

**SOUTHERN WATER (GREENSANDS) FINANCING PLC**

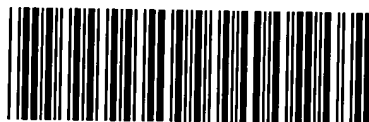
**ANNUAL REPORT**

**AND FINANCIAL STATEMENTS FOR THE YEAR ENDED**

**31 MARCH 2022**

**Registered number: 07581353**

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**SOUTHERN WATER (GREENSANDS) FINANCING PLC**  
**Annual Report and Financial Statements for the year ended**  
**31 March 2022**

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## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **COMPANY INFORMATION**

The company is a public company limited by shares.

#### **Directors**

L Gosden  
S Boelen  
W Price

#### **Company Secretary**

R Manning

#### **Registered office**

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

#### **Bankers**

HSBC Bank Plc  
PO Box 125  
2<sup>nd</sup> Floor, 62-76 Park Street  
London  
United Kingdom  
SE1 9DZ

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
2 New Street Square  
London  
EC4A 3HQ  
United Kingdom

#### **Registered number**

07581353

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2022**

The strategic report for the year ended 31 March 2022 has been prepared in terms of Section 414C of the Companies Act 2006.

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

The company did not trade during the year, and there is no intention for it to trade in the future, however it will continue to act as a financing company for Greensands Senior Finance Limited. The company's activity was in relation to financing the Greensands Holdings group.

### **KEY PERFORMANCE INDICATORS**

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

Given the limited activity of the company, additional information can be found in the directors' report, which describes the business model and strategy employed by the company. The report also includes a review of the company's performance during the year, insight on future developments and information about the principal risks and uncertainties facing the company. As a result, no further information is included in this strategic report.

Approved by the Board and signed on its behalf by.



S Boelen  
**Director**  
29 July 2022

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022

The directors of Southern Water (Greensands) Financing Plc (Registered No. 07581353) present their annual report and audited financial statements for the year ended 31 March 2022.

### PRINCIPAL ACTIVITIES

The company provides financing to Greensands Senior Finance Limited to support the financing of the Greensands Holdings Group.

### REVIEW OF THE BUSINESS, RESULTS AND DIVIDENDS

The company did not trade during the year, and there is no intention for it to trade in the future, however it will continue to act as a financing company for Greensands Senior Finance Limited. The company's only activity was in relation to financing the Greensands Holdings group.

The company paid interest of £53.4m (2021: £43.0m) and received interest of £53.4m (2021: £43.0m). The company generated a result of £nil before taxation for the year ended 31 March 2022 (2021: £nil).

There were no dividends charged in the financial statements in the year (2021: £nil). No further dividends have been declared post year end.

The directors do not propose payment of a final dividend for the year ended 31 March 2022 (2021: £nil per share).

The company has net assets of £nil (2021: £nil) comprising largely of amounts owed by group undertakings of £398.1m (2021: £778.6m), cash of £24.1m (2021: £0.6m), other borrowings (including group amounts) of £414.6 (2021: £764.7m) and £7.6m (2021: £14.5m) of interest payable.

In September 2021, Macquarie Asset Management acquired a majority stake through one of its long-term infrastructure funds in the ultimate parent company Greensands Holdings Limited. This acquisition resulted in an equity injection of over £1 billion into the Greensands Group. As part of this transaction, the company was able to repay around £353.8m of external loans totalling £736.1m, originally due for repayment between 2022 and 2026, early.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risk that the company is exposed to is the occurrence of events that would result in the impairment of its loan to Greensands Senior Finance Limited. This risk is mitigated by the continued support received by the company from its ultimate parent undertaking, Greensands Holdings Limited.

### Trigger event risk:

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

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

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

#### **PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

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

A further credit ratings downgrade at Southern Water Services, as set out in its Annual Report and Financial Statements or a breach of the Adjusted Interest Cover Ratio at 'Midco' would result in a Trigger Event and lead to a restriction in the payment of dividends.

A Trigger Event would not impact directly on the liquidity position as analysed for the 'going concern' statement of 'Holdco' as the debt service requirement, for the 12 months from the date of signing these financial statements, can be met out of existing liquidity. However, without mitigation, it would impact future liquidity.

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Southern Water Group manages its treasury operations on a group basis. Financial risk management is performed by Southern Water Services Limited's Treasury department. This includes assessment and mitigation of price risk, credit risk, liquidity risk and interest rate cash flow risk. The group's treasury management policies and operations are discussed in Southern Water Services' Annual Report and Financial Statements (which does not form part of this report). The principal financial risks to which the company is exposed are interest rate, liquidity and currency risks. The Board has approved policies for the management of these risks. The company does not use derivative financial instruments for speculative purposes.

##### **Interest rate risk**

The company's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk).

##### **Liquidity risk**

The company raises funds, as required, to meet the financing requirements of the group.

The company relies on its cash reserves and support from the only trading company in the group, Southern Water Services, in order to meet its debt obligations.

#### **STREAMLINED ENERGY AND CARBON REPORT (SECR)**

The company is exempt from producing the Streamlined Energy and Carbon Report (SECR) by virtue of the fact it is non-operating and does not directly consume energy. The Streamlined Energy and Carbon Report (SECR) for the group is included in the consolidated financial statements of Greensands Holdings Limited, which are available to the public and can be obtained from the Southern Water website ([www.southernwater.co.uk](http://www.southernwater.co.uk)).

#### **GOING CONCERN**

The directors believe, after due and careful enquiry, that the company 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 on pages 7 to 18.
- The company's business activities, together with the factors likely to affect its future development, performance and position, which are set out on pages 2 to 5.
- This company is part of a group of companies which includes covenanted loan structures that are subject to distribution restrictions in certain circumstances, and is further described on pages 3 to 4

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

#### **GOING CONCERN (continued)**

- This company is part of a group of companies group 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.
- 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.

#### **FUTURE DEVELOPMENTS**

The directors expect the general level of activity to remain consistent with 2022 in the forthcoming year, however there may be wider economic factors, such as the rising cost of inflation and the continued impact of the UK's departure from the European Union and COVID-19, which could affect future company dealings. However, the company is safeguarded by being a holding company not engaged in any trade. The underlying operational company Southern Water Services Limited has considered the impact of wider economic factors and disclosed this in its Annual Report which can be obtained from the Company Secretary of Southern Water Services Limited, at the registered address, Southern House, Yeoman Road, Worthing, BN13 3NX or on its website at <https://southernwater.annualreport2022.com>. Southern Water Services Limited is expected to continue in operational existence for the foreseeable future.

#### **EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE**

On the 22 July 2022 the Southern Water Services Limited Board approved a distribution of £17.5m to Southern Water Capital Limited, this included a partial preference share redemption of £5.3m including accrued interest thereon to redemption, and a payment of outstanding accrued preference share interest of £12.3m. This payment will facilitate the payment of interest in 'Midco' and 'Holdco' during the 12 months from the signing of these financial statements.

Ian McAulay resigned as a director of Southern Water (Greensands) Financing Plc on 30 June 2022 and Lawrence Gosden was appointed as a director on 1 July 2022

#### **DIRECTORS**

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

P Hedley	Resigned as Director 8 September 2021
S Howard	Resigned as Director 8 September 2021
B Somes	Resigned as Director 8 September 2021
J Lynch	Resigned as Director 8 September 2021
H De Run	Resigned as Director 25 August 2021
S Boelen	Appointed as Director 8 September 2021
I McAulay	Appointed as Director 8 September 2021, Resigned as Director 30 June 2022
W Price	Appointed as Director 8 September 2021
L Gosden	Appointed as Director 1 July 2022

#### **DIRECTORS' INDEMNITIES**

The company maintains liability insurance for its directors and officers, which is also maintained for the directors and officers of its holding companies and fellow subsidiaries. Following shareholder approval, the company has also provided an indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. An indemnity has also been provided for the directors and company secretaries of the company's holding companies and fellow subsidiaries.

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

#### **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **STATEMENT OF PROVISION OF INFORMATION TO AUDITOR**

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

#### **INDEPENDENT AUDITOR**

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:



R Manning  
**Company Secretary**  
29 July 2022



# SOUTHERN WATER (GREENSANDS) FINANCING PLC

## INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

	Notes	2022 £m	2021 £m
<b>Continuing operations</b>			
Finance income	4	53.4	43.0
Finance costs	5	(53.4)	(43.0)
Impairment loss on financial assets	7	-	-
Net finance result		-	-
<b>Result before taxation</b>	6	-	-
Tax	8	-	-
<b>Result for the financial year</b>		-	-

There were no other comprehensive income or losses for the years ending 31 March 2022 and 31 March 2021, accordingly no separate statement of other comprehensive income is presented.

# SOUTHERN WATER (GREENSANDS) FINANCING PLC

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Notes	2022 £m	2021 £m
<b>Non-current assets</b>			
Other non-current assets	9	<u>390.5</u>	<u>721.6</u>
		<b>390.5</b>	<b>721.6</b>
<b>Current assets</b>			
Other receivables	10	7.6	57.0
Cash and cash equivalents		<u>24.1</u>	<u>0.6</u>
		<b>31.7</b>	<b>57.6</b>
<b>Total assets</b>		<u><b>422.2</b></u>	<u><b>779.2</b></u>
<b>Current liabilities</b>			
Borrowings: amounts falling due within one year	11	<u>(31.4)</u>	<u>(55.4)</u>
		<b>(31.4)</b>	<b>(55.4)</b>
<b>Non-current liabilities</b>			
Borrowings: amounts falling due after one year	12	<u>(390.8)</u>	<u>(723.8)</u>
		<b>(390.8)</b>	<b>(723.8)</b>
<b>Total liabilities</b>		<u><b>(422.2)</b></u>	<u><b>(779.2)</b></u>
<b>Net assets</b>		<u><b>-</b></u>	<u><b>-</b></u>
<b>Equity</b>			
Called up share capital	13	0.1	0.1
Accumulated losses		<u>(0.1)</u>	<u>(0.1)</u>
<b>Total equity</b>		<u><b>-</b></u>	<u><b>-</b></u>

The financial statements of Southern Water (Greensands) Financing Plc (Registered No. 07581353) on pages 7 to 18 were approved by the Board of Directors and authorised for issue on 29 July 2022.

Signed on behalf of the Board of Directors:



S Boelen  
Director

**SOUTHERN WATER (GREENSANDS) FINANCING PLC**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2022**

	<b>Called up share Capital (Note 13) £m</b>	<b>Accumulated Losses £m</b>	<b>Total £m</b>
<b>Balance at 1 April 2020</b>	0.1	(0.1)	-
Result for the financial year and total comprehensive result	-	-	-
<b>Balance at 31 March 2021</b>	<u>0.1</u>	<u>(0.1)</u>	<u>-</u>
Result for the financial year and total comprehensive result	-	-	-
<b>Balance at 31 March 2022</b>	<u><u>0.1</u></u>	<u><u>(0.1)</u></u>	<u><u>-</u></u>

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022**

#### **1 Accounting policies**

##### **Basis of preparation**

Southern Water (Greensands) Financing Plc (the Company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1. The nature of the company's operations and its principal activities are set out in the directors' report on page 3.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). Accordingly, 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.

These financial statements have been prepared on a going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The financial statements have been prepared under the historical cost convention.

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

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability as if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

The financial statements contain information about Southern Water (Greensands) Financing Plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group financial statements of Greensands Holdings Limited are available to the public and can be obtained from the Southern Water website at [www.southernwater.co.uk/our-performance/reports/annual-reporting](http://www.southernwater.co.uk/our-performance/reports/annual-reporting).

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a statement of cash flows, financial instruments, fair value measurement, standards not yet effective, presentation of a statement of financial position as at the beginning of the preceding period following a retrospective accounting policy application or restatement, capital management, related party transactions and impairment of assets. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited.

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

There have been no new or revised accounting standards adopted in the current year that had a significant or material impact on the financial statements.

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

#### **1 Accounting policies (continued)**

##### **Going Concern**

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 of entities within the group and financial risk.

The directors have a reasonable expectation that the company will maintain adequate resources to continue in operational existence for the next 12 months and they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Please see the Directors Report for further detail.

##### **Related party disclosure**

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

##### **Investments, interest payable and similar income and expenses**

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

##### **Taxation**

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

##### **Interest income, interest payable and similar income and expenses**

Interest income, interest payable and similar income and expenses are recognised on an accrual basis.

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### Financial instruments

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

IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. There was no material impact resulting from the application of this standard for the reasons that follow. The financial assets and liabilities held by the company were previously held at amortised cost, as described below, and there has been no change to their accounting treatment.

The company has always conducted an annual impairment review of its financial assets and taken into consideration future expected cash flows. The company does not currently hedge account.

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

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

#### Financial assets

##### (i) Loans 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) Impairment of financial assets

All debt type financial assets which are not measured at FVTPL are assessed for 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 company expected to receive, discounted at the original effective interest rate.

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

##### (iii) Derecognition of financial assets

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

#### Financial liabilities

##### (i) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### (ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities 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.

##### (iii) Derecognition of financial liabilities

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

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

#### **1 Accounting Policies (continued)**

##### **Financial instruments (continued)**

##### **Financial liabilities**

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

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

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

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

##### **Derecognition of financial liabilities**

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

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

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

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

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

##### Critical judgements in applying the company's accounting policies

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies on the amounts recognised in the financial statements.

##### Key sources of estimation uncertainty

The following are the 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:

##### (i) Impairment

Investments and loans and other receivables are assessed for impairment in accordance with IFRS 9. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred or are expected to occur after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

An impairment review requires management to make estimates regarding the future cash flows of the asset under review. The Directors take into account current and expected regulated returns and these are subject to ongoing review and negotiation. Having conducted this exercise the investment is not currently considered to be impaired, however, this judgement is subjective by nature. Therefore there is no impairment recognised in the financial statements.

Regulatory returns are sensitive to the actual performance of Southern Water Services Limited, the only operating company in the group.

#### 3 Employee information

During the year the company had no employees (2021: None).

The services of the directors are deemed to be wholly attributable to their services to Greensands Holdings Limited, with only two directors receiving payment for their services in the year to Greensands Holdings Limited. The total sum has been recorded in the consolidated financial statements of Greensands Holdings Limited, which are available to the public and can be obtained from the Southern Water website ([www.southernwater.co.uk](http://www.southernwater.co.uk)). Therefore, the directors received no emoluments during the year or the prior year in respect of their services to the company.

#### 4 Finance income

	2022 £m	2021 £m
Interest receivable from Greensands Senior Finance Limited	<u>53.4</u>	<u>43.0</u>



## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### 5 Finance costs

	2022 £m	2021 £m
Interest payable on loans	<u>53.4</u>	<u>43.0</u>

For the terms attached to these loans please refer to note 11 and 12.

#### 6 Result before taxation

In 2021 and 2022, the company audit fees were borne by Greensands Holdings Limited and not recharged to the company. The total audit fee for the group (excluding Southern Water Services) is £90,000 (2021: £80,000).

#### 7 Impairment Loss

The directors have reviewed the recoverability of the company's amount due from group undertaking Greensands Holdings Limited and as it stands, it is unlikely that this amount will be recovered. The balance of £0.1m has been written down in full and charged to the income statement as impairment in year ended 31 March 2020. No impairment has been recognised in the year to 31 March 2022.

#### 8 Tax on result

No UK tax charge arises in respect of the result for the year (2021: £nil).

No deferred tax arose during the year to 31 March 2022 (2021: £nil).

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

	2022 £m	2021 £m
<b>Result before taxation</b>	<u>-</u>	<u>-</u>
UK corporation tax rate at 19% on result/(loss) for the year (2021: 19%)	-	-
Permanent differences arising on impairment loss	<u>-</u>	<u>-</u>
<b>Total tax for year</b>	<u>-</u>	<u>-</u>

#### 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. Deferred tax assets and liabilities that reverse after 1st April 2023 will therefore be calculated at 25%.

#### 9 Other non-current assets

	2022 £m	2021 £m
Amounts due from group undertakings (note (i) to (v) below):		
- £125m Facility Agreement 2022 – Libor plus 3.5%	-	123.9
- £75m Facility Agreement 2025 – Libor plus 4.25%/4.0%	50.2	77.2
- £150m Facility Agreement 2025 – Libor plus 6.00%/5.25%	102.0	156.2
- £100m Facility Agreement 2026 – Libor plus 6.00%/5.25%, SONIA +0.02766% plus 5.25%	68.3	104.0
- £250m Facility Agreement 2025 – Libor plus 6.00%/5.25%	170.0	260.3
	<u>390.5</u>	<u>721.6</u>

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### 9 Other non-current assets (continued)

##### Notes

- (i) Of amounts due from group undertakings, the £75m Facility Agreement 2025 – Libor plus 4.0%, the £150m Facility Agreement 2025 – Libor plus 5.25%, the £100m Facility Agreement 2026 – Libor plus 5.25% and the £250m Facility Agreement 2025 – Libor plus 5.25% all relate to debt advanced to Greensands Senior Finance Limited (GSSF) at the same interest rates and terms of the external agreements (mirroring any related swap agreements) and are stated at amortised cost.
- (ii) The £250m Facility Agreement 2025 – Libor plus 5.25% was drawn down on 8 April 2019 and passed onto GSSF in the manner stated in note (i).
- (iii) During the year the company elected to capitalise a total of £14.5m of interest due on facilities. This has triggered interest rate margin increases as displayed in the above table.
- (iv) As part of a financial restructure, following Macquarie Asset Management's capital injection, £353.8m of the outstanding loans was repaid to the company during the year.
- (v) In December 2021, the company completed the transition from Libor to SONIA (Sterling Overnight Index Average).

All entities are wholly owned within the group.

#### 10 Other receivables

	2022 £m	2021 £m
Amounts due from Greensands Holdings Limited (note (i) below)	0.1	0.1
Cumulative impairment losses (note (ii) below)	(0.1)	(0.1)
	-	-
Amounts due from Greensands (UK) Limited (note (i) below)	0.1	0.1
Amounts due from Greensands Senior Finance Limited (note (iii) below)	-	42.4
Interest receivable from group undertakings	7.5	14.5
	<u>7.6</u>	<u>57.0</u>

##### Notes

- (i) All amounts due from group undertakings due within one year are unsecured, interest free and repayable on demand.
- (ii) As referred to in note 7, an impairment loss of £nil (2021: £nil) has been recognised in the income statement for the year in relation to the balance owed by group undertaking Greensands Holdings Limited.
- (iii) As part of a financial restructure, following Macquarie Asset Management's capital injection, the intercompany loan outstanding with Greensands Senior Finance Limited was repaid in full during the year.

All entities are wholly owned within the group.

#### 11 Borrowings: amounts falling due within one year

	2022 £m	2021 £m
<b>Loans and other borrowings</b>		
Interest payable	7.5	14.5
Amounts owed to Greensands Finance Limited (note (i) below)	-	40.9
Amounts owed to Greensands Senior Finance Limited (note (ii) below)	23.9	-
	<u>31.4</u>	<u>55.4</u>

##### Notes

- (i) As part of a financial restructure, following Macquarie Asset Management's capital injection, the intercompany loan of £40.9m outstanding with Greensands Finance Limited was repaid in full during the year.
- (ii) All amounts owed to group undertakings due within one year are unsecured, interest free and repayable on demand.
- (iii) All entities are wholly owned within the group.

# **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)**

### **12 Borrowings: amounts falling due after one year**

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
Amounts owed to group undertakings (note (i))	<b>0.2</b>	<b>2.2</b>
Loans and other borrowings (note (ii) to (v) below)		
- £125m Facility Agreement 2022 – Libor plus 3.5%	-	123.9
- £75m Facility Agreement 2025 – Libor plus 4.25%/4.0%	<b>50.2</b>	77.2
- £150m Facility Agreement 2025 – Libor plus 6.00%/5.25%	<b>102.0</b>	156.2
- £100m Facility Agreement 2026 – Libor plus 6.00%/5.25%	<b>68.4</b>	104.0
SONIA +0.02766% plus 5.25%		
- £250m Facility Agreement 2025 – Libor plus 6.00%/5.25%	<b>170.0</b>	260.3
	<b>390.8</b>	<b>723.8</b>

### **Notes**

- (i) All entities are wholly owned within the group.
- (ii) The £75m Facility Agreement 2025 – Libor plus 4.0% were issued on 15 April 2015. The £150m Facility Agreement 2025 – Libor plus 5.25% was issued on 29 November 2018 and the £100m Facility Agreement 2026 – Libor plus 5.25% was drawn on 22 March 2019. The £250m Facility Agreement 2025 – Libor plus 5.25% was issued on 8 April 2019. All of these facilities are stated at amortised cost. The facilities are guaranteed under a group Security Agreement. The agreement is over the entire property, assets, rights and undertakings of each of Southern Water Services Limited, Southern Water Services (Finance) Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of Southern Water Services Limited, this is to the extent permitted by the Water Industry Act 1991 and License.
- (iii) During the year the company elected to capitalise a total of £14.5m of interest due on facilities. This has triggered interest rate margin increases as displayed in the above table.
- (iv) In September 2021, Macquarie Asset Management acquired a majority stake through one of its long-term infrastructure funds in the ultimate parent company Greensands Holdings Limited. This acquisition resulted in an equity injection of over £1 billion into the Greensands Group. As part of this transaction, the company repaid £353.8m of external loans totalling £736.1m, originally due for repayment between 2022 and 2026, early.
- (v) In December 2021, the company completed the transition from Libor to SONIA (Sterling Overnight Index Average).

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Repayments fall due as follows:</b>		
Between two and five years	<b>390.6</b>	721.6
After five years not by instalments	<b>0.2</b>	2.2
	<b>390.8</b>	<b>723.8</b>

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022 (continued)

#### 13 Called up share capital

	2022 £m	2021 £m
<b>Authorised:</b>		
50,000 ordinary shares of £1 each	<u>0.1</u>	<u>0.1</u>
<b>Allotted and part paid:</b>		
49,999 ordinary shares of £1 each paid up as to £0.25p	<u>0.1</u>	<u>0.1</u>
<b>Allotted, called up and fully paid:</b>		
1 ordinary share of £1 each	<u>-</u>	<u>-</u>

The shares were issued at par on 28 March 2011.

Each ordinary share carries the right to one vote on a poll. The right to vote is determined by reference to the register of members at a time specified in the notice of meeting, being not more than 48 hours (disregarding non-working days) before the general meeting in question. All dividends shall be declared and paid according to the amounts paid up on the shares. The shares do not carry any rights as respect capital to participate in a distribution (including on a winding up) other than those that exist as a matter of law. The shares are not redeemable.

#### 14 Contingent liabilities

The 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, Greensands Europe Limited and Greensands Investments Limited.

#### 15 Ultimate parent and controlling party

The immediate parent undertaking is Greensands (UK) Limited. Greensands Holdings Limited (Registered Number: Jersey 98700) is the parent undertaking of the smallest and largest and only group to consolidate these financial statements. Greensands Holdings Limited was incorporated in Jersey and its registered office address is 44 Esplanade, St Helier, Jersey, United Kingdom, JE4 9WG. Copies of the consolidated financial statements may be obtained from the Company Secretary of Greensands Holdings Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX.

Up until 8 September 2021, Greensands Holdings Limited was itself owned and controlled by a consortium of investors and had no ultimate parent and controlling party. On 8 September 2021, under an agreement reached with the Greensands Holdings Limited existing shareholders, Macquarie Asset Management (through a Macquarie group company, Mscif Wight Bidco Limited) acquired a 62.24% majority stake in Greensands Holdings Limited investing over £1 billion of equity to recapitalise and implement a more sustainable financing strategy for the group. Mscif Wight Bidco Limited is the intermediate holding company and Macquarie Asset Management is the ultimate parent and controlling party.

The company has taken advantage of the exemption under FRS 101 'Reduced Disclosure Framework' in not disclosing details of transactions with other companies which are 100% wholly owned. Equivalent disclosures are given in the group financial statements of Greensands Holdings Limited.

#### 16 Post balance sheet events

On the 22 July 2022 the Southern Water Services Limited Board approved a distribution of £17.5m to Southern Water Capital Limited, this included a partial preference share redemption of £5.3m including accrued interest thereon to redemption, and a payment of outstanding accrued preference share interest of £12.3m. This payment will facilitate the payment of interest in 'Midco' and 'Holdco' during the 12 months from the signing of these financial statements.

Ian McAulay resigned as a director of Southern Water (Greensands) Financing Plc on 30 June 2022 and Lawrence Gosden was appointed as a director on 1 July 2022.

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN WATER (GREENSANDS) FINANCING PLC

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Southern Water (Greensands) Financing PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including, Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of change in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 2. 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 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 as applied to listed entities, 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.

### 3. Summary of our audit approach

<b>Key audit matters</b>	The key audit matter that we identified in the current year was recoverability of inter-company loans receivable.
<b>Materiality</b>	The materiality that we used in the current year was £3.8m which was determined on the basis of total assets for the entity.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	Based on the work we have performed on going concern and concluded that the directors' use of going concern basis is appropriate, we no longer consider it to be a key audit matter.

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

### 4. 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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained an understanding of relevant controls related to the management assessment of going concern;
- Assessed the reasonableness of the cash flows projections;
- Performed integrity checks of management's going concern model, including checking for mathematical and clerical accuracy;
- Recalculated debt covenants and assessed compliance over the forecasted period;
- Evaluated management's stress tests; and
- Assessed the appropriateness of the disclosures over going concern included within the financial statements.

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 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.

### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 5.1. Recoverability of inter-company loans receivable

<b>Key audit matter description</b>	The Company had total loans and receivables from its subsidiary undertaking (Greensands Senior Finance Limited ('GSSF')) of £390.5m at the balance sheet date (2021: £721.6m) and an impairment loss of £nil (2021: £0.1m) has been recognised during the year. Also at 31 March 2022, the Company has external borrowing of £390.6 million (2021: £721.6 million), in the form of listed bonds.
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The ability of the Company to repay the debt and relevant interest charges is dependent on the recoverability of the Company's loan to GSSF. This recoverability is thus dependent on the performance of Southern Water Services Limited (SWS), the operating company. Judgement is therefore required by the Directors as to whether the inter-company loan receivable directly supporting payment of the borrowing is recoverable based on the financial position and future prospects of SWS.

We consider this to be a key audit matter as the inter-company loan receivable is of a significant value and involves management judgement.

Management has considered the cash flow forecast of SWS and the impact of macro-economic factors on the recoverability of the intercompany balance and concluded that the loan is recoverable.

## SOUTHERN WATER (GREENSANDS) FINANCING PLC

Further details are included within the directors' report and note 9 to the financial statements.

<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls related to the recoverability of inter-company loans receivable.</p> <p>We assessed the recoverability of the Company's inter-company loans receivable. In doing so we have assessed the net assets of GSSF, management's assessment of SWGF recoverability and whether GSSF is in a position to continue to repay the loan supported by the valuation of the operating company Southern Water Services Limited.</p> <p>We have assessed the net asset position of GSSF, after factoring in the value associated with Southern Water Services Limited, to determine whether there is sufficient coverage for the inter-company borrowings with the company within their calculations.</p> <p>We evaluated the appropriateness of disclosures made in the above mentioned note to the financial statements.</p>
<b>Key observations</b>	<p>Based on the work performed, we concluded that the inter-company loans receivable are appropriately stated in the year.</p>

## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£3.80 million (2021: £3.81 million)
<b>Basis for determining materiality</b>	0.9% of total assets (2021: 0.5% of the total assets)
<b>Rationale for the benchmark applied</b>	<p>The principal activity of the Company is to provide finance to Greensands Senior Finance Limited and loan receivables balance accounts for over 94% (2021:99%) of the company's total asset balance. On this basis we deem the benchmark which will be the focus of users of the financial statements to be total assets for determining the statutory materiality.</p>

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

Performance materiality was set at 60% of materiality for the 31 March 2022 audit (2021: 60%). In determining performance materiality, we considered factors including impact of macro-economic factors on business

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

operations and account balances, our ability to rely on general IT controls, the internal manual control environment and management's willingness to make process improvements as well as to correct errors identified.

### **6.3. Error reporting threshold**

We agreed with the directors that we would report to the directors all audit differences in excess of £0.19 million (2021: £0.19 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## **7. An overview of the scope of our audit**

### **7.1. Scoping**

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

## **8. 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, except to the extent otherwise explicitly stated in our report, 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.
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## **9. 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 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 company or to cease operations, or have no realistic alternative but to do so.



## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **10. Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **11. 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.

#### **11.1. Identifying and assessing potential risks related to irregularities**

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: recoverability of intercompany loans receivable. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

## **SOUTHERN WATER (GREENSANDS) FINANCING PLC**

### **11.2. Audit response to risks identified**

As a result of performing the above, we identified recoverability of intercompany loans receivable as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the company's in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance 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.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## **Report on other legal and regulatory requirements**

### **12. Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

### **13. Matters on which we are required to report by exception**

#### **13.1. Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### **13.2. Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

**14. Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Delyth Jones*

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