.9)**	68.2	(1,503.7)
Derivative financial instruments can be analysed as follows:				
Current	**-**	**-**	-	-
Non-current	**45.9**	**(2,188.9)**	68.2	(1,503.7)
	45.9	**(2,188.9)**	68.2	(1,503.7)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

23 Financial instruments (continued)

The nominal value of the interest rate swaps held at 31 March 2022 are shown in the table below:

Counterparty	Notional £m	Maturing in	Mandatory break
Lloyds Bank	99.3	2037	-
ING Bank	77.8	2037	-
SMBC Nikko	75.0	2037	-
UBS	75.0	2037	-
Bank of America	50.0	2037	-
National Australia Bank	44.1	2037	-
Banco Santander	20.0	2037	-
JP Morgan	50.0	2056	2029
National Australia Bank	92.1	2039	2025
Banco Santander	13.2	2039	2025
SMBC Nikko	70.2	2039	2025
Lloyds Bank	150.0	2041	-
Alum Bay & NatWest SPV*	89.4	2041	-
Lloyds Bank	50.0	2031	-
NatWest SPV*	9.5	2031	-
BNP Paribas	200.0	2051	-
Alum Bay & NatWest SPV*	185.4	2051	-
Morgan Stanley	250.0	2055	-
Morgan Stanley ILCA	250.0	2055	2025
Alum Bay & NatWest SPV*	206.0	2055	-
Bank of America	150.0	2046	-
Alum Bay & NatWest SPV*	31.9	2046	-
Bank of America	50.0	2046	-
Alum Bay & NatWest SPV*	37.7	2046	-
JP Morgan	441.2	2046	-
Alum Bay & NatWest SPV*	185.1	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 2022

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):

	Group 2022 %	Group 2021 %
By class of debt (all classed as financial liabilities)		
Class A	**4.15**	4.05
Artesian	**3.51**	1.80
Greensands	**5.04**	5.25

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

	Group 2022 %	Group 2021 %
Fixed	**7.12**	6.87
Floating	**4.77**	5.45
Indexed	**4.91**	4.81

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 2022

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.

Increase/(decrease) in profit before tax and equity	Group 2022	Group 2021
1% increase in interest rate	**(29.2)**	(29.2)
1% decrease in interest rate	**29.2**	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.

Increase/(decrease) in profit before tax and equity	Group 2022	Group 2021
1% increase in RPI	**(11.8)**	(11.5)
1% decrease in RPI	**11.8**	11.5

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 2022 and 31 March 2021 is disclosed within note 21.

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
At 31 March 2022					
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)**

	Within one year £m	Within two to five years £m	Within five to 25 years £m	After 25 years £m	Total £m
At 31 March 2021					
Derivative financial instruments – asset	-	10.1	58.1	-	68.2
Derivative financial instruments – liability	-	(20.3)	(652.8)	(830.6)	(1,503.7)
	-	(10.2)	(594.7)	(830.6)	(1,435.5)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 2022 and 2021.

	Group 2022 Book value £m	**Group 2022 Fair value £m**	Group 2021 Book value £m	Group 2021 Fair value £m
Financial assets				
Cash and cash equivalents	**276.5**	**276.5**	417.2	417.2
Current derivatives – interest rate swaps				
Non-current asset investments	**0.1**	**0.1**	0.1	0.1
Non-current derivatives – interest rate swaps	**-**	**-**	-	-
Non-current derivatives – RPI swaps	**45.6**	**45.6**	68.2	68.2
Non-current derivatives – cross currency swaps	**0.3**	**0.3**	-	-
	322.5	**322.5**	485.5	485.5
Financial liabilities				
Current borrowings (including leases)	**277.8**	**277.8**	101.8	101.8
Non-current borrowings (including leases)	**4,476.5**	**5,080.4**	6,615.5	7,680.4
Non-current derivatives – interest rate swaps	**-**	**-**	-	-
Non-current derivatives - RPI swaps	**2,188.9**	**2,188.9**	1,503.7	1,503.7
Non-current derivatives – cross currency swaps	**-**	**-**	3.1	3.1
	6,943.2	**7,547.1**	8,224.1	9,289.0

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-couponing 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-couponed 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.

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

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 2022

24 Deferred tax liabilities

Deferred tax is provided as follows:

	Accelerated tax depreciation £m	Revaluation of financial instruments £m	Retirement benefit obligations £m	Losses and other timing differences £m	Total £m
At 1 April 2020	600.4	(181.5)	(13.2)	10.6	416.3
Charge/(credit) to income statement	8.9	(80.2)	3.7	(0.9)	(68.5)
Prior year adjustment:					
- Credit to other comprehensive income	-	-	(13.3)	-	(13.3)
At 31 March 2021	**609.3**	**(261.7)**	**(22.8)**	**9.8**	**334.5**
(Credit)/charge to income statement	(35.1)	(118.3)	6.6	(0.4)	(147.2)
Prior year adjustment:					
- Charge to income statement	0.1	-	-	-	0.1
- Credit to other comprehensive income	-	-	(3.4)	-	(3.4)
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)
At 31 March 2022	**759.9**	**(500.0)**	**(25.0)**	**7.9**	**242.9**

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:

	2022 £	2021 £
Deferred tax liabilities	**773.5**	609.2
Deferred tax assets	**(530.6)**	(274.7)
	242.9	334.5

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 £164.2m (2021: £86.2m) with a deferred tax asset of £41m (2021: £16.4m). 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 £267.6m (2021: £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 wil 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 £107.3m (2021: £67.2m). 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 2022

25 Retirement benefit obligations

The deficit associated with retirement benefit obligations has decreased to £59.9 million (2021: £116.5 million). The decrease in the deficit over the year is principally due to company contributions over the year, including an additional one-off lump sum contribution of £59.6 million, as well as the increase in AA corporate bond yields, which leads to a higher discount rate and therefore lower liabilities. This is offset to a lesser extent by lower than assumed returns on scheme assets, an increase in the assumed rate of future price inflation, and allowance for actual inflation over the year which was higher than assumed, resulting in higher liabilities.

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 administrating 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 2022

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 2022 amounted to £13.2 million (2021 restated (see note 8): £12.5 million). No contributions were outstanding at either year-end (2021: £1.1 million of contributions were outstanding for payment and were paid on 7 April 2021).

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:

	2019 **SWPS** % 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 2022

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:

	2022 % per annum	2021 % per annum
Price inflation (RPI)	**3.50**	3.15
Price inflation (CPI) (RPI less 1% pa up to 2030; equal to RPI thereafter)	**2.50 up to 2030**	2.15 to 2030
	3.50 after 2030	15 after 2030
Rate of increase in salaries (no longer applicable following cessation of accrual)	**N/A**	N/A
Rate of increase of pensions in payment (MIS* members only)***	**2.50**	2.15
Rate of increase of pensions in payment (Old section** members only)***	**3.50**	3.15
Rate of increase of pensions in payment (New section and ex FSLP (RPI max 5%))***	**3.35**	3.05
Rate of increase of pensions in payment (Post-5 April 1988 GMP (CPI max 3%))***	**2.15**	1.90
Rate of increase of pensions in payment (All sections post 31 March 2013 service (RPI max 2.5%))***	**2.25**	2.15
Rate of increase for deferred pensions (MIS* members only)***	**2.50**	2.15
Rate of increase for deferred pensions (Old section** members only)***	**3.50**	3.15
Rate of increase for deferred pensions (New section and ex FSLP (RPI max 5%))***	**3.35**	3.05
Rate of increase for deferred pensions (Post-5 April 1988 GMP (CPI max 3%))***	**2.15**	1.90
Rate of increase for deferred pensions (All sections post 31 March 2013 service (RPI max 2.5%))***	**2.25**	2.15
Discount rate	**2.75**	2.15

* 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 the same smoothing factor of 7.5 and long-term improvement rate of 1.25% as used in 2021.

	2022 Years	2021 Years
Longevity at age 65 for current pensioners		
Male	**24.3**	24.3
Female	**26.4**	26.4
Longevity at age 65 for future pensioners		
Male	**23.0**	23.0
Female	**24.9**	24.9

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

25 Retirement benefit obligations (continued)

The assets and liabilities in the scheme and the expected rates of return at 31 March 2022 and 31 March 2021 were:

	Value at 2022 £m	Value at 2021 £m
Equities	**200.5**	197.1
Government bonds	**151.3**	173.1
Non-government bonds	**348.0**	367.3
Cash	**79.6**	34.0
Total market value of plan assets	**779.4**	771.5
Total value of plan liabilities	**(839.3)**	(888.0)
Accrued deficit in the plan	**(59.9)**	(116.5)
Related deferred tax asset	**25.0**	22.8
Net retirement benefit obligations	**(34.9)**	(93.7)

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.

Reconciliation of the present value of the scheme liabilities	**2022 £m**	2021 £m
At 1 April	**888.0**	840.1
Past service cost	**-**	0.2
Interest expense	**18.6**	19.3
Experience loss/(gain) on liabilities	**22.7**	(15.8)
Actuarial (gain)/loss on liabilities:		
- due to changes in demographic assumptions	**(0.8)**	0.2
- due to changes in financial assumptions	**(48.0)**	114.1
Benefits paid	**(41.2)**	(70.1)
Scheme liabilities at 31 March	**839.3**	888.0

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.

	Change in assumption	**Impact on scheme liabilities (£m)**
Discount rate	+ 0.1% p.a.	(12.7)
	- 0.1% p.a.	13.0
Price inflation (RPI measure)*	+ 0.1% p.a.	9.3
	- 0.1% p.a.	(9.2)
Mortality	+ 1 year	35.5
	- 1 year	(34.0)

* 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 2022

25 Retirement benefit obligations (continued)

Reconciliation of the value of the scheme assets	2022 £m	2021 £m
At 1 April	**771.5**	777.6
Interest income	**16.3**	18.0
Return on assets (less)/greater than discount rate	**(44.5)**	28.5
Employer contributions	**77.3***	17.5
Benefits paid	**(41.2)**	(70.1)
Bid value of scheme assets at 31 March	**779.4**	771.5

The net return on scheme assets was a loss of £28.2 million (2021: return of £46.5 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.

Total cost recognised as an expense	2022 £m	2021 £m
Past service cost	**-**	0.2
Curtailment	**-**	-
Net interest cost	**2.3**	1.3
Total income statement expense before deduction for tax	**2.3**	1.5

Analysis of the amounts recognised in other comprehensive income	2022 £m	2021 £m
Loss/(gain) due to liability experience	**22.7**	(15.8)
Loss due to changes in demographic assumptions	**0.8**	0.2
(Gain)/loss due to changes in financial assumptions	**(48.0)**	114.1
Return on plan assets greater than discount rate	**44.5**	(28.5)
Total loss recognised in OCI before adjustment for tax	**20.0**	70.0

The cumulative amount of actuarial losses recognised in other comprehensive income is £237.7 million (2021: £237.7 million).

Analysis of the movement in the scheme deficit during the year	2022 £m	2021 £m
Deficit in the scheme at 1 April	**(116.5)**	(62.5)
Employer's contributions	**77.3**	17.5
Employer's past service cost	**-**	(0.2)
Financing charge	**(2.3)**	(1.3)
Actuarial loss	**(18.4)**	(70.0)
Deficit in the scheme at end of year	**(59.9)**	(116.5)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

26 Regulatory settlement liability

	2022 £m	2021 £m
At 1 April	**99.8**	135.5
Settlements in year	**(23.9)**	(35.7)
Increase in year	**2.9**	-
At 31 March	**78.8**	99.8

Included in:	**2022 £m**	2021 £m
Current liabilities	**25.0**	**24.2**
Non-current liabilities	**53.8**	**75.6**
	78.8	**99.8**

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the Southern Water'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, Southern Water has agreed to make direct customer rebates totalling £135.5 million in 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 and these amounts have been provided for in the financial statements for 2018–19. These rebates are now being made and the provision is being released through revenue in line with the annual profile.

Year Ending:	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**Total**
AMP6 Bill Rebate (2017/18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.20	1.60	2.70	4.30	4.85	15.66
Provision (Nominal)	35.74	23.93	25.03	26.63	27.18	138.52

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

	Environmental obligations	**Other**	**Total**
Balance 1 April 2020	5.8	4.0	9.8
Utilised in year	(0.8)	(1.5)	(2.3)
Increase in year	0.7	-	0.7
Balance at 31 March 2021	5.7	2.5	8.2
Balance 1 April 2021	5.7	2.5	**8.2**
Utilised in year	(1.0)	(2.5)	**(3.5)**
Increase in year	1.8	-	**1.8**
Balance at 31 March 2022	**6.5**	**-**	**6.5**

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

27 Provisions for liabilities (continued)

Included in:	**2022 £m**	2021 £m
Current liabilities	**1.5**	3.9
Non-current liabilities	**5.0**	4.3
	6.5	8.2

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 period of £91.5 million. As a result, provisions for liabilities relating to this Environment Agency investigation are now £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 36 Contingent liabilities, to these accounts.

28 Other non-current liabilities

	Grants & contributions £m	**Deferred Revenue £m**	**Total £m**
Balance at 1 April 2021	22.0	12.7	**34.7**
Increase in year	6.6	-	**6.6**
Released to income statement	(1.7)	(0.4)	**(2.1)**
Balance at 31 March 2022	**26.9**	**12.3**	**39.2**

These grants and contributions relate to property, plant and equipment.

Deferred revenue of £12.3 million (2021: £12.7 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 2022

29 Called up share capital

	Group and Company 2022 £m	Group and Company 2021 £m
Authorised		
921,874,025 Ordinary shares of £1 each	**-**	921.9

Allotted and fully paid	Group and Company 2022 £m	Group and Company 2021 £m
Ordinary shares of £1 each		
At 1 April	**921.9**	921.9
Conversion of shares to Ordinary no-par value	**(921.9)**	-
At 31 March	**-**	921.9

Allotted and fully paid	Group and Company 2022	Group and Company 2021
Ordinary shares of no-par value	Number of shares	Number of shares
At 1 April	**-**	-
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	**6,799,482,777**	-

Conversion of shares to no-par value
In June 2021, a special resolution was passed to convert the entirety of the existing share capital with an aggregate par value of £921.9 million to Ordinary shares of no-par value. Each Ordinary Share of £1.00 was converted into 1 Ordinary Share of no-par value. In addition, the company authorised to issue an unlimited number of Ordinary shares of no-par value.

As a result of this, the balances held in the share capital account and the share premium account were transferred to a new stated share capital account. Any future proceeds from the issuance of no-par value shares will be held in the stated share capital account.

Eurobonds instrument restructure
In June 2021, as part of the restructure of the Eurobond instrument, the creditor position of the Eurobonds held by shareholders was exchanged for Ordinary shares of no-par value in Greensands Holdings Limited, in a debt for equity swap. As a result, 1,645,360,313 ordinary shares of no-par value were issued in exchange for the full value of the Eurobonds loan and accumulated interest up to 11 June 2021 (£1,606.7m).

At the time of the share issue, the fair value of the share issue was deemed to be £nil. Accordingly, the deemed proceeds in the stated share capital account for Greensands Holdings Limited is also £nil. On consolidation, the fair value adjustment is reversed, and the full £1,606.7m is moved to other reserves. See note 32 for further details.

Share issue
On 8 September 2021, 4,232,248,439 Ordinary shares of no-par value were issued for cash at £0.253 per share to a fund managed by Macquarie Asset Management. The entire proceeds from the share issue are shown in note 32.

The company has one class of Ordinary share of no-par value which carries no right to fixed income. The holders of Ordinary shares of no-par value are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the company.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

30 Share premium account

	Group and Company 2022 £m	Group and Company 2021 £m
At 1 April	**4.5**	4.5
Balance transferred to stated share capital account (see note 29)	**(4.5)**	-
At 31 March	**-**	4.5

31 Stated share capital account

	Group 2022 £m	Group 2021 £m
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	**1,998.9**	-

	Company 2022 £m	Company 2021 £m
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	**1,998.9**	-

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 GSH, 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

	Group 2022 £m
Balance at 1 April 2020	60.2
Profit for the financial year	18.2
Transfer to retained earnings	(1.5)
Balance at 31 March 2021	76.9
Profit for the financial year	9.9
Transfer to retained earnings	(1.7)
Balance at 31 March 2022	**85.1**

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 2022

34 Retained losses

	Group 2022 £m
Balance at 1 April 2020	(2,036.1)
Loss for the financial year	(572.0)
Other comprehensive expense for the year	(56.7)
Transfer from non-distributable reserve	1.5
Restated balance as at 31 March 2021	(2,663.3)
Loss for the financial year	(903.2)
Other comprehensive expense for the year	(5.1)
Transfer from non-distributable reserve	1.7
Balance at 31 March 2022	**(3,569.9)**

	Company 2022 £m	Company 2021 £m
Balance at 1 April	**(973.5)**	(1,017.5)
Profit for the financial year	**(38.2)**	44.0
Balance at 31 March	**(1,011.7)**	(973.5)

35 Notes to the cash flow statement

	2022 £m	2021 £m *(Restated)
Continuing operations		
Operating (loss) / profit	**(2.8)**	124.3
Adjustments for:		
Fair value of sewer adoptions	**(9.9)**	(18.2)
Depreciation of property, plant and equipment	**307.6**	279.3
Amortisation of intangible assets	**21.8**	13.7
Receipt of grants and contributions	**6.5**	3.8
Difference between pension charge and cash contributions	**(77.4)**	(17.3)
Amortisation of grants and contributions	**(1.7)**	(1.5)
Operating cash flows before movements in working capital	**244.1**	384.1
Increase in inventories	**(3.9)**	(1.3)
(Increase)/decrease in receivables	**(6.7)**	12.0
Increase in payables	**14.7**	13.7
Decrease in regulatory settlement liability	**(21.0)**	(35.7)
Decrease in provisions	**(1.8)**	(1.5)
Net cash from operating activities	**225.4**	371.3

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.

Investments	2022 £m	2021 £m
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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2022

35 Notes to the cash flow statement (continued)

Cash and cash equivalents	2022 £m	2021 £m
Cash and bank balances	**276.5**	417.2

Cash and cash equivalents comprise cash and short-term bank deposits and include £55.0 million of restricted cash to satisfy availability of funds as required by the terms of the securitisation. 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.

Analysis of net debt (including changes in liabilities from financing activities)	At 1 April 2021 £m	Cash Flow changes £m	Fair value adjust-ments £m	New finance leases £m	Other non-cash changes £m	At 31 March 2022 £m
Cash and cash equivalents	417.2	(140.7)	-	-	-	**276.5**
Net liabilities from financing activities:						
Term facilities/index linked loans (note 21)	(6,687.6)	470.5	-	-	1,496.1	**(4,721.0)**
Lease liabilities (note 21)	(29.7)	2.4	-	(6.0)	-	**(33.3)**
Foreign currency swaps (note 23)	(3.1)	-	3.4	-	-	**0.3**
Interest rate swaps (note 23)	(1,432.4)	(45.7)	(665.2)	-	-	**(2,143.3)**
Total liabilities from financing activities	(8,152.8)	427.2	(661.8)	(6.0)	1,496.1	**(6,897.3)**
Net debt	(7,735.6)	286.5	(661.8)	(6.0)	1,496.1	**(6,620.8)**

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 2022 comprise:	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	-	276.5	-	-	**276.5**
Derivative financial instruments	45.9	-	-	(2,188.9)	**(2,143.0)**
Unamortised debt issuance costs	-	-	4.9	135.1	**140.0**
Gilt lock proceeds	-	-	(0.1)	(4.3)	**(4.4)**
Borrowings due within one year	-	-	(278.2)	-	**(278.2)**
Borrowings due after one year	-	-	-	(4,578.4)	**(4,578.4)**
Leases	-	-	(3.7)	(29.6)	**(33.3)**
Net debt	45.9	276.5	(277.1)	(6,666.1)	**(6,620.8)**

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2022

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 (2021: £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 2022

37 Financial commitments

(a) Capital commitments are as follows:

	2022 £m	2021 £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	**1,179.0**	518.0
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	**22.3**	15.5
Right to receive water from Portsmouth Water[1]	**658.0**	658.0

[1] 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 £130.8 million at 31 March 2022 (2021: £124.6 million). The volumetric charge will be recognised as water is supplied, from 1 April 2029.

(b) The group as lessee

	2022 £m	2021 £m
Lease payments under operating leases recognised as an expense in the year	**3.1**	1.8

As at 31 March 2022 and 2021, 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 GSH's existing shareholders, a fund managed by Macquarie Asset Management acquired a majority stake in GSH, 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 2022

38 Related party transactions (continued)

The transactions and balances with the Group's related parties (i.e. the shareholders) are summarised below.

	2022 £m	2021 £m
Eurobond interest		
IIF Int'l SW UK Investment Ltd	**11.6**	52.5
Phildrew Nominees Ltd	**7.6**	34.3
National Nominees Ltd	**2.9**	13.0
Sky Brace Investments Ltd	**1.8**	8.0
Sumaya Investments Ltd	**1.8**	8.0
Falkirk Council - Falkirk Council Pension Fund	**0.1**	0.7
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	**0.4**	1.9
Hermes Infrastructure Fund LP	**7.8**	35.3
SW Holdings LP	**0.7**	3.3
Simcoe Yeoman Water Ltd	**2.5**	11.2
Total Eurobond interest payable to related parties	**37.2**	168.2
Loans and other borrowings greater than one year:		
Eurobonds – Shareholder loans		
IIF Int'l SW UK Investment Ltd	**-**	278.3
Phildrew Nominees Ltd (UBS IIF)	**-**	49.6
Phildrew Nominees Ltd (UBS IINF)	**-**	6.9
Phildrew Nominees Ltd (UBS II4F)	**-**	55.0
Phildrew Nominees Ltd (UBS IIUSTEF)	**-**	27.5
Phildrew Nominees Ltd (UBS IIF (A) LP)	**-**	12.9
Phildrew Nominees Ltd (UBS IIF (B) LP)	**-**	17.1
Phildrew Nominees Ltd (UBS IIF (C) LP)	**-**	12.4
National Nominees Ltd - Motor Trades Association of Australia Super Fund	**-**	21.4
National Nominees Ltd – Prime Super	**-**	6.5
Sky Brace Investments Ltd	**-**	42.3
Sumaya Investments Ltd	**-**	42.3
Falkirk Council - Falkirk Council Pension Fund	**-**	3.4
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	**-**	10.3
Hermes Infrastructure Fund LP	**-**	34.7
Hermes Infrastructure Fund Spring I LP	**-**	19.2
Hermes Infrastructure Fund Spring II LP	**-**	113.9
Hermes Infrastructure Fund Spring III LP	**-**	19.2
SW Holdings LP	**-**	17.5
Simcoe Yeoman Water Ltd	**-**	59.1
Accrued interest	**-**	720.1
Total Eurobonds – Shareholder loans	**-**	1,569.6

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 2022

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 2022 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.

Company	Registered address	Activity
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 2022

39 Subsidiaries (continued)

Company	Registered address	Activity
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

In December 2021, it was announced that Chief Financial Officer Sebastiaan Boelen would be retiring from office. He will step down in July 2022. In April 2022, it was announced that Nadim Ahmad would join the company and assume the role of Interim Chief Financial Officer upon retirement of Sebastiaan Boelen.

In February 2022 the company announced Chief Executive Officer Ian McAulay's intention to retire. In June 2022, it was announced that Lawrence Gosden had been appointed as the company's new Chief Executive Officer with effect from 1 July 2022.

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 2022 and of the group’s loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- have been properly 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 and IFRSs as issued by the IASB.

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.

Conclusions relating to going concern

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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s and parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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. 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.

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.

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:

- 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 total unbilled income accrual for the year to 31 March 2022 is £246.0 million (2021: £224.3 million). 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 audit matter due to its influence on key metrics which management utilise to monitor and report business performance.

In response to the significant risk due to fraud we have:

- 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.

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 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;
- reading minutes of meetings of those charged with governance including the audit committee and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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.

Delyth Jones

Delyth Jones, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
29 July 2022