Greensands Holdings Limited Annual Report and Financial statements for the year ended 31 March 2019

Contents

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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 36, with no minority interests.

The only operating company in the Group is Southern Water and the information contained in this Strategic Report is therefore mainly based upon the activities of this company only. This information is fully supported by GSH and has been adopted from the Southern Water Annual Report 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 2019, 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 are described in section 2 from page 17.

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 65 and include details of the impact of new standards, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' which became effective for periods beginning 1 January 2018.

Income statement

Our income statement is summarised in Table 1 below.

Table 1	Years ended 31 March	
	2019	2018*
	£m	£m
Revenue before regulatory settlement	**876.3**	857.7
Other operating income	**1.2**	1.1
Operating costs before regulatory settlement	**(351.2)**	(337.5)
Depreciation, net of amortisation	**(279.3)**	(266.9)
Operating profit before regulatory settlement	**247.0**	254.4
Regulatory settlement	**(138.5)**	-
Operating profit after regulatory settlement	**108.5**	254.4
Other income	**0.2**	11.2
Profit on disposal of fixed assets	**0.7**	0.8
Profit before interest and tax	**109.4**	266.4
Net finance costs	**(374.0)**	(322.0)
Fair value (losses)/gains on derivative financial instruments	**(217.4)**	46.3
Loss before tax	**(482.0)**	(9.3)
Tax	**31.7**	(25.7)
Loss for the financial year	**(450.3)**	(35.0)

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

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

Revenue before the proposed regulatory settlement increased to £876.3 million (2018: £857.7 million). This increase results from changes to our inflation-linked water and wastewater tariffs, in part offset by a reduction in the revenue now recognised under IFRS 15 for developer-related activities, most notably sewer adoptions, of £17.9 million. A detailed analysis of revenue is provided in note 5 to the financial statements.

Overall, operating costs before the regulatory settlement increased by £13.7 million to £351.2 million (2018: £337.5 million), removing the impact of inflation of £11.6 million, would result in operating costs being broadly in line with the prior year. The major movements are described below and in Table 2.

As described in our Strategic Report, 2018–19 has seen the continuation of Southern Water's transformation journey. The company has been changing systems and processes, as well as the structure and culture of its business, to ensure it is ready to deliver its Business Plan 2020–25. The company's transformation programme incurred additional costs of £2.8 million in the year together with IT transformation costs of £3.1 million incurred developing new systems, processes and investing in the right people as it insourced its IT support.

This transformation programme is already delivering efficiencies and improvements to its Customer Services delivery. Over the past 12 months the company has successfully moved all of its offshore billing and payment operations and customer correspondence work from a number of service partners to Capita's office in Bangalore. This transition along with organisational changes made during 2017–18 have led to efficiency savings of £5.1 million.

Table 2 Year-on-year increase/(decrease) in operating costs	£m
Inflation	11.6
Transformation programme costs	2.8
IT transformation costs	3.1
Customer Services efficiencies	(5.1)
Reduction in debt collection charges	(1.7)
Increase in leakage activity	1.7
Reduction in pension costs	(2.7)
Guaranteed Minimum Pensions equalisation costs	1.8
Business Plan 2020–25	2.7
Other	(0.5)
Movement in operating costs	**13.7**

In addition, by improving the effectiveness of its collection and debt management process and utilising segmentation to provide a more tailored customer experience, Southern Water has also been able to target its debt recovery action more effectively leading to reduced debt collection costs of £1.7million.

As reported in the Strategic Report on page 17, the company has experienced higher levels of water leakage this year and Southern Water are working hard to reduce this. The company has therefore increased the size of its leakage team, changed the way it incentivises its partners to find and fix leaks, and the company is fixing more than ever before. This resulted in additional costs of £1.7million.

The finalisation of the 2016 Southern Water pension scheme valuation and agreement of a deficit recovery plan with the Trustees and The Pensions Regulator has resulted in a reduction in associated pension advisory costs of £2.7 million in the year. These savings have been partially offset by a one-off past service cost of £1.8 million following the ruling made in October 2018 by the High Court that guaranteed minimum pensions should be equalised between men and women.

During the year Southern Water submitted its Business Plan for 2020–25 to Ofwat. The preparatory work, including consultations with customers and stakeholders, required to develop this plan as well as responding to the challenge and queries raised by Ofwat resulted in additional costs of £2.7 million this year.

In addition to these movements in operating costs, depreciation increased to £279.3 million (2018: £266.9 million) as a result of Southern Water's significant capital investment programme. New schemes commissioned during the year added £9.7 million to the depreciation charge.

As a result of the factors set out above, operating profit (before regulatory settlement) for 2018–19 decreased to £247.0 million (2018: £254.4 million), a 2.9% reduction.

As reported on page 23, following its investigation into our historical wastewater treatment works compliance reporting, Ofwat has confirmed its intention to impose a penalty under Section 22A of the Water Industry Act. This penalty comprises a fine of £3.0 million together with a reduction to future revenues of £122.9 million at 2017–18 prices which will be made by way of a rebate to wastewater customers over the period from 2020 to 2025. We have provided for these in full in the financial statements for 2018–19 resulting in a reduction to operating profit of £138.5 million (at forecast outturn prices). As a result, operating profit after the proposed regulatory settlement was £108.5 million (2018: £254.4 million). An investigation being conducted by the Environment Agency is also disclosed on page 23 and is ongoing.

The fall in other income to £0.2 million (2018: £11.2 million) was due to the one-off profit, recorded in 2017–18, from the sale of Southern Water's non-household retail business.

The profit on disposal of fixed assets of £0.7 million (2018: £0.8 million) mainly relates to the sale of Southern Water's surplus vehicles and the release of deferred revenue from the historical sale of income rights relating to aerial masts.

Net finance costs increased by £52.0 million to £374.0 million (2018: £322.0 million). During the year we refinanced our business in order to reduce our gearing and this is described in detail on page 11. As a result we incurred additional financing one-off costs of £27.9 million for repaying our Class B loan early, additional interest on our new facilities of £9.4million, as well as costs of £9.4 million relating to the refinancing in general and the ongoing project to restructure our finances by closing our Cayman Islands subsidiary company, Southern Water Services (Finance) Limited (SWSF). Additionally there was an increase in Eurobond interest in Greensands Europe of £14.7 million, this was offset by lower indexation of £4.1 million, and an increase in the amount of capitalised interest of £6.5 million.

The fair value loss on our derivative financial instruments amounted to £217.4 million (2018: gain £46.3 million). To calculate the fair value of our derivative instruments we discount their forecast future cash flows using UK Government bond yields. These future forecast cash flows are predictable, and match the future forecast movement in our revenues and 'Regulatory Capital Value', but government gilt yields are constantly moving, with the result that the valuation of our derivative instruments can be volatile. The changes in value that are recorded during the lives of derivatives do not represent cash flows.

We have recognised a total tax credit to the income statement of £31.7 million (2018: £25.7 million tax charge). This differs from the credit that may be expected of £91.6 million, based on the loss before tax of £482.0 million and the current period tax rate of 19%, as described in note 11. The difference is primarily due to not having reduced our taxable profits for the regulatory settlement provision and the treatment of Eurobond interest for which we have not claimed a tax deduction.

The loss after taxation for the year amounted to £450.3 million (2018: £35.0 million).

Cash flow statement – summary

Overall, cash and cash equivalents increased in 2018–19 by £227.5 million (2018 £15.0 million decrease). This movement of £242.5 million principally results from the refinancing activities that we undertook during the year, described on page 11. Further details of the significant year-on-year movements are provided in Table 3 below.

	Years ended 31 March			
Table 3	**2019 £m**	**2018 £m**	**Movement**	**Explanation**
Net interest	**(220.9)**	(52.9)	(168.0)	The increase in net interest payable was largely the result of the timing of our annual bond interest payments and our refinancing exercise. The annual bond interest payments are made on the 31 March or nearest working day after that date. In both years these payments have fallen in to the following year. Payments made in 2018/19 relating to the prior year amounted to £117.6 million. In FY19 we incurred additional costs of £27.9 million relating to early repayment of our Class B loan together with the payment of interest accrued on the loan of £10.0 million. In addition we incurred one-off charges relating to the refinancing exercise and the closing of our Caymans company of £8.4 million.
Net movement on borrowings	**478.0**	(4.1)	482.1	This movement mainly results from our refinancing exercise where we raised new facilities of £738.8 million, this was partially offset by the repayment of our Class B loan of £248.9 million.
Payments on restructure of derivative instruments	**(122.5)**	-	(122.5)	As part of the refinancing exercise we incurred costs of £113.6 million extending the mandatory breaks on our swap agreements, together with the net cost for the early termination of swaps of £8.9 million see page 11 for further details.
Equity dividends paid	**-**	(54.2)	54.2	In the prior year we paid the 2017 final dividend of £54.2 million.
Other	**92.9**	96.2	(3.3)	The net cash movement from operating activities and our capital investment programme.
	227.5	(15.0)	242.5	

Statement of financial position – summary

Our statement of financial position is summarised in Table 4 below:

Table 4	Years ended 31 March	
	2019	2018*
	£m	£m
Non-current assets	**6,405.1**	6,196.3
Current assets (excluding cash)	**232.4**	216.1
Cash and cash equivalents	**514.8**	287.3
Total assets	**7,152.3**	6,699.7
Current liabilities	**(1,118.7)**	(659.4)
Non-current liabilities	**(7,280.7)**	(6,817.0)
Total liabilities	**(8,399.4)**	(7,476.4)
Total net liabilities	**(1,247.1)**	(776.7)
Total deficit	**(1,247.1)**	(776.7)

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

At the end of the year to 31 March 2019, we had non-current assets of £6,405.1 million (2018: £6,196.3 million), an increase of £208.8 million from March 2018. This increase results from the ongoing capital investment programme which increased the value of property plant and equipment and intangible assets by £162.9 million and an increase in the value of our non-current financial derivative assets of £45.9 million.

Current assets increased to £232.4 million (2018: £216.1 million) principally as a result of the increase in net trade receivables. These have been impacted by the changes to our tariffs and improvements to our debt recovery processes which have improved the likely collection of certain outstanding balances and reduced the bad debt provision required for them.

Current liabilities increased to £1,118.7 million (2018: £659.4 million). This increase is mainly caused by the reclassification of the £250 million 8.5% fixed rate loan, due to be repaid this year and two new credit facilities of £170.0 million and £28.0 million, which were part of the refinancing exercise undertaken this year, and classified within current liabilities as they will also be repaid in 2019–20.

At 31 March 2019 non-current liabilities totalled £7,280.7 million (2018: £6,817.0 million). This increase of £463.7 million was principally the result of an increase in the derivative financial instruments liability of £136.8 million as described in note 22, the provision for the reduction in future revenues as part of the regulatory settlement of £135.5 million and the increase in the Eurobond debt of £134.0 million.

As at 31 March 2019, the Group had net liabilities of £1,247.1 million (2018: £776.7 million). Excluding the liability associated with the Eurobonds, which are shareholder loans and included within non-current liabilities, of £1,250.9 million (2018: £1,116.9 million), the underlying shareholder equity was £3.8 million (2018: £340.2 million).

Dividend policy

The detail of the dividend policy for the group is determined by the dividend policy of Southern Water Services Ltd.

Any dividend paid by SWS is firstly used to pay interest on borrowings outside of SWS and surplus cash is then used to pay interest on the Eurobonds and/or a shareholder dividend.

<u>Dividend policy of SWS:</u>

Our dividend policy is formulated to ensure a fair balance of reward between investors and customers. To deliver on our vision for the successful delivery of Southern Water's Business Plan for 2020–25, all stakeholders must share in success: customers benefitting through enhanced service and lower bills, and shareholders earning a fair return on the near £2 billion of 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 Business Plan and our actual level of gearing. This recognises our management of economic risks and capital employed.

2. In assessing any adjustment to the base level of dividend, we will take into account Southern Water's financial and non-financial performance. This would reflect Southern Water's overall financial performance as compared to the final Business Plan for 2020–25 as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.

3. The group will consider our financial resilience ahead of any dividend decision, and whether any financial outperformance should be re-invested to benefit our customers. This consideration will also include taking into account the interests of our employees, other stakeholders, and our pension schemes.

   Our 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 we carry out an assessment of:

   a) headroom under debt covenants
   b) the impact on Southern Water's credit rating
   c) the liquidity position and ability to fulfil Southern Water's licence conditions
   d) key areas of business risk.

4. We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.

5. We will publish our Dividend Policy annually (as part of the Annual Report), and highlight any changes.

Having undertaken its assessment for 2018–19 the SWS Board has decided not to declare an ordinary share dividend for 2018–19(2018: £8.0 million). The potential level of base dividend was calculated as £65.7 million. In addition the Board approved preference share dividend payments of £5.9 million in 2018–19 (2018: £13.1 million) and a further £5.0 million was accrued at 31 March 2019. Of this accrual a dividend of £4.4 million was approved and paid in June 2019.

No dividend has been proposed or paid by Greensands Holdings Limited in the period or subsequently.

This decision is a result of a combination of issues that will resolve over the next three to six months with a particular emphasis on our continued preparations for the business Plan 2020-25, legacy wastewater compliance issues, and ongoing financial resilience.

Our Tax Policy

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

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 our commercial and economic activity. This practice continues to be recognised by HMRC, which assesses us as a 'low-risk' group.

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.

Net debt: RCV	Hold co %	Mid co %	SWS %
2016–17 performance:	87	-	77
2017–18 performance	86	-	77
2018–19 performance	90	76	66
Covenanted lock-up level	93	85	85
Covenanted default level	95	95	95

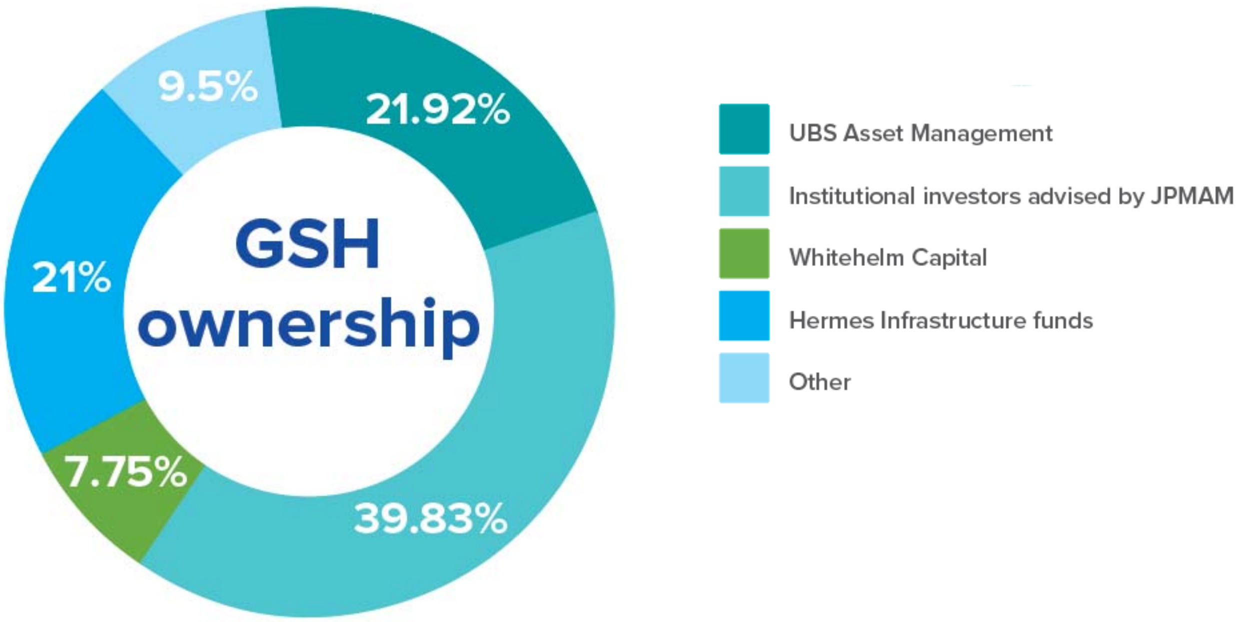
Consolidated EBITDA to cash interest cover	Hold co Times
2016–17 performance	2.9
2017–18 performance	3.1
2018–19 performance	2.9
Covenanted default level	2.0

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 and no single shareholder has majority control.



UBS Asset Management – a large-scale global asset manager, offering investment capabilities across all major traditional and alternative asset classes
JP Morgan Asset Management (JPMAM) – a large-scale global asset manager advising institutional investors
Whitehelm Capital – Shareholding managed by Whitehelm Capital on behalf of Motor Trades Association of Australia and Prime superannuation funds
Hermes Infrastructure funds – Hermes Infrastructure is part of 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 PR19 price review period starting April 2020. These new companies form the 'Midco' financing companies in the holding company structure diagram below.

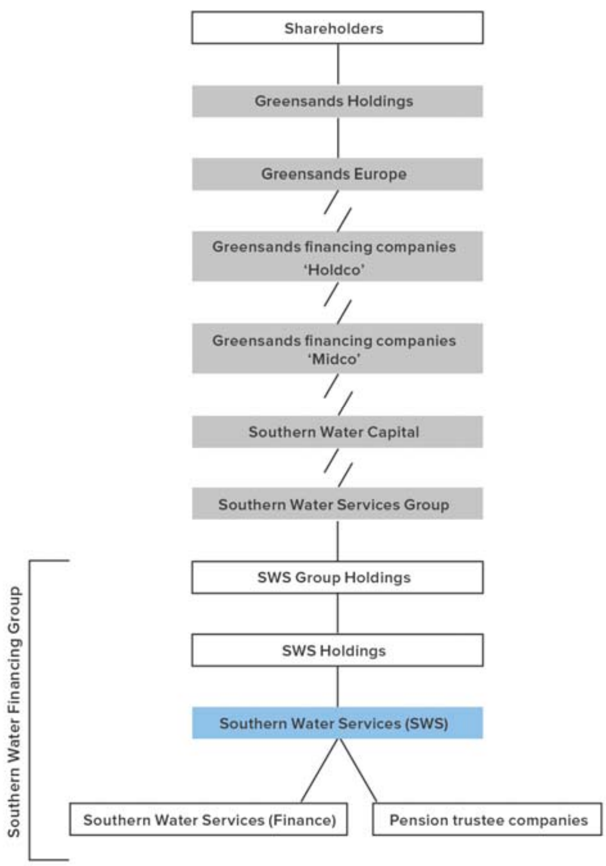
The financial restructure was completed in March 2019 and comprised:

- £450 million new borrowings raised by new Greensands financing companies formed as a 'Midco' financing structure
- £250 million new borrowing raised by existing Greensands financing companies ('Holdco' financing structure)
- £700 million of new finance was invested into Southern Water, net of £12 million costs, by a repayment of inter-company liabilities totalling £687.3 million
- These proceeds were used by Southern Water to repay £400 million of outstanding Class B debt, provide £150 million towards repayment of the £300 million Class A bond repaid 1 April 2019, £113.6 million was used toward reducing the interest cost of our inflation linked derivatives for the period 2021 to 2031, and the remaining £37.0 million was used to pay costs associated with repaying the Class B debt and terminating a derivative associated with the Class B debt.

The Greensands financing companies also maintain liquidity facilities which can provide a short term source of finance.

The holding company structure for the Greensands group is shown in the diagram below and this is followed by an explanation of the principal companies in the structure.

Southern Water ownership structure summary



Greensands Holdings (GSH) – The ultimate parent company within the group. GSH was established in 2007 for the acquisition of the Southern Water Capital group, from RBS, by the shareholders. The company is Jersey registered, but it is UK tax resident and, as such, is liable for tax in the UK. The company was incorporated in Jersey because Jersey law allows greater choice than the UK as to the way distributions can be made to shareholders. GSH holds 100% of the share capital of Greensands Europe and has no direct holdings in any other entities.

Greensands Europe (GSE) – A subsidiary of GSH incorporated in England and Wales and resident for tax in the UK. GSE was established to issue bonds as part of the financing for the acquisition of the Southern Water Capital group in 2007. GSE has issued debt, Eurobonds, which are held by our shareholders in proportion to their respective shareholdings. This bond debt meets the eligibility requirements of the 'quoted Eurobond exemption' for tax purposes. The Eurobonds are listed on the International Stock Exchange in the Channel Islands which is a recognised stock exchange for the purposes of the quoted Eurobond exemption by HMRC. The bonds were issued on this stock exchange for ease of administration, as they are issued to the shareholders of the group and are not traded.

Greensands financing companies 'Holdco'– A number of companies, all incorporated in England and Wales and resident for tax in the UK, were established to provide additional external financing for the acquisition of the Southern Water Capital group in 2007. Security granted to the lenders of this financing is limited to the share capital of Greensands Holdings Ltd. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.

Greensands financing companies 'Midco'– The Greensands Midco group of financing companies was incorporated in 2018 as part of a financial restructuring exercise to improve financial resilience of Southern Water. The objective of the restructure was to reduce the total leverage within the Southern Water Financing Group and to reduce interest payments at Southern Water to help manage financial covenants. The debt issued by Midco companies is senior to that issued by the Greensands Holdco group of financing companies.

Southern Water Capital (SWC) – Was the previous holding company for the Southern Water group established as part of the sale of Southern Water by ScottishPower in 2002. SWC is incorporated in England and Wales and resident in the UK for tax. It does not trade and holds preference shares in SWS from which it receives dividends.

Southern Water Services Group (SWSG) – The immediate parent company of the securitised group which acts as a holding company for this group following the financial restructuring in 2003. SWSG is incorporated in England and Wales and resident in the UK for tax.

Southern Water Financing Group – Southern Water established a financing structure, known as a Whole Business Securitisation (WBS), in 2003 following its sale by ScottishPower. The WBS sets strict rules which demonstrate to investors that Southern Water is a safe and reliable business in which to invest. This structure helps to reduce our financing costs and improves access to long-term and secure sources of finance. Reducing financing costs ultimately benefits customers in the form of lower bills.

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

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

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

SWS Group Holdings – An intermediate holding company forming part of the securitised group. The company is incorporated in England and Wales and resident for tax in the UK.

SWS Holdings – The immediate holding company for Southern Water, forming part of the securitised group. The company is incorporated in England and Wales and resident for tax in the UK.

Southern Water Services – This is the only operating company within the group, providing water and wastewater services to customers across Kent, Sussex, Hampshire and the Isle of Wight. Southern Water is incorporated in England and Wales and resident for tax in the UK.

Southern Water Services (Finance) (SWSF) – Southern Water's financing subsidiary, SWSF, was established for the express purpose of raising debt finance under the securitisation in 2003.

Due to administrative reasons applicable at the time of the WBS it was necessary for SWSF to be registered in the Cayman Islands in order to raise debt listed on bond markets. This original requirement for it to be registered in the Cayman Islands is no longer necessary and we are in the process of closing this company.

SWSF is wholly and exclusively resident for tax in the UK and files tax returns only with HMRC. This means that any profit or loss made by this company is subject only to UK tax.

Rating

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

Credit rating	Southern Water (Greensands) Financing	Southern Water Services
Standard & Poor's	B-	Class A debt: BBB+
Fitch	B-	Class A debt: BBB+
Moody's	Not applicable	Class A debt: Baa2

Following the announcement by Ofwat of the outcome of its investigation into our wastewater performance, the credit rating agencies each reviewed their assessment of the credit ratings for Southern Water and Greensands. The credit ratings are shown in the table above and the outlook of Standard and Poor's is Negative Outlook, Fitch have a Stable Outlook for Southern Water, a Rating Watch Negative for Greensands, and the credit rating for Moody's is on a review for a downgrade.

The Group is fully in compliance with all of its debt covenants.

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. As a consequence, the GSH Board complements and supports the aims of Southern Water for its long-term success. Whilst 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 and 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 five directors. Three of these directors are appointed by an infrastructure fund managed by JP Morgan Asset Management; one director is appointed by infrastructure funds managed by UBS Asset Management; and one is appointed by pension funds and infrastructure funds managed by Hermes. Another shareholder is entitled to appoint an observer to attend and take part, but not vote, at GSH Board meetings.

The Chairman of Southern Water is not a member of the GSH Board and so no members of Southern Water's Board sit on the Board of GSH.

Board operation

GSH is party to the shareholder agreement between the shareholders in the Greensands consortium. Under that agreement, the GSH Board members, apart from the Chair (if one has been appointed), also comprise the Boards of the six subsidiaries down to Greensands Investments Limited. Two of the GSH directors comprise the board of Southern Water Capital Limited and three of the directors of GSH are the directors of the newly established MidCo entities – Greensands Finance Holdings Limited, Greensands Finance Limited and Greensands Financing plc. No director of GSH is also a director of Southern Water Services Limited, although one was an alternate director for a shareholder-nominated director on the Southern Water board during the year until October 2018.

The GSH Board normally meets at least four times a year on its own. 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 have included:

- Southern Water's 2020-25 Business Plan
- Changes on the Board of Southern Water
- The refinancing exercise undertaken in late 2018
- The investigation into wastewater compliance in Southern Water, including the impact on the wider group's financeability

The GSH Board also receives regular operational and financial performance reports in respect of Southern Water with the Chairman, Chief Executive Officer and Chief Financial Officer regular attendees at GSH Board meetings. 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. GSH Board members are not present when the Southern Water board meets, unless specifically invited to attend. The GSH Board members 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. Copies of those undertakings are published on Southern Water's website.

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

During the year, the Company appointed Richard Manning as a replacement for Joanne Statton, who is now Head of

Company Secretariat at Southern Water. Together with Intertrust Corporate Services (Jersey) Limited, Richard acts as joint company secretary. Richard Manning is also General Counsel & Company Secretary of Southern Water.

All directors have access to the advice and services of the Company Secretariat team. The company secretary is responsible for ensuring that the Board operates in accordance with its governance framework and that there are good information flows to the Board. The appointment and removal of the company secretary is reserved to the 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 four scheduled meetings during the year. In addition to the scheduled Board meetings, the Board met once in July to appoint Richard Manning as company secretary and in December to endorse the appointment of Sebastiaan Boelen as Southern Water's interim Chief Financial Officer. 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.

In addition to its scheduled Board meetings, the GSH Board members were invited to and attended a number of Southern Water board engagement days in respect of Southern Water's Business Plan for 2020-25 and GSH directors have been engaged in representing the interests of the shareholders as part of this process.

The Board has no standing committees.

Table of attendance at Board meetings

Attendance at scheduled Board meetings in 2018–19	
Susan Howard	6/6
Andrew Gilbert	6/6
Brian Goodwin as alternate to Andrew Gilbert	-/-
Paul Hedley	6/6
Bronte Somes	6/6
Thibault Contat Desfontaines as alternate to Bronte Somes	-/-
Robert Wall	6/6

Note: attendance includes attendance in person and by telephone, noting that a majority, including the Chair must be physically located in the United Kingdom pursuant to the Company's Articles of Association.

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 the company is provided below.

Transforming together for a more resilient future

When Ian McAulay joined Southern Water in 2017, he was keen to separate dealing with the company's legacy issues from the need and ambition to undertake a rapid transition of the business to enable it to deliver a new Business Plan 2020–25 and to create a resilient water future for customers in the South East.

In last year's report Southern Water talked about how the company had made progress in terms of its customer service performance and the strengthening of processes and reporting procedures and accountability. The company were, and still are, focused on becoming brilliant at the basics and providing high-quality services at a price that's affordable to all of their customers while protecting our environment and preparing themselves to meet the challenges of an uncertain future.

It is now two years into an ongoing programme of transformation. A lot has happened over that time and Southern Water has achieved a number of successes they can be proud of, while of course recognising there is still more to do to build trust with their customers, stakeholders and regulators.

Southern Water have built new systems, developed new processes, are establishing values-based ethical business practices and, most importantly, they have brought in the right people to deliver that step change, with new skills and talent acquired at Board, Executive and Senior Management level, as well as throughout the rest of the organisation.

In consultation with its regulators and partners, Southern Water have developed a stronger governance structure, with detailed plans, which the company are aligning to their risk process. These plans are monitored regularly by the Executive Leadership Team, Board, their Customer Challenge Group and its regulators.

In a number of areas Southern Water's historic performance has not been as good as its peers and the company is working hard to make improvements. They have also been addressing historic challenges from its regulators Ofwat, the Drinking Water Inspectorate and Environment Agency.

The investigations by the Drinking Water Inspectorate and Environment Agency are ongoing.

Since June 2017, Southern Water's wastewater treatment compliance has been under investigation by Ofwat due to breaches of its licence conditions and statutory obligations during the period from 2010 to 2017. The company has fully supported these investigations and completed its own internal review, which has highlighted failures of people, processes and systems during that time.

Ian McAulay was brought into the company in 2017 to drive change and transformation. Since then Southern Water have been working hard to understand past failings and implement the changes required to ensure it better delivers for its customers and meets the standards they deserve.

Southern Water is deeply sorry for what has happened. There are no excuses for the failings that occurred between 2010 and 2017 outlined in Ofwat's report. The company has clearly fallen far short of the expectations and trust placed in it by its wastewater customers and the wider communities it serves.

The company is fully committed to continuing the fast pace of change delivered since 2017. There is a lot more work to do but Southern Water is pleased to have agreed with Ofwat a package of reparations that enable it to fully make amends to its customers and regain their trust as quickly as possible.

For full details of the Ofwat investigation, read page 23 or visit **southernwater.co.uk/ofwat-investigation**.

A strong set of values and a clear purpose will help Southern Water meet future challenges

A good company delivers great performance results, while making sure it can continue to do so tomorrow and into the future. It must also have an ambition, a sense of purpose and a clear set of measureable and actionable values. How Southern Water does things is just as important as what it delivers.

This is why Southern Water has reviewed its vision, purpose and values to align them clearly with its business strategy and commitments to its customers. By succeeding together, doing the right thing and always improving it will be better placed to meet the challenges the company, and the rest of the industry, are facing.

When Sir James Bevan, Chief Executive of the Environment Agency, spoke about the 'jaws of death' in March 2019 and how our country could run out of water in less than 25 years, he crystallised what for many is the defining challenge facing our industry.

Climate change and population growth are no longer distant spectres haunting our future, they have become our present reality. Southern Water face this challenge at a time of exceptional uncertainty at the social and political level, when its industry is firmly under the microscope. But the company cannot succeed alone.

There has never been a better opportunity to change our society's perception of the value of water and the benefits it brings to our communities and economy, and the part we all play in securing our future.
Ian McAulay is proud to lead Southern Water as it transforms its relationships with its customers, its environment and the communities it serves.

A brief look back on Southern Water's performance during 2018–19

Southern Water faced a number of key challenges and risks during 2018–19. It met these head on by working closely with its regulators and stakeholders to develop and start implementing its transformation plans.

Southern Water's leakage performance for this year has been worse than expected, at 102 Ml/d (2018: 89 Ml/d), following the unusual Freeze/Thaw event in March 2018 and the hot, dry summer. This means the company will not achieve its year-end target. This performance is disappointing against the backdrop of having one of the best leakage performances in the sector and Southern Water has invested significant resources to bring its leakage figures down. The company has taken action and now has 30 new teams dedicated to finding and fixing leaks and has changed the way they work with their partners. As a result Southern Water is fixing more than ever before – approximately 36,000 during 2018–19 alone.

The Secretary of State has now signed new abstraction licences for Southern Water's western region, which reduces the amount of water the company can take from the River Test and River Itchen in Hampshire. The licence reductions aim to secure the health of these rivers while reducing the amount of water Southern Water can take from them during drought. The changes mean a shortfall of some 135 million litres of water a day during a drought – about 80% of the amount needed to supply its customers in south Hampshire, which will likely mean putting in place water restrictions for some of its customers right through to 2027.

Southern Water has until 2027 to meet the new conditions and it plans to invest more than £800 million to make up the deficit, while ensuring water resources continue to be resilient and environmentally sustainable. Its wide-ranging plans, some of which will need Ofwat and Environment Agency approval, include desalination, new pipelines from neighbouring water companies, reducing leakage and improving water efficiency.

Following the Freeze/Thaw incident last winter and subsequent summer heatwave Southern Water have made further improvements in how it prepares for and manages incidents. The company invited directly affected customers to take part in a two-week community exercise to get their views on how Southern Water can manage events more efficiently. This is part of an ongoing programme of work, which includes further action groups to ensure an ongoing dialogue with customers.

Pollution performance has deteriorated during 2018, including two more serious pollution incidents than 2017. To address and understand root cause Southern Water have put in place a Pollution Reduction Plan, including both the development of a dedicated Pollution Task Force as part of its Environment+ programme. Its Environment+ and Water First transformation programmes have been developed to refocus core activities on quality and compliance.*

Southern Water's Risk and Compliance directorate is leading improvements in its business processes and systems, governance and controls as well as data integrity and planning, scheduling, monitoring and performance reporting for its regulators. Further information can be found in its Final Assurance Plan 2018 and its Data Assurance Summary 2019, which are available at: **southernwater.co.uk/our-reports**.

Brexit, and its consequences, are top of its customers' minds right now, and its wider implications have the potential to create a significant impact on its sector over time, with many of the chemicals used in water treatment historically imported from the European Union. Southern Water made sure that plans were in place for all scenarios to ensure its supply chain was secured to ensure such it can continue to deliver on its promises to customers and the company has supplied a list of these chemicals to be included in the British Chambers of Commerce risk register.

*You can read more about its Pollution Task Force activities, Water First and Environment+ in the Constant supply of high-quality drinking water and Looking after the environment chapters on pages 62 and 74 respectively in Southern Waters Annual Report and Financial statements

While Southern Water have been focused on addressing these and other challenges, the company has also delivered some significant achievements as part of its ongoing transformation programme during 2018–19. These have included:

- Improvement in its bathing waters: a further nine bathing waters were classed as ‘excellent’ in 2018, taking its total to 62 (2017: 53 ‘excellent’, 2016: 51 ‘excellent’) with none ‘poor’.
- A steady performance in terms of its Service Incentive Mechanism (SIM) or customer satisfaction score of 80 (2018: 79) moving them from 15th in the industry league table to 13th position. This is a significant step forward, although Southern Water recognise there are still improvements to be made. (See page 40 of the Southern Water Annual Report and Financial Statements for more detail on its customer service performance.)
- In 2018 Southern Water celebrated receiving its 20th consecutive Order of Distinction from the Royal Society for the Prevention of Accidents.
- External recognition for the marked improvements Southern Water have already made from Ofwat, the Drinking Water Inspectorate and, most recently, the Consumer Council for Water (CCW).
- A Blue Star award for innovation or stand out ambition in environmental commitment, for its Target 100 programme, awarded by the environmental coalition Blueprint for Water. Southern Water were one of only six companies to receive this accolade.
- A renewed focus on catchments to improve how Southern Water collaborate with key stakeholders in the water quality chain. (Read more about its Catchment First approach in ‘A constant supply of high-quality drinking water’ in Southern Waters Annual Report and Financial Statements on page 62.)
- The appointment of a dedicated Wellbeing and Health Manager and a team of wellbeing champions across the business with a roadmap in place, helping the company achieve both the Workplace wellbeing Charter and Time To Change (mental health awareness) standards. For the charter, documentary evidence, interviews and site tours are used to assess its performance in eight wellbeing-related fields. During 2018–19 Southern Water met the minimum commitments in all eight areas and exceeded these standards in six – achieving ‘excellence’ in the field for health and safety. The company are really proud of this recognition and believe this accreditation demonstrates its commitment to improving the lives of those who work at Southern Water.
- The roll-out of its Operational Excellence (OE) programme to more than half of its operational teams, improving collaboration, compliance, and resilience. OE will continue to be embedded across its remaining water and wastewater teams in 2019–20.

Its financial performance

As described above, 2018–19 has been a busy year in which Southern Water have continued its transformation journey and prepared its Business Plan 2020–25. The associated costs are reflected in its operating profit for the year (excluding the impact of the regulatory settlement) which fell by £6.9 million to £256.4 million.

In particular, as part of the transformation programme, Southern Water have spent an additional £5.9 million, redesigning processes and systems as well as the structure and culture of the business, to ensure that the company is ready to deliver its Business Plan for 2020–25.

Southern Water is pleased that the first year of its transformation programme is already delivering benefits and, having made improvements to the structure of its Customer Services department and contracts, Southern Water realised efficiency savings of £5.1 million in the year. In addition, improvements to its debt collection processes resulted in a further cost reduction of £1.7 million. These will help Southern Water reduce bills to customers in the coming years.

In order to achieve the targets set by Ofwat for what Southern Water spend on serving customers, together with an overall water bill reduction for householders of more than 5% over the next five years, the company needs to keep on improving. To meet these challenges, we are making further changes in Customer Services, creating a centralised delivery model with specialist partners which will include establishing a new Retail team to lead and deliver its customer strategy.

As mentioned earlier, Southern Water have committed additional resources to tackle the increased level of leakage experienced and this resulted in additional investment of £1.7million in the year.

During the year Southern Water submitted its business plan to Ofwat and responded to Ofwat’s Intial Assessment of its Plan. This work, which included consultations with customers and stakeholders, increased its operating costs in the year by £2.7 million.
Following its investigation into its wastewater treatment works compliance reporting, Ofwat has confirmed its intention to impose a penalty under Section 22A of the Water Industry Act. This penalty comprises a fine of £3.0 million together with a reduction to future revenues of £122.9 million at 2017–18 prices which will be made by way of a rebate

to wasterwater customers over the period from 2020 to 2025. Southern Water have provided for these in full in the financial statements for 2018–19 resulting in a reduction to operating profit of £138.5 million (at outturn prices). As a result operating profit after the regulatory settlement was £117.9 million. For more information please see page 23 of this report or visit southernwater.co.uk/ofwat-investigation.

In 2018–19, its capital investment programme continued at pace as Southern Water completed the fourth year of its current business plan. In total, Southern Water spent over £440 million investing in its assets during the year. This included a scheme designed to improve the quality of bathing waters at seven sites to an excellent standard (as defined by the EA), the ongoing redevelopment of its Woolston wastewater treatment works, work to upgrade its Millbrook wastewater treatment works and improvements to its sewer network in Thanet.

As its Acting Chairman stated in his introduction in the Southern Water annual report, the water industry has been the focus of considerable scrutiny during the year, not least in relation to how the industry is financed. Southern Water have responded to this by refinancing to reduce its gearing and are in the process of closing its Cayman Islands registered subsidiary.

Any changes Southern Water make to its financial structure, along with the continued capital investment in its assets and transformation activities, will be focused on ensuring Southern Water have a stable financial base to deliver on the commitments made in its current and future business plans.

Southern Water must act on what it hears from customers in order to meet their expectations

Southern Water exist as a business to provide high-quality water to its customers and take their wastewater away efficiently. This is an accurate description of what Southern Water do, but it understates its wider social responsibilities, which is why the company has now broadened its outlook.

Through consultation with customers, employees and key stakeholders, Southern Water have arrived at a much more compelling purpose statement: to provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

However, the company thinks even this still underestimates its potential and ability to influence a much larger conversation with its customers, its peers and government about the value or wider societal and economic benefits of water.

Its customers' expectations are changing and people's perceptions of big businesses, like Southern Water, is that they do not always work for the optimal benefit of society. Southern Water want to change that and be seen to take the lead in areas like protecting the environment and developing young talent in its communities.

With this in mind, Ian McAulay has recently been involved in a Water UK group, which came together to develop a series of sector pledges with like-minded chief executives from across the UK water industry. In practice, this will mean water companies: working together to pool resources; offering education, incentives and support to local communities; and working to reduce leakage, secure additional supplies and lobby for changes in key areas such as housing development, metering and water labelling. In turn, this would give all companies more credibility in conversations with customers and community partners about actively reducing water use. Ian McAulay as Chair of the Greater Brighton Infrastructure Panel, has already described examples of this collaboration in action; its Water Plan, supporting water usage reduction targets in the city and surrounding area, is just one example.

However, the social contract goes beyond industry collaboration. Its customers want to be active participants but, to get there, they need help from the company and its partners in the community. Its Target 100 programme, to drive down individual customer water consumption, is fundamentally a modern social contract, perhaps the first of its kind in the industry. It embodies its commitment to, and agreement with, its customers and consumers to manage water resources wisely. Southern Water will help customers to contribute through providing education at all levels, incentivising reduction through community reward schemes and more direct support through many thousands of water-saving home visits. Southern Water know that customers associate water efficiency with leakage and there is, rightly, an expectation that Southern Water fulfil its side of the bargain as a water utility provider by playing its part and substantially reducing leakage.

Putting all of this together, is what enshrines Target 100 as a social contract. It is the right thing to do but Southern Water cannot do this alone. To achieve greater efficiency more action is needed by water companies, government, regulators, non-government organisations and citizens across all its communities.

Preparing to deliver its business plan

As already mentioned, a number of changes are taking place across the business, as part of its transformation programme, to make sure Southern Water can deliver the cost efficiencies asked of the company by its regulators and are ready to deliver its Business Plan 2020–25.

During 2019–20 these changes will include:

- a renewed focus on a set of clearly defined performance indicators to encourage employees to shift their focus to achieving its targets in critical areas
- further development of its Water First, Environment+ and Operational Excellence programmes, promoting cross-team collaboration, a focus on compliance and cost efficiency
- a halt on projects that are adding least value so resources can be redirected to more critical tasks
- the promotion of its innovation lab bluewave as a problem-solving resource for the business
- a new cost-management system to integrate key capital project scope, cost, schedule and risk data
- implementation of a new buyer/supplier portal allowing costs to be controlled more efficiently
- further embedding our revised company values to drive culture change within the business
- investment in its IT infrastructure to bring services back in house.

Southern Waters Business Plan 2020–25, co-created with its customers

In September 2018, Southern Water submitted its most ambitious five-year business plan yet following a comprehensive consultation with customers and stakeholders. It outlined its proposed plan to achieve its vision to create a resilient water future for customers in the South East.

That consultation involved Southern Water broadening the conversations it was already having with customers. This included capturing their views on a range of new topics via a series of workshops, interviews and surveys. To increase its level of insight, the company used new techniques, such as choice experiments, apps and online polls. All of this rich insight Southern Water gathered helped the company create its business plan and will continue to help it better tailor its services to customers' needs but, more importantly, ensure its plans for the future reflect their priorities.

In January 2019, Southern Water received Ofwat's Initial Assessment of its Plan, placing the company in the 'significant scrutiny' category. This means greater regulatory oversight to protect customers' interests. While Ofwat recognised its recent progress and highlighted some high-quality elements, it continued to have some concerns around past performance as well as around specific areas of its plan including the areas of cost efficiency, long-term resilience and its track record in delivering for its customers.

Its Board and Executive Leadership Team recognised the significant challenges Ofwat made to its Business Plan. In its updated submission in March 2019, Southern Water accepted a number of challenges the majority of them also presented new evidence and analysis to provide greater confidence that Southern Water will efficiently deliver its environmental and customer responsibilities. It also made a clear commitment to continuous improvement, efficiency and long-term resilience.

In headline terms, Southern Water have:

- reduced the forecasted costs of delivering its plan
- provided evidence, analysis and argument in support of the remaining difference between its forecasted costs and Ofwat's assessment of the efficient costs to deliver its plan
- committed to delivering business improvement plans for past performance, incident management and operational resilience, with its delivery of these plans independently assured and reported regularly to its Board, Ofwat, the CCG, and other key stakeholders. These new ways of working are actioned through a number of groups:
  - **Opcom** – led by Ian McAulay and focused on the management of Business as Usual performance and compliance, delivery of targets and customer commitments. Opcom is made up of all operational directors.
  - **Transcom** – focused on all the transformation activities needed to deliver on its Business Plan 2020–25. It is accountable to the new role of Managing Director.
  - **Excom** – delivers liaison with the Board and Shareholders and is accountable for enterprise-level risk management and reporting.
- accepted the challenges on its Outcome Delivery Incentives in all but two areas, where Southern Water have assessed the targets to be undeliverable in the proposed timeframes
- committed to closer collaboration with other water companies to explore alternate strategic water resources to meet the supply deficit in its western region.

The actions outlined in this response are intended to reassure its regulators, customers and stakeholders that Southern Water will meet its regulatory, environmental and societal obligations and deliver on the promises Southern Water made, while reducing customers' bills by 5%.

Southern Water are improving and have a clear plan to achieve its goals. The company fully understand their historical failings and are urgently driving change across all areas of the business.

Southern Water have well established, structured, governed and detailed plans for its transformation. The company understands what it needs to do to be efficient for the next five-year period and its plans reflect that.

Its plans are driven through strong governance and application of risk management processes to ensure Southern Water are building an efficient and resilient organisation now and in the future.

With challenge comes opportunity

Changing the way Southern Water do things is hard and it will take time, effort and a lot of determination. It is a fact that, in spite of the progress it makes every day, the company are still dealing with legacy issues of the past. They are an unpleasant and difficult reality, especially where Southern Water let its customers down. The changes it has implemented over the past two years have delivered much improvement and the company commit to driving relentlessly forward.

In doing so, Southern Water will make sure it continues to be open, transparent and honest, and co-operate with its regulators, key stakeholders and partners. The company has introduced a new Code of Ethics in the organisation, asking its people to ‘do the right thing’ in everything they do which will help to build a culture that will, in time, engender trust and confidence.

As a business, Southern Water also recognise that its company is not yet as good as it could be, and it still has a way to go to improve. The company is working very hard on transforming to enable it to deliver its Business Plan 2020–25. Southern Water have put in place a solid foundation to support that business strategy in arriving at an authentic purpose, set of values and an ethical business framework on which to base all future decision-making.

Every day affords opportunity to turn Southern Water into a better company and make it somewhere people want to work, a partner others want to do business with, a company at the heart of its communities and an organisation committed to continuous improvement for its customers, employees and partners, and for the environment.

Ofwat and Environment Agency investigations

In June 2017, Southern Water's regulator Ofwat started an investigation into possible breaches of licence conditions and its statutory reporting obligations relating to the management and operation of its wastewater treatment works between 2010 and 2017.

The company had already started its own internal review of these issues and as the review deepened it discovered a problem with sampling processes at some of its sites meaning that it needed to restate its wastewater performance for the period 2010–17. The findings of its own review were shared with its regulators at every stage.
The Ofwat investigation has since resulted in it giving notice that it intends to take enforcement action against Southern Water. To reflect the seriousness of the breaches identified, Ofwat has issued a Notice stating a proposal to impose a financial penalty of £3.0 million, details of which were published in June 2019.

In addition, Southern Water has agreed to make significant customer bill rebates, totalling £122.9 million (in 2017–18 prices), between 2020–25, in recognition of its failure to meet the expectations of its customers and wider stakeholders, as well as its regulators. This total will be made up of a rebate of £111.7 million, to be broken down and shared in equal amounts with wastewater customers over the next five years, from 2020 to 2025, together with a wastewater customer bill rebate of £11.2 million (in 2017–18 prices), which will be made during 2020–21. A provision of £138.5 million (in outturn prices) has been made in these financial statements for 2018–19, referred to throughout this document as the "regulatory settlement".

Southern Water know that a number of failures of people, processes and systems allowed these breaches to occur and the company is deeply sorry for what has happened. Over the past few years, it has acted promptly and decisively to make sure that all of the issues identified in the investigation are being addressed.

This has involved making fundamental changes to the way it operates. Over the past two years these changes have included a full company restructure, a new executive team and a strengthened Board. The company has also put new systems in place to safeguard its services, its whistle-blowing procedures have been enhanced, and a revised set of company values are being embedded. These actions, along with a Modern Compliance Framework, are already changing the culture in Southern Water.

For more information, please visit southernwater.co.uk/ofwat-investigation.

Southern Water is also under investigation by the Environment Agency regarding the historic performance of certain wastewater treatment sites and the reporting of relevant compliance information. It is seeking to work proactively with them to resolve these investigations which are still evolving. At this time, there is no clarity of the findings of these investigations or further action or associated financial impact, if any. As a result no provision has been made in the financial statements for 2018–19. We have disclosed further details of this contingent liability in note 33 to the financial statements

Risks

The group has one operating company, Southern Water, the risks relating to this company are covered in detail on the following pages 24-36. The Group faces additional financial and political risks which are detailed below:

Nationalisation risk

The UK's opposition Labour Party has published outline plans to renationalise the water sector companies if it wins the next election, and that early legislation will be brought forward to enable this to occur. The structure of any renationalisation is not certain but there remains a risk that owners of equity in the operating companies such as GSH would receive compensation at below fair value resulting in losses to the underlying pension and other funds. There is also uncertainty as to whether compensation would allow holding companies to discharge their debts.

There is no certainty that nationalisation will remain the policy of the Labour Party at the time of the next general election, which may not take place until 2022, nor that it will lead a government following the election. Even if it were elected on such a policy, a Labour government might choose not to implement it, or to modify it significantly.

Liquidity and refinancing risk

As the Group raises finance and therefore has debt service requirements in additional to those of Southern Water it faces liquidity and refinancing risk in addition to those described in the principal risks and uncertainties section of the Southern Water financial statements.

The Group comprises four separate debt financing structures of Southern Water, Greensands Financing (Midco), Southern Water (Greensands) Financing (Holdco) and Greensands Eurobonds. These financing structures contain various debt covenants which if breached will result in a lock-up of distributions from the lower structures which will increase the liquidity and refinancing risk higher up the financing chain. As at 31st March 2019 and the date of these financial statements there were no debt covenant breaches and each of the financing structures had sufficient liquidity for at least the next twelve months.

Refinancing risk may also be impacted by rating agencies view of the credit quality of the water industry and the Southern Water, Midco and Holdco financing structures. The current ratings of Southern Water (Greensands) Financing and Southern Water are set out on page 14. As at the date of these financial statements there are no material debt maturities which require refinancing in the Group within the next twelve months.

Southern Water Risks

Risk management is a core component of Southern Water's wider governance and internal control framework, which provides the overarching structure through which the company is managed to achieve its objectives.

The most significant risks facing the company are referred to as 'principal risks'. The principal risks are the greatest risks to the company's business objectives, both those inherent to the nature of its operations and company-specific circumstances. Southern Water therefore consider principal risks to be those with the capacity to have the greatest impact on its business, which arise as a result of its core activities operating as a water and wastewater treatment company. Risk assessments are based on outputs from 'top down' and 'bottom up' risk reviews and ongoing monitoring processes.

As part of delivering better outcomes for Southern Water's customers and regulators, and becoming a more resilient organisation, the company is undergoing a transformation programme. Southern Water has recognised where it has fallen short of meeting standards required by its regulators and itself – for example, asset compliance, or data reporting and assurance – the company is working to materially improve processes and systems to ensure the mistakes of the past are not revisited.

Details of the Ofwat investigation into historic issues relating to wastewater compliance from 2010–17 and the proposed regulatory settlement can be found in the 'Ofwat investigation' section of this report on page 23 and at **southernwater.co.uk/ofwat-investigation**. Southern Water are also under investigation by the Environment Agency regarding the historic performance of certain wastewater treatment sites and the reporting of relevant compliance information. The company is seeking to work proactively with them to resolve these investigations which are still evolving. At this time, there is no clarity of the findings of these investigations or further action or associated financial impact, if any

Through a comprehensive, and ongoing transformation process, the business is completely committed to delivering the level of service its customers, and all of its stakeholders, expect and deserve. The degree of transformation in itself brings with it both some risk and significant opportunity which will be closely monitored and reflected in the relevant principal risks reported in this and future reports.

As part of its transformation, Southern Water has recognised the need to improve its approach to risk and resilience management. In particular the company has created a specific Risk Committee of our Board, a new Risk and Compliance Directorate and are implementing a risk and resilience enhancement programme. Its risk management methodologies are still evolving and its next stage of improvements in risk and resilience management is in progress. In 2019–20 Southern Water will be extensively reviewing its current processes. The aim will be to identify key areas where it can learn from its past failures, deliver improvements and work towards embedding Enterprise Risk Management, in order to enable a more resilient service for its customers and stakeholders.

Changes to principal risks

Throughout the year, Southern Water make an assessment of how the regulatory and physical environment has changed, and what impact it has had on its principal risks. This year it has made the following changes to the principal risks from 2017/18:

Principal risk in 2017/18	Principal risk in 2018/19	Rationale for change
Price Review (PR19) and regulatory reform	**Political and regulatory reform, and Price Review (PR19)**	The scope of the Price Review (PR19) and regulatory reform risk has been expanded to include the potential impacts from 'political reform'. This has been done to capture the risks relating to political matters that may impact us, such as Brexit, re-nationalisation of the water sector, increased political focus, and legitimacy.
Information security and governance	**Information security and governance, and information technology systems**	As Southern Water's services are considered "Critical National Infrastructure", its ongoing ability to continue to provide those services is of utmost importance, and hence those systems directly supporting them. Therefore the resilience of its operational and enterprise IT systems is now included within the scope of this principal risk.
(**Not applicable – new risk in 2018-19)**	**Transformation and organisational change**	Southern Water has established this as a Principal risk, due to: • the scale of work it wishes to undertake to improve its organisation over the short time window to 2020, and further to 2025 • the commitment it is dedicating to undertake this, and • its recognition that failure to mitigate this risk effectively may impact its wider strategic objectives.
Defined benefit pension scheme	***(Declassified as 'principal risk')***	This risk has been declassified as a principal risk. The nature of the direct risk to Southern Water is in its continued ability to fund the scheme. The 2016 valuation negotiation with The Pensions Regulator was concluded with an increase to the pace of Scheme funding and a supporting dividend sharing mechanism. The consequential impacts are considered as part of its overall financial resilience. The risk will continue to be monitored internally.

Southern Water's Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve the strategic objectives of the company.

The company's strategy for risk management is that all principal risks are identified, assessed and managed to within acceptable levels. To achieve this, Southern Water's Board and senior management seek to promote a culture that encourages a routine consideration of principal risks in decision making and supports the integration of risk management within its critical processes and ways of working.

Southern Water's corporate risk management is monitored by a dedicated Risk Committee on behalf of its Board, though the Board retains ultimate responsibility for risk management, and for approving the overall report. Duties of the Risk Committee covers the review of its current risk exposure against the overall corporate risk appetite, tolerance and strategy, and advising the Board on the current risk exposures of the company and future risk strategy. These duties were transferred from the Audit and Risk Review Committee to the new Risk committee, which was formed in February 2019. The new Risk Committee was formed to further improve its corporate risk management, and enable more in depth risk oversight and challenge.

The purpose of its approach to risk management is to support better decisions through an improved understanding of risk.

Figure 1: Southern Water Risk management process

The objectives of Southern Water's risk management strategy are to:

- identify and understand all the principal risks that the company faces
- select and proactively adopt those risks that deliver the right returns, and understand their potential impact on the company
- take action to manage the risks it does not want to be exposed to, ensuring its resources are effectively and efficiently prioritised and used
- monitor and report the risks the company are taking against its desired strategic objectives.

Every employee is responsible for helping Southern Water to effectively manage its exposure to these risks and for making the company a more resilient organisation, able to successfully respond to its changing environment.

Southern Water seek to ensure controls are in place so it can reduce the likelihood of risks occurring, or take action to minimise their impact. To do this, risks are managed through a central database where they are ranked and assigned to senior managers who are responsible for implementing mitigation plans. Risks are reviewed each month and those considered most critical are escalated to its Executive Leadership Team, the Board and the Risk Committee. Any new risks added to the database with a high score are passed to an Executive Leadership Team member and the Chief Executive Officer for immediate review. The company recognises there have been past failures in its control framework, which have led to the materialisation of risks that had not been identified. Its transformation project will review and improve how the company monitor its control framework, how it impacts its risks and how it responds.

Risk appetite

The amount of risk the Southern Water Board is willing to take to achieve its strategic objectives is referred to as the risk appetite. The company has developed a risk appetite for each of its principal risks, which forms a key element of its governance and reporting framework and is reviewed annually by the Board.

The company operates a complex infrastructure of water and wastewater assets, from pipelines to processing sites, over a broad geographical area and it recognises that extreme weather conditions and failure of its assets can have a negative impact on its customers. As a result it has clearly defined operating processes, procedures and control frameworks, including incident management, to mitigate its compliance and operating risks. In doing so it acknowledges that it also has to prepare for the unexpected and, where some risk emerges that was not anticipated, deal with it accordingly.

Its aim is to employ risk management principles, transparent decision-making, and effective communication to prioritise risk. Southern Water aim's to minimise its exposure to compliance, operational and regulatory risk, while accepting and encouraging more risk in pursuit of its mission and objectives. Its acceptance of risks is subject to ensuring that potential benefits and risks are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

This means the company will not seek to intervene in all situations; rather its approach is based on judgement and the circumstances of each potential intervention and an assessment of its impact. Southern Water prioritises its actions in terms of risk, cost and perceived benefits in a consistent and transparent way, choosing the most appropriate course of action.

Principal risks and uncertainties

	Principal risk	Outcomes affected	Description	Risk change in year
Strategy and regulation	Compliance with regulations and legislation [Industry and Southern Water Specific Risk]	Responsive customer service Removing wastewater effectively Looking after the environment A constant supply of high-quality drinking water Having a firm financial footing	Southern Water are a highly regulated business with three main regulators: Ofwat, the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) and high standards of compliance are expected. RISK: Inadequate culture, structure, capability, 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 its appointment as a water and wastewater company. As with all companies Southern Water are also required to comply with legislation for example Competition Law and the Bribery Act. As reported last year, this risk remains high as a result of certain regulatory compliance issues, which have been raised by its regulators. Southern Water have recognised that it needs to improve its culture, capability and performance in this area and improvement programmes are in place. Southern Water have two DWI enforcement orders in place, which are referred to in the Risk and Compliance section of its Annual Performance Report 2018–19 which is available on its website southernwater.co.uk/our-reports. Southern Water are currently assisting the Environment Agency with its investigations into legacy issues relating to wastewater compliance. Further detail on these and the recent Ofwat investigation can be found on page 23 in this Annual Performance Report.	Risk is high as a result of certain regulatory compliance issues, which have been raised by its regulators.
	Delivery of its capital investment programme [Southern Water Specific Risk]	Responsive customer service Removing wastewater effectively Looking after the environment A constant supply of high-quality drinking water Having a firm financial footing	Southern Water has a capital investment programme of £1.8 billion between 2015 and 2020. The company has plans in place to ensure Southern Water will deliver this and it is working hard to ensure its focus is maintained to complete all works on time. RISK: If Southern Water are unable to deliver significant parts of the programme on schedule, its ability to provide an excellent service to its customers could be compromised. Any failure to deliver would also prevent it from fulfilling the promises that Southern Water has made in its business plan and lead to possible action by the Environment Agency, Drinking Water Inspectorate or Ofwat.	Southern Water accelerated its programme in the final years of the 2015–20 period to recover an initial accrued shortfall

		Principal risk	Mitigation activities		Cross reference to SWS Annual Report and Financial Statements 2018-19
Strategy and regulation		**Compliance with regulations and legislation** **[Industry and Southern Water Specific Risk]**	• A compliance framework, and internal monitoring and assurance is undertaken. • Dedicated Risk and Compliance function • Subject matter experts and compliance related training • Values and ethical business practices being rolled out and develop a behavioural competency framework for our employees – three year programme started this year • Enhancements have been made to our regulatory reporting. • Annual reporting is externally verified by financial and technical auditors to provide assurance on its compliance with its obligations. • Internal assurance capabilities around reporting processes to its regulators, in particular: Ofwat, the Environment Agency and the Drinking Water Inspectorate. • Code of Ethics is being refreshed	Additionally Southern Water has: • Reinforced the 'three lines of defence' framework for its reporting governance and assurance activity. • Internal controls and processes to mitigate the risk of supplying incorrect or inaccurate regulatory information. • Awareness training is provided throughout its company for non-technical compliance issues, such as the Bribery Act and Competition Law. • Compliance with company procedures is reviewed through self-assessment every six months. • Transformation programmes to improve compliance and performance • Projects to develop an ethical compliance framework	Our commitments to customers (page 40) A constant supply of high-quality drinking water (page 62) Removing wastewater effectively (page 70) Looking after the environment (page 74) ODIs (page 41) Further information on its improvement programmes can be found in its Final Assurance Plan 2019, which is available at southernwater.co.uk/our-reports.
		Delivery of its capital investment programme **[Southern Water Specific Risk]**	Southern Water are bringing significant investment capability in house (over the course of the current capital investment programme) including: • an in-house engineering function. • a specialist programme management function. • asset planning systems, processes and capabilities.	Additionally Southern Water has: • An Investment Committee which oversees progress in its capital programme • Its monthly reporting procedures ensure the delivery of the Business Plan is given the greatest level of focus within the company. • Southern Water works closely with its regulators and other interested parties to resolve issues as they arise.	A constant supply of high-quality drinking water (page 62) Removing wastewater effectively (page 70) Looking after the environment (page 74) ODIs (page 41)

	Principal risk	Outcomes affected	Description	Risk change in year
Strategy and regulation	**Transformation and Business change** **[Southern Water Specific Risk]**	Responsive customer service A constant supply of high-quality drinking water Affordable bills Removing wastewater effectively Looking after the environment Better information and advice Having a firm financial footing Looking after our assets	Through a comprehensive, and ongoing transformation programme, the business is completely committed to delivering the level of service its customers, and all of its stakeholders, expect and deserve. The degree of transformation in itself brings with it both risks and significant opportunities, which Southern Water will closely monitor. RISK: The business might be unable to deliver the significant volume of change required to transform the business in readiness for the 2020–25 period whilst maintaining focus on delivery of performance objectives and deliver shareholder value in the final year of this regulatory period. This could be due to restraints in capacity or capability to effectively coordinate the required changes, which might result in the possible failure to deliver some Customer Promises including financial targets and ODI's.	Risk increasing due to scale of changes required in readiness for the 2020–25 period
	Political and regulatory reform and price Review (PR19) **[Industry Risk]**	Responsive customer service A constant supply of high-quality drinking water Affordable bills Removing wastewater effectively Looking after the environment Better information and advice Having a firm financial footing Looking after our assets	During recent years, there has been a significant focus on the water industry at a political and regulatory level. This has included a greater use of market mechanisms to promote innovation and efficiency, and the introduction of competition, (with the potential to extend retail competition to all residential customers), as well as the ongoing debate around renationalisation. RISK: Failure to effectively monitor and adapt to any changes in its regulatory frameworks (Ofwat, Environment Agency or Drinking Water Inspectorate) may lead to potential un-forecasted increases in administrative costs, reduced revenue, and ultimately non-compliance. RISK: Changes in the political landscape (e.g. Brexit, or change in government) may cause costly consequential impacts on the water sector to which Southern Water will have to adapt. Renationalisation in particular, could lead to the organisation being reacquired for less than the market value, and lead to significant changes in how Southern Water is governed, and consequently, how Southern Water operate. RISK:Its current Business Plan and approved pricing structure runs until 2020. The next period runs from 2020–25 and Ofwat will deliver their final assessment on its Business Plan this year. RISK: An unfavourable Final Determination of its new business plan would lead to challenging financial circumstances and encumber delivery of its customer promises and its strategic objectives.	Risk increased due to Ofwat response on 2020–25 business plan, classified "as needing significant scrutiny". Also increased due to the level of political focus on the sector.

	Principal risk	Mitigation activities		Cross reference to SWS Annual Report and Financial Statements 2018-19
Strategy and regulation	Transformation and business change [Southern Water Specific Risk]	• Programme to improve its approach to risk and resilience management. • Extensive review of its current processes in 2019–20 to identify key improvement areas and develop enterprise risk management • Programme to address both the organisational capability needs and to improve its resilience baseline understanding of financial, corporate and operational activities. • All initiatives are developed using standard processes and business cases, ranked in order of priority, resources and wider BAU business impact.	Additionally Southern Water has: • Transformation portfolio, office, and governance forums established. • Ongoing monitoring and review occurring monthly / quarterly from ELT and Board sub-committee. Scope includes initiatives in the transformation portfolio and portfolio dashboard, risk registers, benefit monitoring framework, resources, capacity and capability to mitigate the risk. • External partner support to provide capacity and capability where required. • Programmes to reduce our underlying internal costs and the costs of delivering service improvements. • Programmes to improve our water and waste treatment operational processes and performance (Water First, and "Environment+")	Link to how Southern Water are achieving its strategy (pages 19 to 103 Link to its values (page 27 and 28)
	Political and regulatory reform and Price Review (PR19) [Industry Risk]	• Programme for the Business Plan 2020-25 established to ensure Southern Water deliver a high quality response to Ofwat determinations, by their deadline. • Southern Water respond to all Ofwat's consultations on price review methodology. • Southern Water also provide information to the government, regulators, customers and the public as appropriate to help them to make informed decisions. • To anticipate the impacts of Brexit, we have established contingency plans adapted to different scenarios, such as the availability of chemicals and critical spares, so we can continue services to the customer uninterrupted.	• Southern Water closely monitors developments in the requirements from its regulators, Ofwat, The Drinking Water Inspectorate and the Environment Agency. • To anticipate changes Southern Water has proactively initiated programmes of investment in its infrastructure that will help it to be prepared and resilient to changes. • Southern Water maintains close dialogue with Government, Ofwat and other regulators on key issues.	ODIs (page 41)

	Principal risk	Outcomes affected	Description	Risk change in year
Customer	Customer Service [Industry Risk]	Responsive customer service Better information and advice	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 contingent on providing the level of service expected by its customers and its regulators. RISK: Southern Water 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. Its targets include identifying then reducing its unwanted call volumes for its customers, as well as improving its performance relative to its peers. Ofwat has performance-based rewards and penalties, for which Southern Water may incur financial penalties if Southern Water do not continuously improve its Customer Service performance, relative to its peers and its own targets. These are due to be replaced with new metrics from April 2020, the scope of which will expand to include the trust and confidence of the customer, the impact of which is uncertain at this stage	
Customer	Bad debt [Industry Risk]	Responsive customer service Affordable bills Having a firm financial footing	Southern Water understand that some customers may experience financial difficulties and Southern Water aim to support its customers to help reduce the level of customer debt. RISK: Bad debt is a significant issue for the water industry in the current economic climate, and there is a risk that the number of customers who are unable to pay their bills will increase leading to lost revenue. Although Southern Water only operate in the south east of England the company notes that the ongoing Brexit process may have an adverse economic effect on its customers and their ability to pay for its services. While there are no signs that this has affected its bad debt position to date it is a risk that Southern Water continues to monitor and review.	Bad debts charged for year decreased to £10.7m (2018: £21.8m)
Financial	Financial resilience [Southern Water Specific Risk]	Having a firm financial footing Looking after our assets	RISK: A reduction in the availability of credit to the water industry, a reduction in its credit rating or a significant increase in interest rates, could put its ability to finance its capital investment programme, or refinance its existing debt maturities, at risk in the future. Maintenance of specified credit ratings is required as a condition of its regulatory licence and its borrowing covenants. RISK: A failure to maintain certain credit ratings could lead to a restriction in dividend payments. As a minimum, Southern Water intend to maintain its current risk profile. Southern Water only enters into treasury transactions to manage inherent risk and support prudent funding, not to speculate. During the year each of the rating agencies downgraded the credit ratings of Southern Water: • Moody's and Fitch tightened their credit rating guidance ratios in response to a weakened assessment of the water regulatory framework. • Standard and Poor's downgraded the credit rating in response to the announcement by Ofwat of the outcome of its investigation into wastewater performance. • There was a general concern regarding their perceived challenges facing Southern Water in delivering the Business Plan 2020-25. Southern Waters current credit ratings are provided on page 14	Risk increased due to anticipated challenges of financing its transition to the next business plan period.

	Principal risk	Mitigation activities		Cross reference to SWS Annual Report and Financial Statements 2018-19
Customer	**Customer Service** **[Industry Risk]**	• Organisational restructure to deliver improved strategy for customer service. • Redesigned range of tailored services for its customers. • Improved training for its employees. • New single outsourced partner appointed to improve customer journey.	• Active engagement with its customers and stakeholders to strengthen its links with local organisations such as councils and community groups. • Enhanced online facilities. • Convenient opening hours of its contact centre. • Software to identify dissatisfied customers after speaking to them.	Our commitments to customers (page 40) Better information and advice (page 54) ODIs (page 41)
	Bad debt **[Industry Risk]**	For customers in difficulty Southern Water have: • A range of flexible instalment plans and tariffs for setting an affordable payment plan they can sustain. • A dedicated Affordability & Vulnerability team to support them. • Partnered with debt agencies, to provide specialist customer advice and assistance.	Where internal contact strategies fail: • Southern Water may refer customer accounts to a panel of debt collection agencies. • Southern Water are responsive to individual customers' circumstances, focusing on positive customer outcomes and improving longer term behaviour patterns. • As a final course of action, litigation is used.	Affordable bills (page 50) ODIs (page 41)
Financial	**Financial resilience** **[Southern Water Specific Risk]**	• Southern Water maintain sufficient cash reserves and liquidity facilities to finance its operations for at least 12 months. • Southern Water ensure the aggregate nominal value of debt maturities does not exceed 40% of RCV in any single regulatory period (and 20% of RCV in any 24 months). • New schedule of payments negotiated with Trustees to fund its defined benefit pension scheme and meet the April 2019 valuation deficit • Successful completion of a capital restructure resulted in Southern Water leverage reducing to less than 70% and a reduction to interest costs for the period 2020 to 2030.	Additionally: • Its exposure to interest rate rises on its current borrowings is hedged by a subsidiary company, Southern Water Services (Finance) Limited. • Current borrowings are 'fixed rates' or 'index-linked'. • Southern Water ensure sufficient funds are available for its operational and capital investment programme. • We ensure our financial position is robust and are reviewing this in light of the Ofwat regulatory penalty and the uncertain outcome of the price review process.	Financial performance (page 88)

	Principal risk	Outcomes affected	Description	Risk change in year
Climate	Resilience to drought [Industry and Southern Water Specific Risk]	A constant supply of high-quality drinking water Looking after the environment	Southern Water is committed to providing its customers with a sustainable supply of excellent quality drinking water. Some areas of the South East are classified as areas of 'severe water stress'. Given that Southern Water supply drinking water to a growing population of more than 2.5 million people across Kent, Sussex, Hampshire and the Isle of Wight, it is critical that Southern Water is able to continue to ensure access to adequate water resources for its customers. RISK: Climate change and more variable weather patterns will pose an increasing challenge for all water companies in future years, both in terms of the volume of water available and resilience to extreme weather. Protecting local environmental needs can result in a reduction in the amount of water that can be abstracted for water supply.	Risk increased due to more stringent revised abstraction licences in Hampshire
	Resilience to flooding [Industry Risk]	Removing wastewater effectively Looking after the environment	A key priority to the company is the protection of its customers' properties from flooding. Flooding can be caused by intense rainfall, and / or blockages due to inappropriate disposal by customers. RISK: Changing rainfall patterns, more frequent and intense storms and rising sea levels, could all lead to an increased risk of flooding if volumes overwhelm its assets. Excessive rainfall can result in high groundwater levels which are not possible to control. This leads to flooding of private land and property, possible contamination of water supply, and infiltration / inundation of sewers. Serious floods seen historically, have highlighted the need to protect its water and wastewater treatment works and pumping stations from being affected during a flood.	

	Principal risk	Mitigation activities		Cross reference to SWS Annual Report and Financial statements 2018-19
Climate	Resilience to drought [Industry and Southern Water Specific Risk]	Southern Water has a long-term investment plan for additional measures to ensure it has a secure supply of water. Southern Water is investing over £40 million on its water network during 2015–2020 including: • Replacing over 70km of water mains • Installation of the Hardham winter transfer • Reconfiguration of Hardham well field • Development of Aquifer Storage reuse in Sussex • Gaters Mill (Moorhill Otterbourne transfer from Portsmouth Water - Hampshire)	Additionally Southern Water has: • A Drought Plan developed to introduce measures to conserve water, operate its sources and secure additional resources (via drought permits / orders). • A Water Resources Management Plan, adapted to operate under different drought severities. • Campaigns to increase customer awareness about water availability. • An investment planning process to identify and develop schemes to meet demands for water over the next 25 years. • Initiatives working regionally and nationally to identify potential strategic water resources for the South East, including desalination, new pipelines from neighbouring water companies, reducing leakage and improving water efficiency	A constant supply of high-quality drinking water (page 62) Looking after the environment (page 74) ODIs (page 41)
	Resilience to flooding [Industry Risk]	Investing over £400 million on its wastewater service during 2015–20 including: • Maintenance on 39,500km of sewers and 3,321 wastewater pumping stations. • Replacing / refurbishing 100km of sewers. • Investing £268 million to reduce the number of blockages in its sewer network, including: - Targeted surveys of its sewers using cameras. - Performing regular sewer cleaning work. - Keeping its drainage plans up to date.	Additionally Southern Water are: • Part of national research via UKWIR (UK Water Industry Research) on the drainage project on the national headroom capacity and flood risk. • Developing drainage water management plans. • Identifying properties and areas at risk of flooding in severe weather, to assist in building its five-year Business Plan from a resilience perspective. • Building an extensive onwards customer behavioural programme to reduce blockages further.	Removing wastewater effectively (page 70) Looking after the environment (page 74) ODIs (page 41)

	Principal risk	Outcomes affected	Description	Risk change in year
Operational	Resilient supply of good quality water [Industry Risk]	A constant supply of high-quality drinking water Looking after the environment	Southern Water must ensure it can supply enough good quality drinking water to cater for a growing population of more than 2.5 million people. RISK: Should operational water treatment processes fail, the water supply become contaminated, or its water distribution network fail: • there is a risk that water could be supplied to customers that is unfit for consumption, and would require a widespread notice in order to protect public health • large numbers of customers could find their water supply becomes cut off • harmful chemicals could be released to the environment. This could lead to a risk to its customers, and consumer confidence, and lead to prosecution and fines by the Environment Agency or the Drinking Water Inspectorate (DWI).	Missed annual targets for: • Customer minutes without supply customers; and • Leakage.
	Information security and governance, and information technology systems [Southern Water Specific Risk]	Responsive customer service A constant supply of high-quality drinking water Removing wastewater effectively Better information and advice Having a firm financial footing Looking after our assets	Southern Water provide water and wastewater services to customers across its regional infrastructure, considered to be critical national infrastructure. RISK: If Southern Water do not maintain the resilience of its operational and enterprise IT systems, their failure could have a significant impact on its business reputation, ability to operate, and the resilience of its operational assets. Additionally Southern Water hold and process personal and payment data about its customers and employees so it is important that it treats this information with respect and in accordance with the requirements of information governance. RISK: Failure to properly protect the data Southern Water hold could lead to reputational damage and loss of confidence from its customers, as well as significant fines under Data Protection (GDPR) and the Network and Information Systems (NIS) Directive. Its main objective is to be able to manage these risks and issues holistically across the organisation (information governance incorporates physical security as part of its scope).	Following an NIS review in the year, a number of planned actions have been extended in scope, and additional actions have been identified.
	Wastewater treatment works failures and pollution incidents [Industry and Southern Water Specific Risk]	Removing wastewater effectively Looking after the environment	Its region benefits from a high quality environment, both inland and coastal. Southern Water are 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. RISK: Should operational wastewater treatment processes fail, or its sewers and pumping stations become blocked or fail ours assets may discharge sewage or storm 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. There is also the potential to cause damage to the environment or distress to customers. This could lead to prosecution and fines by the Environment Agency and a reduction in stakeholder and customer confidence.	Due to under performance in 2018 and concerns over its asset base
	Health and safety [Southern Water Specific Risk]	Having great people Working in partnership	The health and safety of its employees and the public while Southern Water are providing its services is of the highest priority. The nature of its work requires that its employees and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm. RISK: Failure to comply with its Health & Safety Management System and associated procedures could result in death, serious injury or adverse health effects. Southern Water could be liable for prosecution under the Health and Safety at Work and Corporate Manslaughter Acts, civil claims and employers' liability and professional liability. Finally, emotional and physical wellbeing is an important part of caring about health and safety and the company recognises that wellbeing has a major impact on all aspects of its work.	Southern Water are improving its existing processes for mechanical and electrical safety

	Principal risk	Mitigation activities		Cross reference to SWS Annual Report and Financial Statements 2018-19
Operational	Resilient supply of good quality water [Industry Risk]	Southern Water are investing over £150 million on its production works during 2015–2020, including: • Improvement schemes at Testwood, Burham and Otterbourne (with additional investment planned to 2025). • General resilience improvement schemes, such as; the ability to run to waste, UV disinfection replacement and borehole headworks upgrades. • Nitrate management improvement • Advanced filters at water treatment works in high risk areas (e.g. Hastings), to improve the taste and smell of water. • Upgrading wells, service reservoirs, flushing mains, and cleaning service reservoirs. • Leakage reduction plan	Additionally Southern Water have: • A transformation programme – 'Water First' to embed change in processes and performance. • A culture transformation programme to develop a behavioural competency framework for its employees. • Drinking Water Safety Plans are in place to evaluate risks with its drinking water quality. These cover the entire supply system. • Catchment Risk Management team has been formed with responsibility for understanding and managing catchment risks to drinking water quality. • Employees are trained appropriately to perform their roles well. • Emergency plans developed to continue water supply during an interruption. • Prioritised maintenance of critical assets and technology.	A constant supply of high-quality drinking water (page 62) Looking after the environment (page 74) ODIs (page 41)
Operational	Information security and governance, and information technology systems [Southern Water Specific Risk]	• IT security policies, standards and ongoing monitoring and incident management of its IT infrastructure to identify risks and threats. • Southern Water continues to invest in cyber threat mitigation strategies in response to the ever-changing risk landscape. • Regular testing to assure its security measures during the year. • Security and data protection training (mandatory for all its staff). • Insourcing its IT management and data centre services and improving its resilience. • Construction of a new improved data centre.	Additionally Southern Water have: • An Information Governance Council with responsibilities for the oversight and governance of its GDPR and NIS compliance During 2018–19 Southern Water continued to develop its Infrastructure resilience to protect the systems and information it holds, as well as actively focusing on improving its company's position with regard to GDPR and the NIS Directive which came into effect from May 2018.	Our commitments to customers (page 40) ODIs (page 41)
Operational	Wastewater treatment works failures and pollution incidents [Industry and Southern Water Specific Risk]	In 2018–19 Southern Water invested: • £144.7 million at its wastewater treatment works and pumping stations to reduce risks at critical sites. • £46.3 million in its sewer networks. Southern Water monitor function and performance of its assets on a continuous basis through a central control room. • Data analytics and reporting team proactively monitor asset performance. • Southern Water also monitor when its combined sewer overflows are used, to proactively identify infrastructure under stress. • Monitor long term asset risk and deterioration to target investment. • Complete extensive planned and proactive maintenance to drive reliability.	Additionally Southern Water have: • A transformation programme – 'Environment +' to embed change in processes and performance and improve confidence in our data around pollution incidents. • Pollution reduction programme. • Have tested deployable contingency plans when incidents occur. • Customer awareness / education programmes on avoiding blocked drains, targeted at catchments with blockage hotspots. • A culture transformation programme to develop a behavioural competency framework for its employees.	Removing wastewater effectively (page 707) Looking after the environment (page 74) ODIs (page 41)
Operational	Health and safety [Southern Water Specific Risk]	• A clearly defined strategy, safety protocols and standards are set. • Health and safety performance and compliance is monitored and reported monthly to the Board and to the tri-annual Board Health and Safety Committee. • The Executive Leadership Team monitors health and safety performance monthly. • Its processes and procedures are continuously reviewed. • Employees receive suitable health and safety training.	Additionally Southern Water have: • Training for employees to report 'near misses'. • Access to a copy of the corporate policy statement and health and safety processes and procedures for all employees. • Comprehensive health & safety processes and procedures help prevent injury and occupational ill-health to its employees and contractors. • Committed to the 'Time to Change' programme to raise awareness and understanding of mental health issues, and established a wellbeing and mental health road map.	Our people (page 28) ODIs (page 41)

This Strategic Report was approved by the Board of Directors on 23 July 2019.

R Manning
Company Secretary
23 July 2019

Directors' report for the year ended 31 March 2019

The directors of Greensands Holdings Limited (Registered Number: Jersey 98700) present their report and the audited financial statements for the year to 31 March 2019.

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.

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 to14 and pages 17 to 36.

Future developments

The information regarding future developments of the company can be found in the Strategic Report sections on pages 2 to 14 and pages 17 to 36.

Results and dividends

The consolidated statement of other comprehensive income on page 42 shows the Group's results and loss for the year. Further details are also available in the Strategic Report section on page 2.

No ordinary dividends were declared during the year ended 31 March 2019 (2018: £nil).

The company generated a loss after tax for the financial year of £780.7 million (2018: result of £nil). The loss this year has been caused by recognising an impairment loss of £780.7 million in relation to the company's investment in its subsidiary, Greensands Europe Ltd (GSE) and the amounts owed by group undertakings. Please see note 7 for further details.

Directors and their interests

The directors who held office during the year ended 31 March 2019 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.

B Goodwin	Alternate director to A Gilbert
B Somes	
R Wall	
A Gilbert	
P Hedley	
S Howard	
T Desfontaines	Alternate to Bronte Somes

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 £1.0 million (2018: £1.1 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 established Business Involvement Groups to facilitate meaningful consultation between management and employees through elected employee representatives. The groups meet regularly at both a functional and company-wide level.

In 2017, the Group introduced the Gallup employee survey to reset its approach to employee engagement and to help develop management action plans.

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

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

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

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

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

The Group holds an annual Health and Safety Conference, which this year focused on wellbeing. It attracted people from across the company and its partners to share the latest developments within the health and safety industry. Southern Water is committed to the 'Time for change' programme to raise awareness and understanding of mental health issues.

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

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 us work better as a company and fosters a culture to ensure that we are always doing the right thing for each other, our customers, the environment and other stakeholders.

Environmental issues

The Group is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice, and aims to contain the environmental impact of its activities to a practicable minimum.
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 24 of the Strategic Report and note 22 to the consolidated financial statements.

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 ratings and financial risk and 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.

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

- The Group's business activities, together with the factors likely to affect its future development, performance and position, which are set out in the Strategic Report on pages 2 to 14 and 17 to 36.
- The financial position of the Group, its cash flows, liquidity position and borrowing facilities, which are described in the Financial Performance reviews on pages 2 to 7. Further details of the Group's net debt position can be found in note 32 of the financial statements. Further details of the company's liquidity position is set out on page 24 above.
- The Group has cash and committed undrawn bank facilities totalling £934.3 million at 31 March 2019 (2018: £864.3 million) which are available at various levels of the financing structures. These funds are sufficient to fund the operating and capital investment activities of the Group for the 12 months from the date of signing the financial statements.
- The Group operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities. These limits have been set for the period April 2015 to March 2020.

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

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

Qualifying third party indemnity

Following shareholder approval, the Group has provided an indemnity for its directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Directors' responsibilities statement

The directors are responsible for preparing the 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 issued 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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the 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
23 July 2019

Financial statements

Consolidated income statement

For the year ended 31 March 2019

	Note	**2019** **£m**	2018 Restated* £m
Continuing operations			
Revenue	5	**876.3**	857.7
Regulatory settlement	5	**(135.5)**	-
Total revenue		**740.8**	857.7
Other operating income	5	**1.2**	1.1
Operating costs			
- before depreciation and amortisation		**(351.2)**	(337.5)
- depreciation and amortisation		**(279.3)**	(266.9)
- regulatory settlement		**(3.0)**	-
Total operating costs		**(633.5)**	(604.4)
Operating profit	6	**108.5**	254.4
Operating profit before regulatory settlement		**247.0**	254.4
Regulatory settlement		**(138.5)**	-
Operating profit		**108.5**	254.4
Other income	6	**0.2**	11.2
Profit on disposal of fixed assets	6	**0.7**	0.8
Finance income	10	**10.5**	1.1
Finance costs	10	**(384.5)**	(323.1)
Fair value (losses)/gains on derivative financial instruments	10	**(217.4)**	46.3
Net finance costs	10	**(591.4)**	(275.7)
Loss before taxation		**(482.0)**	(9.3)
Taxation	11	**31.7**	(25.7)
Loss for the financial year		**(450.3)**	(35.0)

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

The notes on pages 48 to 100 form part of these financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 March 2019

	Note	**2019** **£m**	2018 Restated* £m
Loss for the financial year		**(450.3)**	(35.0)
Other comprehensive (loss)/income: **Items that cannot be reclassified to profit or loss:**			
Actuarial (loss)/gain on pension scheme	24	**(24.2)**	9.8
Movement on deferred tax relating to retirement benefit obligations	23	**4.1**	(1.7)
Total other comprehensive (loss)/income for the year, net of tax		**(20.1)**	8.1
Total comprehensive loss for the year attributable to the owners of the company		**(470.4)**	(26.9)

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

Consolidated statement of financial position

as at 31 March 2019

	Note	**Group 2019 £m**	Group 2018 Restated* £m	Group 2017 Restated* £m
Non-current assets				
Goodwill	12	**85.1**	85.1	85.1
Intangible assets	13	**45.6**	61.1	61.1
Property, plant and equipment	14	**6,228.1**	6,049.7	5,876.4
Investments	16	**0.1**	0.1	0.1
Derivative financial instruments	22	**46.2**	0.3	9.4
		6,405.1	6,196.3	6,032.1
Current assets				
Inventories	17	**4.7**	2.9	2.7
Trade and other receivables	18	**227.7**	209.3	188.0
Derivative financial instruments	22	**-**	3.9	-
Cash and cash equivalents	32	**514.8**	287.3	302.3
		747.2	503.4	493.0
Total assets		**7,152.3**	6,699.7	6,525.1
Current liabilities				
Trade and other payables	19	**(367.0)**	(359.8)	(291.0)
Borrowings	20	**(747.5)**	(299.6)	0.6
Regulatory settlement liability	25	**(3.0)**	-	-
Provisions for liabilities	26	**(1.2)**	-	-
		(1,118.7)	(659.4)	(290.4)
Non-current liabilities				
Borrowings	21	**(5,204.4)**	(4,994.9)	(5,133.6)
Derivative financial instruments	22	**(1,429.0)**	(1,292.2)	(1,347.4)
Deferred tax liabilities	23	**(292.3)**	(328.2)	(300.9)
Retirement benefit obligations	24	**(186.7)**	(171.7)	(176.9)
Regulatory settlement liability	25	**(135.5)**	-	-
Provisions for liabilities	26	**(5.4)**	(3.4)	(0.5)
Other non-current liabilities	27	**(27.4)**	(26.6)	(25.2)
		(7,280.7)	(6,817.0)	(6,984.5)
Total liabilities		**(8,399.4)**	(7,476.4)	(7,274.9)
Net liabilities		**(1,247.1)**	(776.7)	(749.8)
Equity				
Called up share capital	28	**921.9**	921.9	921.9
Share premium account	29	**4.5**	4.5	4.5
Non-distributable reserve	30	**53.8**	46.7	24.1
Retained earnings	31	**(2,227.3)**	(1,749.8)	(1,700.3)
Total deficit		**(1,247.1)**	(776.7)	(749.8)

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.
The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 41 to 100 were approved by the Greensands Holdings Limited Board and authorised for issue on 23 July 2019. They were signed on its behalf by

Stephen D. Howard

S Howard
Director

Company statement of financial position

as at 31 March 2019

	Note	**Company 2019 £m**	**Company 2018 £m**	Company 2017 £m
Non-current assets				
Investments	16	**-**	**1.0**	1.0
Other non-current assets	15	**236.9**	**1,016.6**	1,016.6
		236.9	**1,017.6**	1,017.6
Current assets				
Trade and other receivables	18	**-**	**-**	54.2
		-	**-**	54.2
Total assets		**236.9**	**1,017.6**	1,071.8
Current liabilities				
Trade and other payables	19	**(32.0)**	**(32.0)**	(86.2)
Non-current liabilities				
Borrowings	21	**(59.2)**	**(59.2)**	(59.2)
Total liabilities		**(91.2)**	**(91.2)**	(145.4)
Net assets		**145.7**	**926.4**	926.4
Equity				
Called up share capital	28	**921.9**	**921.9**	921.9
Share premium account	29	**4.5**	**4.5**	4.5
Retained earnings	31	**(780.7)**	**-**	-
Total equity		**145.7**	**926.4**	926.4

The company reported a loss for the financial year ended 31 March 2019 of £780.7 million (2018: £nil million). Further details can be found in note 7.

The financial statements of Greensands Holdings Limited (Registered Number: Jersey 98700) on pages 41 to 100 were approved by the Greensands Holdings Limited Board and authorised for issue on 23 July 2019. They were signed on its behalf by

S Howard
Director

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Called up share capital (Note 28) £m	Share premium account (Note 29) £m	Non-distributable reserve (Note 30)	Retained Earnings Restated* (Note 31) £m	Total £m
At 1 April 2017 (as previously reported)	**921.9**	**4.5**	**-**	**(1,722.9)**	**(796.5)**
Change in accounting policies – IFRS 15	-	-	24.1	22.6	46.7
Balance at 1 April 2017 (restated)*	**921.9**	**4.5**	**24.1**	**(1,700.3)**	**(749.8)**
Profit/(loss) for the financial year	-	-	23.7	(58.7)	(35.0)
Other comprehensive income for the year	-	-	-	8.1	8.1
Total comprehensive loss for the year	-	-	23.7	(50.6)	(26.9)
Reserves transfer**	-	-	(1.1)	1.1	-
Balance at 31 March 2018	**921.9**	**4.5**	**46.7**	**(1,749.8)**	**(776.7)**
Profit/(loss) for the financial year	-	-	8.5	(458.8)	(450.3)
Other comprehensive loss for the year	-	-	-	(20.1)	(20.1)
Total comprehensive loss for the year	-	-	8.5	(478.9)	(470.4)
Reserves transfer**	-	-	(1.4)	1.4	-
Balance at 31 March 2019	**921.9**	**4.5**	**53.8**	**(2,227.3)**	**(1,247.1)**

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

** The non-distributable reserve has arisen on 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 2019

	Called up share capital (Note 28) £m	Share premium account (Note 29) £m	Retained earnings (Note 31) £m	Total £m
Balance at 31 March 2017	**921.9**	**4.5**	**-**	**926.4**
Result and total comprehensive income for the financial year	-	-	**-**	**-**
Balance at 31 March 2018	**921.9**	**4.5**	**-**	**926.4**
Result and total comprehensive income for the financial year	-	-	**(780.7)**	**(780.7)**
Balance at 31 March 2019	**921.9**	**4.5**	**(780.7)**	**145.7**

Consolidated statement of cash flows
For the year ended 31 March 2019

	Note	**2019** **£m**	2018 Restated* £m
Cash from operations		**492.3**	470.5
Tax paid		**(0.1)**	(0.1)
Net cash from operating activities	32	**492.2**	470.4
Investing activities			
Interest received		**8.9**	1.2
Purchase of property, plant and equipment		**(396.5)**	(373.3)
Purchase of intangible assets		**(7.2)**	(15.9)
Receipt of grants and contributions		**2.3**	2.8
Sale of property, plant and equipment		**0.3**	0.4
Proceeds from disposal of business		**1.8**	11.8
Net cash used in investing activities		**(390.4)**	(373.0)
Financing activities			
Equity dividends paid		**-**	(54.2)
Interest paid		**(229.8)**	(54.1)
Payment of derivative accretion		**(4.7)**	(3.7)
Repayment of borrowings		**(397.7)**	(150.0)
Repayments of obligations under finance leases		**(0.6)**	(0.4)
Payments on restructure of derivative instruments		**(122.5)**	-
Issue costs of new loans		**(1.1)**	-
Proceeds of new loans		**882.1**	150.0
Net cash from/(used in) financing activities		**125.7**	(112.4)
Net increase/(decrease) in cash and cash equivalents		**227.5**	(15.0)
Cash and cash equivalents at beginning of the year		**287.3**	302.3
Cash and cash equivalents at end of the year		**514.8**	287.3

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

Company statement of cash flows
For the year ended 31 March 2019

No statement of cash flows is prepared for the company due to it not holding any cash balances in the current or prior year.

Notes to the consolidated financial statements

For the year ended 31 March 2019

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 Act. 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 14.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the going concern basis under the historical cost convention, except for the revaluation of financial instruments, which occurs at the end of each reporting period as explained in the accounting policies below.

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 to sell 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 IAS 17 ‘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 2019

1 Accounting policies (continued)

Adoption of new and revised accounting and financial reporting standards

This is the first set of the group's annual financial statements where IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have been applied. Changes to significant accounting policies are described in note 3.

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective:

IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and will be effective for the group from 1 April 2019. The changes effected by the new lease accounting model will result in all leases (including those currently classified as operating leases) of more than 12 months (with some limited exceptions such as low value leases) being recognised on the group's statement of financial position. The impact on the results or net assets of the group of the changes to the standard is not expected to be significant because the group does not hold a significant value of operating leases. An estimation of the expected impact derived from initial assessment is given below.

The group intends to adopt the modified retrospective approach due to the number of leases and volume of work that would be required for full retrospective application. In the year to 31 March 2019 the value of operating lease expenditure charged to the income statement was £4 million (2018: £4 million). Under the new standard, operating lease expenditure will be replaced by depreciation and interest of approximately the same value, and the initial expectation is recognition of approximately £23 million of non-current assets, £20 million of lease liabilities and a reduction in prepaid rentals of £3 million.

The group notes a recent IFRIC determination on a parallel situation to the water sector and will actively consider whether this changes the lease treatment of certain items that may affect this disclosure during the course of the next few months as well as considering industry practice in this area.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the group.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

1 Accounting policies (continued)

Going concern

The Group and company's business activities, together with the factors likely to affect the future development and position, are set out in the Strategic Report on pages 2 to 36.

The directors have undertaken a detailed review of the group's and company's liquidity requirements compared with the cash and facilities available, the financial covenant position including projections based on future forecasts, the current ratings and financial risk.

On the basis of their assessment of the group and company's financial position the directors have a reasonable expectation that the group and company have 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 39.

Business combinations

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

1 Accounting policies (continued)

Segmental reporting

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

The Southern Water board and management team review all internal management information on a single segment basis and accordingly no segmental information is provided in this report.

Revenue recognition

The group has adopted IFRS 15 ‘Revenue from Contracts with Customers’ from 1 April 2018 and further details on the impact of this change in accounting policy is provided in note 3. The accounting treatment for the regulatory settlement shown as a deduction to revenue is explained in note 2.

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. Revenue is recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. 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.

For provisioning purposes, revenues and outstanding arrears are segmented based on customer characteristics. 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 2018–19 no segment of customers met this criterion and so revenue 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.

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

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

Provision for impairment of trade receivables

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

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

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

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

1 Accounting policies (continued)

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 any indicators of impairment on an annual basis.

Intangible assets

Intangible assets comprises:

i. Assets under development.
ii. Other assets – comprising software, studies and development projects.

Intangible assets are measured at cost less subsequent amortisation and any impairment. Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful lives, which are primarily three to ten years. 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.

Capitalised development costs are for plant installed on some of our sites to test new processes for performance data and scalability. The data is used to identify innovative and efficient future assets and processes to meet new higher environmental or quality standards. Development costs capitalised are depreciated over three to five years.

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

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.
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' (see note 3).

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

1 Accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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:		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.

Impairment of tangible and intangible assets

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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

1 Accounting policies (continued)

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, contributions received following new connections towards enhancing the network, 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.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) The Group as lessee

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a ‘finance lease’. Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The asset is recorded in the statement of financial position as a non-current asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future liabilities to the lessor under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the income statement, and the capital element, which reduces the outstanding obligation for future instalments.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

(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 2019

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.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is equal to their fair value.

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.

Retirement benefits

The Group operates a defined benefit pension scheme, the assets of which are held separately from those of the Group in independently administered funds. An independent actuary conducts a valuation 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 current service cost, which is the increase in the present value of the liabilities of the Group’s defined benefit pension scheme expected to arise from employee service in the period, is charged to operating costs. The net interest on the scheme’s net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the consolidated 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 24.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

1 Accounting policies (continued)

Retirement benefits (continued)

Loss 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 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 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.

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

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

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

Financial assets

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

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

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

1 Accounting policies (continued)

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 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 2019

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 22.

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 2019

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

The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. When the Group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is reasonably assured.

Payments received in advance of revenue recognition are recorded as deferred income. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services and the performance obligation is complete.

Particular challenges exist within the water industry as formal written contracts do not exist for most transactions with customers. Contracts are instead implied through statute and regulation. Judgment is therefore required in identifying the services contained within the contract and the customer with whom the contract is entered into, which in turn impacts on how the performance obligations are considered and therefore revenue recognised.

(ii) Regulatory settlement

The treatment of the regulatory settlement has been actively considered in the light of the specific circumstances of the approach agreed with Ofwat as noted on page 23 Reflecting that this relates to past performance and matters outside the normal regulatory framework for agreeing amounts for future billing to customers it has been considered appropriate to accrue for this settlement in the 2019 financial statements when it became possible to quantify the financial impact.

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 has been concluded to be to treat the invoice reductions as a reduction in revenue in the period. This will be separately identified and unwound on the face of the income statement in future periods. The £3 million penalty payable to Ofwat has been treated as an operating expense.

(iii) 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 capitalise 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

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

(iv) 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 2020 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.

The group has faced various financial performance challenges during the year, namely from the imposed penalty sanctioned by Ofwat in response to Southern Water's wastewater treatment works compliance reporting. The year has also seen some one off additional costs in relation to Southern Water's current transformation programme, which in the long-term is expected to yield savings and efficiencies operationally.

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 (2018: £nil).

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

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) 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.

The value of household billings raised in the year ended 31 March 2019 for consumption in prior years was £129.4 million, £1.2 million (0.9%) more than the accrual made at 31 March 2018. This difference is well within our view of acceptable tolerances for accounting estimates.

(ii) Impairment of trade receivables

The trade receivables impairment provision 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. For each segment, forecast cash collection rates are determined which result in 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.

The value of the provision for impairment as at 31 March 2019 was £188.7 million (2018: £180.0 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Our sensitivity analysis suggests that the impairment provision would vary between £1.8m and £5.4m if cash collections estimates were between 1% and 3% above or below those predicted.

Impairment provision sensitivity analysis	31 March 2019	Sensitivity			
		1%	3%	-1%	-3%
Impairment provision estimate (£m)	188.7	1.8	5.4	-1.8	-5.4

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

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

(iii) 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 gain of £24.2 million for the year to 31 March 2019 (2018: loss of £9.8 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 CMI 2018 actuarial tables with a smoothing factor of 7.5 and a 1.25% pa 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 24 of the financial statements.

(iv) 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 recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. Analysis includes assessing the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability.

Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 33, unless the possibility of transferring economic benefits is remote. In particular there is a contingent liability associated with an Environment Agency investigation set out in note 33 which it has not been possible to estimate. Accordingly an associated sensitivity analysis cannot be disclosed.

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 cost may be different from the estimated provision. Details of provisions are disclosed in note 26 and the value provided at 31 March 2019 was £6.6m (2018: £3.4m). Accordingly if the amount provided was 50% under or overestimated then the provision would change by £3.3m (2018: £1.7m).

(v) Goodwill

An impairment review on goodwill is conducted at least annually. The net asset value of the subsidiaries is used in the impairment review. Therefore any estimations or judgements used in respect to the value of the assets or liabilities of the subsidiaries may affect the outcome of the impairment review. Whilst high levels of headroom were identified at 31 March 2019 significant reductions to the calculated recoverable value in future years could lead to a material impairment given the large values held.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

3 Changes in significant accounting policies

The following changes in accounting policies are in the group's financial statements as at and for the year ending 31 March 2019.

A number of new standards are effective for periods beginning from 1 January 2018, including IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. The effect of these new standards on the group's financial statements is described below.

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.

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 companies 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.

As at 1 April 2018, the directors reviewed and assessed the group's existing trade receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised. This is no change to the methodology applied in the financial statements for the year ended 31 March 2018 as materially the risk of future credit losses were already applied within the model which calculates the impairment provision and therefore no additional credit loss allowance has been recognised against retained earnings in the period as a result of the implementation of the new standard.

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations.

The standard requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. The effect of applying IFRS 15 results in the immediate recognition, due to the completion of the performance obligation, of certain developer related revenue, previously treated as deferred revenue. This income relates to diversions, requisitions and adoptions and its effect on our financial statements is detailed below.

Transition approach

The group has adopted IFRS 15 retrospectively to each prior period presented in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', using the practical expedient in paragraph C5(d) of IFRS 15, under which the group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application – i.e. 1 April 2018. The details and quantitative impact of the changes in accounting policies are disclosed below.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

3 Changes in significant accounting policies (continued)

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. The determination of the performance obligation does not result in a change to the group's approach to accounting for this revenue under previously applicable accounting standards.

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. Under IFRS 15 such revenue is not recognised. Currently the group considers that at the point of billing customers there is no one identifiable group of customers who are unlikely to pay and so all revenue is recognised.

New connections and infrastructure charges
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. This does not result in a change to the group's approach to accounting for this revenue under previously applicable accounting standards.

Requisitions
For requisitions of water mains and public sewers, the group previously deferred the lump sum cash consideration received, and recognised the associated revenue to the income statement over a period of 12 years. Under IFRS 15, 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, and the total consideration receivable is recognised in full as revenue at that point. For the year to 31 March 2019, this has resulted in the recognition of £0.1 million (2018: £2.6 million) of revenue recognised that would previously have been deferred to the statement of financial position and amortised over 12 years. As a consequence of the prior year recognition of £2.6 million revenue from requisitions, amortisation of deferred revenue of £1.4 million, previously released to the income statement in the same period, has now been derecognised, resulting in a net increase of £1.2 million to revenue for the year to 31 March 2018. The adjustment to the opening statement of financial position as at 31 March 2018 was a reduction in deferred revenue of £10.5 million (as at 1 April 2017: £9.7 million) and a reduction in long term grants and contributions of £0.9 million (as at 1 April 2017: £0.5 million).

Diversions
Contributions received in respect of diversions of water mains and sewers were previously deferred to the statement of financial position and amortised to income over the life of the related assets. Under IFRS 15, it has been determined that the performance obligation, and the point of revenue recognition, is on completion of the diversion of the water main or sewer. For the year to 31 March 2019, £2.9 million (2018: £3.1 million) of revenue has been recognised that would previously have been deferred to the statement of financial position and amortised over the life of the asset. The adjustment to the opening statement of financial position as at 31 March 2018 was a reduction in long-term grants and contributions of £15.3 million (as at 1 April 2017: £12.4 million).

Adoptions
Adoptions of assets were 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 of the asset upon adoption i.e. the point at which control of the asset is obtained, within revenue as an increase to non-distributable reserves. For the year to 31 March 2019, this has resulted in the recognition of £8.5 million (2018: £23.7 million) of revenue recognised and taken to non-distributable reserves that would previously have been deferred to the statement of financial position and amortised over the life of the asset. The adjustment to the opening statement of financial position as at 31 March 2018 was a reduction in long-term grants and contributions of £46.7 million (as at 1 April 2017: £24.1 million).

Impacts on previously reported financial statements

The following tables summarise the impacts of adopting IFRS 15 on the group's previously reported statement of financial position as at 1 April 2017 and 31 March 2018 and its income statement and other comprehensive income for the year ended 31 March 2018 for each of the line items affected. There was no material impact on the group's previously reported statement of cash flows for the year ended 31 March 2018 however these have been restated to reflect the opening balance adjustments.

As a result of the difference in the treatment of adoptions as explained in the transition approach to IFRS 15 above, an adjustment has been made to the cumulative deferred tax liability in respect of adopted assets previously treated as non-qualifying of £4.2 million and £7.9 million as at 1 April 2017 and 31 March 2018 cumulatively and respectively.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

3 Changes in significant accounting policies (continued)

Impacts on previously reported financial statements (continued)

Statement of financial position

	Impact of changes in accounting policies		
1 April 2017	**As previously reported £m**	**Adjustments £m**	**As restated £m**
Other	6,525.1	-	6,525.1
Total assets	6,525.1	-	6,525.1
Current liabilities – Accruals and deferred revenue	(127.7)	9.7	(118.0)
Non-current liabilities – Grants and contributions	(48.0)	37.0	(11.0)
Other	(7,145.9)	-	(7,145.9)
Total liabilities	(7,321.6)	46.7	(7,274.9)
Net liabilities	**(796.5)**	**46.7**	**(749.8)**
Retained earnings	(1,722.9)	22.6	(1,700.3)
Non-distributable reserves	-	24.1	24.1
Other	926.4	-	926.4
Total deficit	**(796.5)**	**46.7**	**(749.8)**

	Impact of changes in accounting policies		
31 March 2018	**As previously reported £m**	**Adjustments £m**	**As restated £m**
Other	6,699.7	-	6,699.7
Total assets	6,699.7	-	6,699.7
Current liabilities - Accruals and deferred revenue	(239.5)	10.6	(228.9)
Non-current liabilities – Grants and contributions	(75.7)	62.9	(12.8)
Non-current liabilities – Deferred tax liabilities	(317.5)	(10.7)	(328.2)
Other	(6,906.5)	-	(6,906.5)
Total liabilities	(7,539.2)	62.8	(7,476.4)
Net liabilities	**(839.5)**	**62.8**	**(776.7)**
Retained earnings	(1,765.9)	16.1	(1,749.8)
Non-distributable reserves	-	46.7	46.7
Other	926.4	-	926.4
Total deficit	**(839.5)**	**62.8**	**(776.7)**

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

3 Changes in significant accounting policies (continued)

Impacts on previously reported financial statements (continued)

Income statement and other comprehensive income

	Impact of changes in accounting policies		
For the year ended 31 March 2018	**As previously reported £m**	**Adjustments £m**	**As restated £m**
Revenue	829.7	28.0	857.7
Other income	14.4	(1.3)	13.1
Corporation tax charge	(15.0)	(10.7)	(25.7)
Other	(880.2)	0.1	(880.1)
Loss for the year	(51.1)	16.1	(35.0)
Other	8.1	-	8.1
Total comprehensive loss for the year	(43.0)	16.1	(26.9)

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 Greensands Holdings Limited Board and management 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	**2019 £m**	2018 Restated* £m
Water and sewerage services:		
Household - measured	**537.3**	509.0
Household - unmeasured	**133.2**	134.4
Non-household - measured	**141.6**	134.1
Non-household - unmeasured	**5.0**	5.3
Total water and sewerage services	**817.1**	782.8
Bulk supplies	**3.8**	4.3
Infrastructure charge receipts	**12.2**	8.6
Requisitioned mains and sewers	**0.1**	2.6
Diversions	**2.9**	3.1
Adoptions	**8.5**	23.7
Other services	**31.7**	32.6
Total revenue before regulatory settlement	**876.3**	857.7
Regulatory settlement	**(135.5)**	-
Total revenue	**740.8**	857.7
Other operating income	**1.2**	1.1
Other income (see below)	**0.2**	11.2
Profit on disposal of fixed assets	**0.7**	0.8
Interest receivable (note 10)	**10.5**	1.1
Total income	**753.4**	871.9

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

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 on page 23 the group has been co-operating with Ofwat in relation to its investigation into the management, operation and performance of our wastewater treatment works.

To ensure that our customers are not disadvantaged as a result of these matters, the group 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 and has been provided for in the financial statements for 2018–19.

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

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

6 Group profit for the year

Group loss for the year has been arrived at after charging/(crediting):	**2019 £m**	2018 Restated* £m
Depreciation on		
- Owned assets	**256.0**	250.9
- Assets held under finance leases	**1.0**	1.0
	257.0	251.9
Included within *Operating costs: Depreciation and amortisation* in the income statement:		
Amortisation of intangible assets	**22.3**	15.0
Other income (see note (a) below)	**0.2**	11.2
Profit on disposal of property, plant and equipment	**0.7**	0.8
Research and development expenditure	**1.0**	1.1
Rentals under operating leases		
- Properties	**1.9**	1.9
- Vehicles	**2.5**	2.6
Employee costs (note 8a)	**67.4**	63.9
Amortisation of grants and contributions (see note 27) (restated*)	**(1.1)**	(1.0)
Regulatory settlement (see note (b) below)	**138.5**	-
Fees payable to the company's auditor in respect of:		
- statutory audit of the company's financial statements	**0.3**	0.2
- other services pursuant to legislation	**0.1**	0.1
- all other services	**0.1**	-
Total audit and non-audit fess	**0.5**	0.3

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

Audit related and non-audit services primarily relate to regulatory assurance fees.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

6 Group operating profit for the year (continued)

(a) On 1 April 2017 the group completed the disposal of its non-household water and wastewater retail business, principally comprising billing and customer service activities, to Business Stream. Final reconciling transactions from the contract of sale resulted in a £0.2 million profit after costs in the current period (2018: £11.2 million profit after costs, which included a provision for unrecoverable debts of £2.1 million). Cash proceeds of £1.8 million (2018: £11.8 million) are disclosed under proceeds from disposal of business in the cash flow statement on page 47.

(b) As reported on page 23 the group has been co-operating with Ofwat in relation to its investigation into the management, operation and performance of our wastewater treatment works.

In addition to the provision for direct customer rebates of £135.5 million disclosed in note 5, a provision of a further £3.0 million has been made within operating costs for the proposed Ofwat penalty.

7 Profit of the parent company

The loss for the financial year dealt with in the financial statements of the parent company is £780.7million (2018: £nil).

At the reporting date the company has conducted an impairment review based on the consideration of the overall value of the Greensands Finance 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 Ltd.

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, which have fallen. Additionally, with continued political uncertainty and the performance of Southern Water relative to its peers a lower level of premium has been used in assessing the impairment.

Having taken into account the above and a negative reserves position held in the Greensands Europe Ltd group, the directors believe that the company's investment in Greensands Europe Ltd (GSE) of £1.0 million is fully impaired, along with £779.7 million in relation to the amounts owed by group undertakings. Therefore, a total impairment loss of £780.7 million has been recognised in the income statement for the year.

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. Should there be an improvement; values for the reduction in impairment would be written back.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

8 Employee information

		2019 £m	2018 £m
(a) Group employee costs			
Wages and salaries		**95.7**	**89.9**
Social security costs		**10.7**	**9.1**
Pension costs	- Defined contribution	**3.9**	**3.0**
	- Defined benefit	**8.0**	**6.7**
Total employee costs		**118.3**	**108.8**
Less: charged as capital expenditure		**(50.9)**	**(44.9)**
Charged to the income statement		**67.4**	**63.9**

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

(b) Average number of persons employed by activity

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

	2019 Number	2018 Number
Operations	**1,135**	1,160
Customer services	**211**	258
Corporate centre	**981**	871
	2,327	2,289

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, two directors received £50,000 each (2018: two directors £8,300) paid by one of the ultimate shareholders.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

10 Net finance costs

	2019 £m	2018 £m
Finance income		
Interest receivable on swap instruments	**8.7**	-
Deposit income on short-term bank deposits	**1.8**	1.1
	10.5	1.1
Finance costs		
Interest payable on loans	**(399.2)**	(337.1)
Interest rate swap receipts	**31.8**	42.0
Indexation	**(34.7)**	(38.8)
Amortisation of issue costs	**(1.8)**	(1.6)
Amortisation of gilt lock proceeds	**0.1**	0.1
Amortisation of bond premium	**0.7**	0.7
Other finance expense (note 24)	**(4.4)**	(4.9)
	(407.5)	(339.6)
Amounts capitalised on qualifying assets	**23.0**	16.5
	(384.5)	(323.1)
Fair value (losses)/gains on derivative financial instruments		
Derivative financial instruments not designated as hedges (note 22)	**(217.4)**	46.3
Net finance costs	**(591.4)**	(275.7)

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 4.12% to expenditure on such assets (2018: 4.10%).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

11 Taxation

	2019 £m	2018 Restated* £m
Current tax:		
Current year	**0.1**	0.1
Total current tax charge	**0.1**	0.1
Deferred tax:		
Origination and reversal of temporary differences	**(33.7)**	24.9
Adjustment in respect of prior years	**1.9**	0.7
Total deferred (credit)/charge tax	**(31.8)**	25.6
Total tax (credit)/charge on loss	**(31.7)**	25.7

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

	2019 £m	2018 Restated* £m
Loss before tax	**(482.0)**	(9.3)
Current tax:		
Tax at the UK corporation tax rate of 19% (2018: 19%)	**(91.6)**	(1.8)
Permanent differences	**54.0**	21.0
Deferred tax assets not recognised	**-**	6.7
Differences between current and deferred tax rates	**4.0**	(0.9)
Adjustment in respect of prior years – deferred tax	**1.9**	0.7
Tax (credit)/charge for year	**(31.7)**	25.7

Factors that may affect future tax charges:

A reduction in the main rate of corporation tax to 17% from the 1 April 2020 was enacted in the Finance Act 2016, and deferred tax balances at the Balance Sheet date have been calculated using this rate.

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

The total amount of deferred tax asset un-provided is £30.0m (2018: £30.0m). 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.

There is no expiry date in relation to un-provided amounts.

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:

	2019 £m	2018 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Tax (credit)/charge relating to retirement benefit obligations	**(4.1)**	1.7
Total deferred tax (credit)/charge recognised in other comprehensive loss	**(4.1)**	1.7

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

11 Taxation

Company

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

	Company 2019 £m	Company 2018 £m
Loss before taxation	**(780.7)**	-
UK corporation tax rate at 19% on loss for the year (2018: 19%)	**(148.3)**	**-**
Permanent differences arising on impairment loss	**148.3**	-
Total tax charge for year	**-**	-

12 Goodwill

Group	**£m**
Carrying amount at 1 April 2018	85.1
Impairment at 31 March 2019	-
Net book value at 31 March 2019	**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 annually for impairment by comparing the underlying statement of financial position value of the Group, having adjusted for net debt, with the Regulatory Capital Value (RCV) of Southern Water Services. An assumed premium to the RCV utilising recent transactions in the water industry and other data to assess whether the book value of the Group is supportable.

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

To date no indicators of impairment have been identified. in respect of goodwill or property, plant and equipment with significant levels of headroom calculated.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

13 Intangible assets

	Externally generated		
	Assets in development £m	**Other £m**	**Total £m**
Cost			
At 1 April 2018	28.9	94.7	**123.6**
Additions	6.8	-	**6.8**
Transfers	(23.9)	23.9	**-**
Disposals	-	(2.3)	**(2.3)**
At 31 March 2019	11.8	116.3	**128.1**
Amortisation			
At 1 April 2018	-	62.5	**62.5**
Charge for the year	-	22.3	**22.3**
Disposals	-	(2.3)	**(2.3)**
At 31 March 2019	-	82.5	**82.5**
Net book amount			
At 31 March 2019	**11.8**	**33.8**	**45.6**
At 31 March 2018	28.9	32.2	61.1

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

Included within additions above is £1.1 million (2018: £0.3 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 £1.4 million (2018: £1.4 million).

Other intangible assets include software, studies and research and development projects.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

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 2018	1,575.5	3,213.0	2,681.1	499.3	637.3	**8,606.2**
Additions	-	-	-	435.4	-	**435.4**
Transfers	1.0	147.4	98.8	(277.0)	29.8	**-**
Disposals	-	(0.5)	(5.5)	-	(6.5)	**(12.5)**
At 31 March 2019	1,576.5	3,359.9	2,774.4	657.7	660.6	**9,029.1**
Depreciation						
At 1 April 2018	725.2	1,290.1	118.9	-	422.3	**2,556.5**
Charge for the year	40.9	126.3	36.9	-	52.9	**257.0**
Disposals	-	(0.5)	(5.5)	-	(6.5)	**(12.5)**
At 31 March 2019	766.1	1,415.9	150.3	-	468.7	**2,801.0**
Net book amount						
At 31 March 2019	**810.4**	**1,944.0**	**2,624.1**	**657.7**	**191.9**	**6,228.1**
At 31 March 2018	850.3	1,922.9	2,562.2	499.3	215.0	6,049.7

Freehold land is stated at a cost of £51.7 million at 31 March 2019 and 31 March 2018 and is not depreciated.

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

Included within additions above is £21.9 million (2018: £16.7 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 £191.8 million (2018: £177.3 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:

	2019 £m	2018 £m
Net book amount at 31 March	**2.9**	4.5

All assets held under finance leases relate to vehicles and are included in the asset class of 'Other' disclosed in the above table.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

15 Other non-current assets

	Company 2019 £m	Company 2018 £m
Amounts owed by group undertakings	**1,016.6**	1,016.6
Impairment	**(779.7)**	-
Amounts owed by group undertakings	**236.9**	1,016.6

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 loss disclosed above.

16 Investments

	Group 2019 £m	Group 2018 £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 2019 £m	Company 2018 £m
Greensands Europe Limited		
At 1 April	**1.0**	1.0
Impairment	**(1.0)**	-
Total investments at 31 March	**-**	1.0

A full list of subsidiaries is disclosed in note 36. Please refer to note 7 for further details surrounding the impairment loss disclosed above.

17 Inventories

	Group 2019 £m	Group 2018 £m
Raw materials	**4.0**	2.5
Work in progress	**0.7**	0.4
	4.7	2.9

The increase in raw materials represents additional chemical stocks held at year end as part of the company's Brexit preparations.

The company does not hold any inventory.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

18 Trade and other receivables

	Group 2019 £m	Group 2018 Restated* £m
Trade receivables	**299.1**	273.6
Provision for impairment	**(185.8)**	(177.4)
Net trade receivables	**113.3**	96.2
Net accrued income	**71.9**	71.6
Prepayments	**23.6**	20.2
Other receivables	**18.9**	21.3
	227.7	209.3

* The prior year has been restated to show accrued income net of the related provision for impairment of trade receivables (previously included within net trade receivables).

Accrued income as at 31 March 2019 includes water and sewerage income not yet billed of £58.3 million (2018: £53.3 million).

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 2019 £m	Group 2018 £m
At 1 April	**(180.0)**	(123.3)
Amounts reinstated	**-**	(34.6)
Impairment charge	**(10.7)**	(21.8)
Impairment charge for non-household receivables	**-**	(2.1)
Amounts written off during the year	**2.0**	1.8
At 31 March	**(188.7)**	(180.0)

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

The Group does not include in revenue and trade receivables those accounts that are deemed irrecoverable.

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

	Group 2019 £m	Group 2018 £m
Current	**0.3**	0.2
1-2 years	**0.2**	0.3
2-3 years	**0.3**	0.5
3-4 years	**0.4**	0.5
more than 4 years	**0.6**	0.7
	1.8	2.2

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

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 2019 £m	Group 2018 £m
Current	**75.9**	72.0
1-2 years	**47.1**	47.3
2-3 years	**38.9**	37.0
3-4 years	**31.3**	28.5
more than 4 years	**73.9**	58.4
	267.1	243.2

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

At 31 March 2019	**Gross £m**	**Provision £m**	**Group Net £m**
Accrued income – not due	**74.8**	**(2.9)**	**71.9**
Trade receivables			
Not due	**30.2**	**-**	**30.2**
Overdue not specifically provided	**267.1**	**(184.0)**	**83.1**
Overdue and specifically provided	**1.8**	**(1.8)**	**-**
	373.9	**(188.7)**	**185.2**

At 31 March 2018 (restated*)	Gross £m	Provision £m	Group Net £m
Accrued income – not due	74.2	(2.6)	71.6
Trade receivables			
Not due	28.2	-	28.2
Overdue not specifically provided	243.2	(175.2)	68.0
Overdue and specifically provided	2.2	(2.2)	-
	347.8	(180.0)	167.8

* The prior year has been restated to include accrued income net of the related impairment provision (previously the impairment provision was included wholly within net trade receivables)

The company does not have any trade receivables.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

19 Trade and other payables

	Group 2019 £m	Group Restated* 2018 £m
Trade payables	**18.1**	21.0
Capital creditors and capital accruals	**114.2**	107.1
Corporation tax	**0.1**	0.1
Other taxation and social security	**2.6**	2.8
Accruals	**196.3**	184.2
Deferred revenue	**35.7**	44.6*
	367.0	359.8

* Deferred revenue in the prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

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

	Company 2019 £m	Company 2018 £m
Amounts owed to group undertakings	**32.0**	32.0
	32.0	32.0

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

20 Current borrowings

	Group 2019 £m	Group 2018 £m
Current		
Obligations under finance leases	**0.2**	0.7
Revolving credit facilities	**198.0**	-
Loans and other borrowings - Class A £300m – 6.135% fixed rate 2019	**300.0**	299.6
Loans and other borrowings - £250m 8.500% Fixed Rate Notes 2019	**250.0**	-
Premium deferred on issue	**0.7**	0.7
Deferred gilt lock proceeds (note 21 (ix))	**0.1**	0.1
Unamortised debt issuance costs (note 21 (vii))	**(1.5)**	(1.5)
	747.5	299.6

The Class A £300 million bond was repaid on 1 April 2019.

Further descriptions about the above items are given in note 21 ‘Non-current borrowings’.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

21 Non- current borrowings

An analysis of the external loans is shown below:

Loans and other borrowings:	Notes	Group 2019 £m	Group 2018 £m
Class A £350m 6.192% fixed rate 2029	21(i),(ii),(iii)	**375.0**	376.9
Class A £150m 3.706% index linked 2034	21(iii),(iv)	**275.3**	267.7
Class A £35m 3.706% index linked 2034	21(iii),(iv)	**64.3**	62.6
Class A £350m 6.640% fixed rate 2026	21(i),(ii)	**370.7**	373.0
Class A £150m 3.816% index linked 2023	21(iii),(iv)	**247.6**	241.9
Class A £350m 5.000% fixed rate 2021	21(i),(ii)	**349.0**	348.6
Class A £150m 5.000% fixed rate 2041	21(i),(ii)	**145.9**	145.8
Class A £200m 4.500% fixed rate 2052	21(i),(ii)	**197.2**	197.2
Class A £300m 5.125% fixed rate 2056	21(i),(ii)	**292.8**	292.7
Class A £300m 6.125% fixed rate 2019	20,21(i),(ii)	**300.0**	299.6
Class A £175m 2.780% fixed rate 2031	21(ii)	**174.0**	173.9
Class A £75m 2.960% fixed rate 2036	21(ii)	**74.6**	74.5
Class A £60m – 0.000% index linked 2025	21(iv),(x)	**61.1**	64.6
Class A £40m - 0.000% index linked 2026	21(iv),(xi)	**43.7**	42.5
Artesian £165m 4.076% index linked 2033	21(iii),(iv)	**307.7**	299.6
Artesian £156.5m 3.635% index linked 2032	21(iv)	**241.5**	233.9
Total Class A debt		**3,520.4**	3,495.0
Revolving credit facilities		**198.0**	-
Class B £250m 4.500% fixed rate 2038	21(ii),(v)	**-**	248.9
£250m 8.500% Fixed Rate Notes 2019	21(ii)	**250.0**	249.4
£125m Facility Agreement 2022 – Libor plus 3.250%	21(vi)	**122.6**	121.8
£75m Facility Agreement 2025 – Libor plus 4.000%	21(vi)	**73.3**	73.1
£150m Facility Agreement 2025 – Libor plus 5.250%	21(vi)	**146.3**	-
£100m Facility Agreement 2026 – Libor plus 5.250%	21(vi)	**97.5**	-
£50m Facility Agreement 2025 – Libor plus 2.500%	21(vi)	**49.5**	-
£175m Facility Agreement 2025 – fixed rate 3.930%	21(ii)	**173.7**	-
£25m Facility Agreement 2025 – fixed rate 3.650%	21(ii)	**24.7**	-
£75m Facility Agreement 2028 – fixed rate 3.940%	21(ii)	**74.1**	-
£52m Facility Agreement 2030 – fixed rate 4.030%	21(ii)	**51.4**	-
£35.3m Facility Agreement 2023 – fixed rate 3.384%	21(ii),(xii)	**34.9**	-
£19.6m Facility Agreement 2025 – fixed rate 3.681%	21(ii),(xii)	**19.3**	-
£19.6m Facility Agreement 2028 – fixed rate 4.020%	21(ii),(xii)	**19.4**	-
Eurobonds 12.000% 2038 (note 35)	21(xiii)	**1,250.9**	1,116.9
Term Facility Agreement 2017 £150m – 6-month Libor plus 1.550% 2022		**-**	150.0
Unamortised debt issuance costs	21(vii)	**(168.7)**	(176.6)
Bond premium deferred on issue	21(viii)	**8.8**	9.5
Deferred gilt lock proceeds	21(ix)	**4.8**	4.9
Obligations under finance leases		**1.0**	1.6
Total borrowings		**5,951.9**	5,294.5
Current borrowings	20	**747.5**	299.6
Non-current borrowings		**5,204.4**	4,994.9

	Company 2019 £m	Company 2018 £m
Loans from group undertakings	**59.2**	59.2

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

21 Non-current borrowings (continued)

Class A and Class B loans (now repaid – see note (v) below) 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 £34.7 million (2018: £38.8 million) has been taken to the income statement as part of finance costs.

(v) The Class B £250 million was repaid on 18 February 2019.

(vi) Floating rate funds have been recognised net of associated issue costs and are being carried at amortised cost using the effective interest rate method.

(vii) Unamortised debt issuance costs represent issue fees paid by SWSF and SWC 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 2019 unamortised debt issuance costs amounted to £168.7 million (2018: £176.6 million) of which £1.5 million (2018: £1.5 million) represents the short-term amount which is disclosed separately in note 20.

In addition to the above, swap break costs are included within this balance. These costs 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.

(viii) 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.

(ix) 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.

(x) The Class A £60 million loan is index-linked with an interest rate of 0.00% until 2025.

(xi) The Class A £40 million loan is index-linked with an interest rate of 0.00% until 2026.

(xii) 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.

(xiii) The Eurobond loan includes £891.1 million of accrued interest (2018: £757.1million). Compound interest is charged at 12%. No interest was paid in the current or prior year.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

21 Non-current borrowings (continued)

Repayments fall due as follows:	2019 £m	2018 £m
Borrowings excluding finance leases:		
Between one and two years not by instalments	**348.2**	248.6
Between two and five years not by instalments	**391.0**	1,096.8
After five years not by instalments	**4,464.4**	3,648.5
	5,203.6	4,994.0
On demand or within one year not by instalments	**747.3**	298.9
	5,950.9	5,292.9
Finance leases:		
Between one and two years not by instalments	**0.1**	0.1
Between two and five years not by instalments	**0.7**	0.8
After five years not by instalments	**-**	-
	0.8	0.9
On demand or within one year not by instalments	**0.2**	0.7
	1.0	1.6
Borrowings including finance leases:		
Between one and two years not by instalments	**348.3**	248.7
Between two and five years not by instalments	**391.7**	1,097.6
After five years not by instalments	**4,464.4**	3,648.5
	5,204.4	4,994.9
On demand or within one year not by instalments	**747.5**	299.6
	5,951.9	5,294.5

It is the group's policy to lease its commercial vehicles under finance leases. Obligations under finance leases comprise optional residual value balloon payments due on vehicle leases 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.

The average lease term is five years.

For the year ended 31 March 2019, the average effective borrowing rate on leases was 4.17% (2018: 4.61%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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 2019

22 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 2019 and 31 March 2018.

Financial assets and liabilities by category	**Group 2019 £m**	**Company 2019 £m**	Group 2018 £m	Company 2018 £m
Financial assets				
Derivative financial instruments designated as FVTPL*				
- Non-current	**46.2**	**-**	0.3	-
- Current	**-**	**-**	3.9	-
Held to maturity investments				
- Non-current	**0.1**	**-**	0.1	1.0
Trade and other receivables				
- Current (excluding prepayments)	**204.1**	**-**	189.1	-
Cash and cash equivalents				
- Current	**514.8**	**-**	287.3	-
Total financial asset	**765.2**	**-**	480.7	1.0
Financial liabilities				
Derivative financial instruments designated as FVTPL*				
- Non-current	**1,429.0**	**-**	1,292.2	-
Borrowings				
- Current	**747.5**	**-**	299.6	-
- Non-current	**5,204.4**	**59.2**	4,994.9	59.2
Trade and other payables				
- Current	**367.0**	**32.0**	359.8	32.0
Total financial liabilities	**7,747.9**	**91.2**	6,946.5	91.2

*Fair value through profit and loss.

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

Derivative financial instruments	**Group 2019 Assets £m**	**Group 2019 Liabilities £m**	Group 2018 Assets £m	Group 2018 Liabilities £m
Derivative financial instruments not designated as hedges:				
Interest rate swaps	**0.1**	**-**	4.2	(10.8)
RPI swaps	**46.1**	**(1,428.2)**	-	(1,281.4)
Cross currency swaps	**-**	**(0.8)**	-	-
Total derivative financial instruments	**46.2**	**(1,429.0)**	4.2	(1,292.2)
Derivative financial instruments can be analysed as follows:				
Current	**-**	**-**	3.9	-
Non-current	**46.2**	**(1,429.0)**	0.3	(1,292.2)
	46.2	**(1,429.0)**	4.2	(1,292.2)

The notional principal amount of the outstanding interest swap contracts at 31 March 2019 was £1,518.2 million (2018: £1,775.7 million).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

22 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:

	Group 2019 %	Group 2018 %
By class of debt (all classed as financial liabilities)		
Class A	**4.70**	4.73
Class B	**-**	4.74
Artesian	**1.90**	1.96
Greensands	**3.63**	6.73

The weighted average interest costs at the statement of financial position dates were as follows:

	Group 2019 %	Group 2018 %
Fixed	**7.80**	8.40
Floating	**2.70**	3.51
Indexed	**4.81**	3.40

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 on-going Brexit negotiations and other political matters such as re-nationalisation of the water sector will increase uncertainty around these risk areas in the short term.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

22 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 2019**	Group 2018 (restated)
1% increase in interest rate	**(29.7)**	(27.1)
1% decrease in interest rate	**29.7**	27.1

The prior year numbers have been restated to just reflect just variable rates.

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 2019**	Group 2018
1% increase in RPI	**(22.6)**	(21.4)
1% decrease in RPI	**22.6**	21.4

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 10.

ii) Maturity of financial liabilities and financial instruments

The maturity profile of the Group's financial liabilities at 31 March 2019 and 31 March 2018 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 2019					
Derivative financial instruments – asset	**-**	**0.1**	**7.3**	**38.8**	**46.2**
Derivative financial instruments – liability	**-**	**(0.2)**	**(719.5)**	**(709.3)**	**(1,429.0)**
	-	**(0.1)**	**(712.2)**	**(670.5)**	**(1,382.8)**

	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 2018					
Derivative financial instruments – asset	3.9	0.3	-	-	4.2
Derivative financial instruments – liability	-	(169.7)	(503.0)	(619.5)	(1,292.2)
	3.9	(169.4)	(503.0)	(619.5)	(1,288.0)

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

22 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 2019 and 2018.

	Group 2019 Book value £m	**Group 2019 Fair value £m**	Group 2018 Book value £m	Group 2018 Fair value £m
Financial assets				
Cash and cash equivalents	**514.8**	**514.8**	287.3	287.3
Current derivatives – interest rate swaps	**-**	**-**	3.9	3.9
Non-current asset investments	**0.1**	**0.1**	0.1	0.1
Non-current derivatives – interest rate swaps	**0.1**	**0.1**	0.3	0.3
Non-current derivatives – RPI swaps	**46.1**	**46.1**	-	-
	561.1	**561.1**	291.6	291.6
Financial liabilities				
Current borrowings	**(747.5)**	**(747.5)**	(299.6)	(319.4)
Non-current borrowings	**(5,204.4)**	**(6,091.8)**	(4,994.9)	(5,989.8)
Non-current derivatives – interest rate swaps	**-**	**-**	(10.8)	(10.8)
Non-current derivatives - RPI swaps	**(1,428.2)**	**(1,428.2)**	(1,281.4)	(1,281.4)
Non-current derivatives – cross currency swaps	**(0.8)**	**(0.8)**	-	-
	(7,380.9)	**(8,268.3)**	(6,586.7)	(7,601.4)

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.

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.

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.

For interest rate swap agreements the fair value has been estimated based on market valuations at the statement of financial position dates.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

22 Financial instruments (continued)

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.

23 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 2017	543.4	(220.1)	(30.7)	8.3	300.9
charge/(credit) to income statement	1.6	19.5	(0.2)	4.7	25.6
Charge to other comprehensive income	-	-	1.7	-	1.7
At 1 April 2018	545.0	(200.6)	(29.2)	13.0	328.2
(Credit)/charge to income statement	(5.7)	(27.2)	1.6	(2.4)	(33.7)
Prior year adjustment					
Charge to income statement	1.9	-	-	-	1.9
Credit to other comprehensive income	-	-	(4.1)	-	(4.1)
At 31 March 2018	**541.2**	**(227.8)**	**(31.7)**	**10.6**	**292.3**

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:

	2019 £	2018 £
Deferred tax liabilities	**541.1**	545.0
Deferred tax assets	**(248.8)**	(216.8)
	292.3	328.2

The deferred tax liability shows that the balance is made up of a 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 £5.6m (2018: £5.6m) with a deferred tax asset of £0.9m (2018: £0.9m). 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 £171.0m (2018: £171.0m) 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

24 Retirement benefit obligations

The deficit associated with retirement benefit obligations has increased to £186.7 million (2018: 171.7million). The main reason for the increase in the deficit over the year is a decrease in the yields on AA-rated corporate bonds (this has decreased the discount rate used to calculate the value placed on the pension scheme liabilities, reducing the surplus in the pension scheme) and the estimated impact of GMP equalisation.

This has been partially offset by asset returns being higher than expected over the year (resulting in a higher value being placed on assets as at 31 March 2019), a small reduction in life expectancy and group contributions.

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 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. We are currently in regular dialogue with the Trustees and also in ongoing discussions and correspondence with the Pension Regulator regarding the current deficit and the Board are keen to agree a reasonable resolution of a long-term funding solution for the scheme.

   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 2019

24 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 2019 amounted to £3.9 million (2018: £3.0 million). No contributions were outstanding at either year-end.

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 2016 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 valuation for 31 March 2019 is due to be completed in November 2019.

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:

	2016 **SWPS** % per annum (pa)
Return on investments: pre-retirement	FI Gilt curve + 65 bps
Return on investments: post-retirement (pensioner/non-pensioner)	
Salary growth	2.50%
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% pa)	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 2016 actuarial valuation.

The assets of the scheme had a market value of £672.8 million at 31 March 2016. This was sufficient to cover 73% of the scheme's benefits. The weighted average duration of the scheme liabilities is 21 years.

The timing and quantum of future contributions in relation to the deficit have now been agreed with the Trustees and Pensions Regulator. These contributions will be dependent on future levels of RPI, but if market breakeven rates are borne out at 31 March 2016 the expected base deficit contributions will be paid annually and total £223.5 million over the next 12 years. The first payment was made in November 2018.

Expected employer and employee contributions to the defined benefit scheme for 2019-20 are £23.7 million (2017-18 £5.6 million) and £0.1 million (2017-18 £0.2 million) respectively under the current Schedule of Contributions.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

24 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.

	2019	2018
	% pa	% pa
Price inflation (RPI)	**3.2**	3.2
Price inflation (CPI)	**2.2**	2.2
Rate of increase in salaries (plus an age-related promotional scale)	**2.4**	2.4
Rate of increase of pensions in payment (MIS* members only)***	**2.2**	2.2
Rate of increase of pensions in payment (Old section** members only)***	**3.2**	3.2
Rate of increase of pensions in payment (all other members)***	**3.1**	3.1
Rate of increase for deferred pensions (MIS* members only)***	**2.2**	2.2
Rate of increase for deferred pensions (all other members)***	**3.1**	3.1
Discount rate	**2.4**	2.7

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

** For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the scheme.

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

Assumptions regarding future mortality experience are set based on advice, published statistics and experience. For 2018–19, the company has used the post-retirement mortality assumptions based on the standard SAPS mortality tables together with future improvements in line with CMI 2018 improvements with a long-term improvement rate of 1.25% per annum.

	2019	2018
	Years	Years
Longevity at age 65 for current pensioners		
Male	**22.3**	22.4
Female	**24.0**	24.1
Longevity at age 65 for future pensioners		
Male	**23.7**	23.7
Female	**25.6**	25.5

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

24 Retirement benefit obligations (continued)

The assets and liabilities in the scheme and the expected rates of return at 31 March 2019 and 31 March 2018 were:

	Value at 2019 £m	Value at 2018 £m
Equities	**241.5**	207.9
Government bonds	**181.8**	176.8
Non-government bonds	**313.7**	339.4
Cash	**18.8**	12.6
Total market value of plan assets	**755.8**	736.7
Total value of plan liabilities	**(942.5)**	(908.4)
Accrued deficit in the plan	**(186.7)**	(171.7)
Related deferred tax asset	**29.2**	29.2
Net retirement benefit obligations	**(157.5)**	(142.5)

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price.

Reconciliation of the present value of the scheme liabilities	**2019 £m**	2018 £m
At 1 April	**908.4**	919.8
Current service cost	**6.2**	6.7
Past service cost	**1.8**	-
Interest expense	**24.1**	25.3
Member contributions	**0.1**	0.2
Experience (loss)/gain on liabilities	**(3.3)**	5.3
Actuarial gain/(loss) on liabilities:		
- due to changes in demographic assumptions	**55.6**	2.7
- due to changes in financial assumptions	**(13.7)**	(13.9)
Benefits paid	**(36.7)**	(37.7)
Scheme liabilities at 31 March	**942.5**	908.4

Sensitivity analysis of the scheme liabilities

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

	Change in assumption	**Impact on scheme liabilities (%)**	**Impact on scheme liabilities (£m)**
Discount rate	+/- 0.1%	-/+ 2	-/+ 19
Price inflation (RPI measure)*	+/- 0.1%	+/- 2	+/- 15
Mortality	+/- 1yr	+/- 4	+/- 37

* These movements have been calculated assuming that changes in the inflation assumption have a knock-on effect on the pension increase and salary growth assumptions (i.e. the ‘real’ increase rates are maintained).

The above sensitivity analysis is based on a change in an assumption 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 2019

24 Retirement benefit obligations (continued)

Reconciliation of the value of the scheme assets	2019 £m	2018 £m
At 1 April	736.7	742.9
Interest income	19.7	20.4
Gain on assets above interest	14.4	3.9
Employer contributions	21.6	7.0
Member contributions	0.1	0.2
Benefits paid	(36.7)	(37.7)
Bid value of scheme assets at 31 March	**755.8**	736.7

The total return on scheme assets was £34.0 million (2018: return of £24.3 million).

Total cost recognised as an expense	2019 £m	2018 £m
Current service cost	6.2	6.7
Past service cost	1.8	-
Net interest cost	4.4	4.9
Total income statement expense before deduction for tax	**12.4**	11.6

Analysis of the amounts recognised in other comprehensive income	2019 £m	2018 £m
Actual return less expected return on pension scheme assets	14.4	3.9
Experience gain/loss arising on scheme liabilities	3.3	(5.3)
Loss due to changes in demographic assumptions	(55.6)	(2.7)
Gain due to changes in financial assumptions	13.7	13.9
Total (loss)/gain recognised in OCI before adjustment for tax	**(24.2)**	9.8

The cumulative amount of actuarial losses recognised in other comprehensive income is £279.4 million (2018: £255.1 million).

Analysis of the movement in the scheme deficit during the year	2019 £m	2018 £m
Deficit in the scheme at 1 April	(171.7)	(176.9)
Employer's contributions	21.6	7.0
Employer's current service cost	(6.2)	(6.7)
Employer's past service cost	(1.8)	-
Financing charge	(4.4)	(4.9)
Actuarial (loss)/gain	(24.2)	9.8
Deficit in the scheme at end of year	**(186.7)**	(171.7)

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

25 Regulatory settlement liability

	2019 **£m**	2018 £m
At 1 April	**-**	-
Increase in year	**138.5**	-
At 31 March	**138.5**	-

Included in:	**2019** **£m**	2018 £m
Current liabilities	**3.0**	-
Non-current liabilities	**135.5**	-
	138.5	-

Southern Water has been co-operating with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works. That investigation has resulted in Ofwat taking enforcement action. Notice of Ofwat's intention to issue Southern Water with a financial penalty amounting to £3.0 million has been published on its website. To ensure that its customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in outturn prices (£129.9 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. Southern Water will be giving a number of formal undertakings to Ofwat in relation to the numerous measures it has put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

26 Provisions for liabilities

Environmental obligations	**2019** **£m**	2018 £m
At 1 April	**3.4**	0.5
Utilised in year	**(0.1)**	-
Increase in year	**3.3**	2.9
At 31 March	**6.6**	3.4

Included in:	**2019** **£m**	2018 £m
Current liabilities	**1.2**	-
Non-current liabilities	**5.4**	3.4
	6.6	3.4

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and environmental commitments made for ecology work following the South Hampshire abstraction inquiry. No reimbursement is expected.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

27 Other non-current liabilities

	Deferred revenue £m	Grants & contributions Restated* £m	Group total £m
At 1 April 2018	13.8	12.8	26.6
Receivable in year	-	2.3	2.3
Released to income statement	(0.4)	(1.1)	(1.5)
At 31 March 2019	**13.4**	**14.0**	**27.4**

* Grants and contributions in the prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

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

Deferred revenue of £13.4 million (2018: £13.8 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.

28 Called up share capital

	Group and Company 2019 £m	Group and Company 2018 £m
Authorised, allotted, called up and fully paid 921,874,025 Ordinary shares of £1 each	**921.9**	921.9

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

29 Share premium account

	Group and Company 2019 £m	Group and Company 2018 £m
Share premium account	**4.5**	4.5

30 Non-distributable reserve

	Group 2019 £m
Balance at 1 April 2017 (restated)*	24.1
Profit for the financial year	23.7
Transfer to retained earnings	(1.1)
Balance at 1 April 2018 (restated)*	46.7
Profit for the financial year	8.5
Transfer to retained earnings	(1.4)
Balance at 31 March 2019	**53.8**

* 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 2019

31 Retained earnings

	Group 2019 £m
Balance at 1 April 2017 (restated)*	(1,700.3)
Loss for the financial year (restated)*	(58.7)
Other comprehensive income for the year	8.1
Transfer from non-distributable reserve (restated)*	1.1
Balance at 1 April 2018 (restated)*	(1,749.8)
Loss for the financial year	(458.8)
Other comprehensive loss for the year	(20.1)
Transfer from non-distributable reserve	1.4
Balance at 31 March 2019	**(2,227.3)**

* The prior year has been restated for the transition to IFRS 15 as explained in note 3 to the financial statements.

	Company 2019 £m	Company 2018 £m
Result for the financial year	**(780.7)**	-
Balance at 31 March	**(780.7)**	-

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

32 Notes to the cash flow statement

	2019 £m	2018 *Restated £m
Continuing operations		
Operating profit	**108.5**	254.4
Adjustments for:		
Fair value of sewer adoptions	**(8.5)**	(23.7)
Depreciation of property, plant and equipment	**257.0**	251.9
Amortisation of intangible assets	**22.3**	15.0
Difference between pension charge and cash contributions	**(13.7)**	(0.3)
Amortisation of grants and contributions	**(1.1)**	(1.0)
Operating cash flows before movements in working capital	**364.5**	496.3
Increase in inventories	**(1.8)**	(0.2)
Increase in receivables	**(21.0)**	(22.2)
Increase/(Decrease) in payables	**8.9**	(6.3)
Increase in regulatory settlement liability	**138.5**	-
Increase in environmental provisions	**3.2**	2.9
Cash from operations	**492.3**	470.5
Tax paid	**(0.1)**	(0.1)
Net cash from operating activities	**492.2**	470.4

Cash and cash equivalents	**2019 £m**	2018 £m
Cash and bank balances	**514.8**	287.3

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. 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 2019

32 Notes to the cash flow statement (continued)

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 2018 £m**	**Cash flow £m**	**Fair value adjust-ments £m**	**New finance leases £m**	**Other non-cash changes £m**	**At 31 March 2019 £m**
Cash and cash equivalents	287.3	227.5	-	-	-	**514.8**
Liabilities from financing activities:						
Term facilities/index linked loans (note 21)	(5,292.9)	(478.6)	(172.0)	-	(7.4)	**(5,950.9)**
Finance lease liabilities (note 21)	(1.6)	0.6	-	-	-	**(1.0)**
Interest rate swaps (note 22)	(1,288.0)	122.5	(217.3)	-	-	**(1,382.8)**
Total liabilities from financing activities	(6,582.5)	(355.5)	(389.3)	-	(7.4)	**(7,334.7)**
Net debt	(6,295.2)	(128.0)	(389.3)	-	(7.4)	**(6,819.9)**

Other non-cash changes of (£7.4) million relate to amortisation of loan issue costs, gilt lock proceeds and deferred proceeds. Bank loan fair value movements include Eurobond interest, indexation and effective interest.

Balances at 31 March 2019 comprise:	**Non-current assets £m**	**Current assets £m**	**Current liabilities £m**	**Non-current liabilities £m**	**Total £m**
Cash and cash equivalents	-	514.8	-	-	**514.8**
Derivative financial instruments	46.2	-	-	(1,429.0)	**(1,382.8)**
Unamortised debt issuance costs	-	-	1.5	167.2	**168.7**
Gilt lock proceeds	-	-	(0.1)	(4.7)	**(4.8)**
Borrowings due within one year	-	-	(748.7)	-	**(748.7)**
Borrowings due after one year	-	-	-	(5,366.1)	**(5,366.1)**
Finance leases	-	-	(0.2)	(0.8)	**(1.0)**
Net debt	46.2	514.8	(747.5)	(6,633.4)	**(6,819.9)**

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).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

33 Contingent liabilities

Environment Agency

As noted on page 23 in addition to the Ofwat settlement Southern Water faces investigations from the Environment Agency regarding the performance of certain wastewater sites and the reporting of relevant compliance information. Southern Water is working proactively with the Agency to resolve its investigations which are still evolving. Having considered the matter carefully the Southern Water Board has concluded that it is not possible to make a reliable estimate for any obligation that may arise from these investigations for the following reasons:

- The uncertainty of the nature and rectitude of any charges;
- The uncertainty of the basis for any offence i.e. what level of culpability will be alleged and what level of culpability would be the basis for sentence (culpability being one of the key criteria that determines the level of fine);
- The uncertainty regarding the environmental harm risked by the commission of any offence i.e. what likelihood of harm will be alleged and what likelihood of harm would be the basis for sentence (likelihood of environmental harm being one of the key criteria that determines the level of fine).

Southern Water's board has taken these investigations extremely seriously and have continued to monitor and support the work of its Risk and Compliance directorate, who have continued to deliver a programme of improvements to Southern water's non-financial regulatory reporting including the collection, verification, reporting and assurance of data. Further information on this can be found in Southern Water's Final Assurance Plan 2019, which is available on its website **southernwater.co.uk/our-reports**.

Other contingent liabilities

Companies of the size and scale of Southern Water Services Limited, the group's operating company, are sometimes subject to a number of claims, disputes and potential litigation. The significant ones currently include ongoing investigations by regulatory bodies (the EA and DWI) as well as a potential claim in respect of property search income. 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.

Following the South Hampshire abstraction inquiry, Southern Water Services Limited has committed to undertake certain environmental work on the rivers Itchen, Test and Candover Stream between 2018 and 2030. A provision has been made in the accounts of 2018–19 in relation to costs of the ecology work associated with this agreement and further details are disclosed in note 26 to the accounts. Certain compensatory costs may become due in the future, subject to conditions at that time and the impact of the ecology work undertaken. These have not been provided for and could increase the obligation by approximately £2 million.

Contractors submit claims to the operating company 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 year-end (2018: £nil).

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

34 Financial commitments

(a) Capital commitments are as follows:

	2019 £m	2018 Restated £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	**615.2**	516.5
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	**15.8**	14.6

(b) The group as lessee

	2019 £m	2018 £m
Lease payments under operating leases recognised as an expense in the year	**4.4**	4.5

As at 31 March 2019 and 2018, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of vehicles and land and buildings for which the payments fall due as follows:

	Land and buildings		Other	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within one year	**1.7**	1.7	**-**	0.1
In the second to fifth years inclusive	**7.0**	7.0	**-**	-
After five years	**11.4**	13.2	**-**	-
	20.1	21.9	**-**	0.1

Operating leases are charged to the income statement over the lease term.

Operating lease payments represent rentals payable by the group for certain of its office properties and group vehicles.

Commercial vehicle leases are negotiated for an average term of five years, and rentals are fixed for an average of five years, with an option to extend on an ad hoc basis at the then prevailing market rate.

Notes to the consolidated financial statements (continued)

For the year ended 31 March 2019

35 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. At 31 March 2019, the largest shareholder in Greensands Holdings Limited is an institutional investment company advised by JP Morgan Asset Management.

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

	2019 £m	2018 £m
Eurobond interest		
IIF Int'l SW UK Investment Ltd	**41.9**	37.3
Phildrew Nominees Ltd	**27.3**	24.3
National Nominees Ltd	**10.4**	9.2
Sky Brace Investments Ltd	**6.4**	5.7
Sumaya Investments Ltd	**6.4**	5.7
Falkirk Council - Falkirk Council Pension Fund	**0.5**	0.5
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	**1.5**	1.4
Hermes Infrastructure Fund LP	**28.1**	25.0
SW Holdings LP	**2.6**	2.3
Simcoe Yeoman Water Ltd	**8.9**	7.9
Total Eurobond interest payable to related parties	**134.0**	119.3
Loans and other borrowings greater than one year:		
Eurobonds – Shareholder loans		
IIF Int'l SW UK Investment Ltd	**112.4**	112.4
Phildrew Nominees Ltd (UBS IIF)	**20.1**	20.1
Phildrew Nominees Ltd (UBS IINF)	**2.8**	2.8
Phildrew Nominees Ltd (UBS II4F)	**22.2**	22.2
Phildrew Nominees Ltd (UBS IIUSTEF)	**11.1**	11.1
Phildrew Nominees Ltd (UBS IIF (A) LP)	**5.2**	5.2
Phildrew Nominees Ltd (UBS IIF (B) LP)	**6.9**	6.9
Phildrew Nominees Ltd (UBS IIF (C) LP)	**5.0**	5.0
National Nominees Ltd - Motor Trades Association of Australia Super Fund	**21.4**	21.4
National Nominees Ltd – Prime Super	**6.5**	6.5
Sky Brace Investments Ltd	**17.1**	17.1
Sumaya Investments Ltd	**17.1**	17.1
Falkirk Council - Falkirk Council Pension Fund	**1.4**	1.4
The City of Edinburgh Council – Lothian Pension Fund and Lothian Buses Pension Fund	**4.1**	4.1
Hermes Infrastructure Fund LP	**14.0**	14.0
Hermes Infrastructure Fund Spring I LP	**7.8**	7.8
Hermes Infrastructure Fund Spring II LP	**46.0**	46.0
Hermes Infrastructure Fund Spring III LP	**7.8**	7.8
SW Holdings LP	**7.0**	7.0
Simcoe Yeoman Water Ltd	**23.9**	23.9
Accrued interest	**891.1**	757.1
Total Eurobonds – Shareholder loans	**1,250.9**	1,116.9

The Eurobonds are issued by Greensands Europe Limited to the shareholders of its ultimate parent company, Greensands Holdings Limited. Interest is accrued on these bonds at a compound interest rate of 12%.

Other transactions:
One of the non-executive directors of the operating company, Southern Water Services Ltd (SWS), has declared their directorship in a company that provided advice in relation to cyber security to the members of the SWS board. The value of the transaction was £2,617 and the amount outstanding as at 31 March 2019 was £nil.

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

36 Subsidiaries

As at 31 March 2019 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
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

Notes to the consolidated financial statements (continued)
For the year ended 31 March 2019

36 Subsidiaries (continued)

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

All of the above subsidiary companies are wholly-owned by ordinary shares and incorporated within the United Kingdom unless stated otherwise.

37 Post balance sheet events

On 15 April 2019 one of the group companies Southern Water (Greensands) Financing Plc (SWGF), repaid a bond of £250m (8.5% Guaranteed Secured Fixed Rate Notes). This has been disclosed as borrowings falling due within one year (see note 20).

On 8 April 2019 SWGF entered into another loan facility agreement for £250m to replace the matured bond mentioned above. This facility matures on 31 October 2025 and interest is paid at a rate of six month Libor plus a margin of 5.25%.

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 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been properly prepared in accordance the Companies (Jersey) Law 1991.

We have audited the financial statements of Greensands Holdings Limited (the 'parent company') and its subsidiaries (the 'Group') which comprise:
- the consolidated income statement
- the consolidated statement of other comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 Greensands Holdings Limited in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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.

Emphasis of matter – contingent liability in respect of regulatory investigations
We draw attention to notes 2 (iv) and 33 in the financial statements concerning the uncertain outcome of the investigation from the Environment Agency regarding the performance of certain wastewater sites and the reporting of relevant compliance information. Having considered the matter carefully the Board has concluded that it is not possible to make a reliable estimate for any obligation that may arise from these investigations. As the ultimate outcome of the matter cannot presently be determined no provision for any liability that may result has been made in the financial statements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Greensands Holdings Limited (continued)

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities, 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 Greensands Holdings Limited'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 Greensands Holdings Limited 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception
Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

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

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.

Anthony Matthews

Anthony Matthews FCA
for and on behalf of Deloitte LLP
London, United Kingdom
29 July 2019