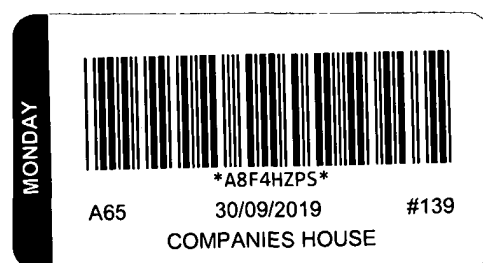


Registered Number:
05722435

SOUTH WEST WATER FINANCE PLC

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR YEAR ENDED
31 MARCH 2019**



SOUTH WEST WATER FINANCE PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2019

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SOUTH WEST WATER FINANCE PLC

STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 March 2019.

REVIEW OF THE BUSINESS

The Company acts as a financing company in raising borrowings for its immediate parent company, South West Water Limited.

The Company currently has two borrowing facilities; an indexed linked bond maturing in 2057 and a £150m loan maturing in 2040. In addition, the company has an interest rate swap in place against the 2040 bond.

The Company has not entered into any new material transactions or arrangements during the year and the activity represents a continuation of loans and borrowings established in previous years.

The results for the Company for the year show a pre-tax profit of £4,000 before non-underlying items and a pre-tax profit of £5,858,000 after non-underlying items (2017/18: £3,000 pre-tax profit before non-underlying items and £4,032,000 loss after non-underlying items) with revenue for the year of £18,219,000 (2017/18: £19,452,000). Non-underlying items are further discussed in Note 7. The profit after taxation transferred to reserves for the year was £4,863,000 (2017/18: £3,346,000 loss for the year). The Directors do not recommend the payment of a dividend (2017/18: £nil). Net assets of the Company were £17,580,000 (2017/18: £12,717,000 net assets).

EVENTS AFTER THE BALANCE SHEET DATE

Since the year end, the Company has terminated three fair value swaps with banking counterparties realising a gain in cash of £88m, which has been received in full. These funds are intended to be onward loaned to South West Water Limited in line with the Company's principal activities.

PRINCIPAL RISKS AND UNCERTAINTIES

The treasury operations of South West Water Group are managed by the Pennon Group plc treasury function. Finance raised by South West Water Finance plc for its immediate parent company, South West Water Limited, is passed on to South West Water Limited on 'back to back' identical terms. South West Water Finance plc does not engage in speculative activity, nor is it established to generate an underlying profit or loss.

The principal risk in respect of South West Water Finance plc is that South West Water Limited does not meet its obligations in respect of its borrowings with South West Water Finance plc. The principal risks and uncertainties of South West Water Limited, which could result in its inability to meet those obligations, are discussed in South West Water Limited's annual report which does not form part of this report. The South West Water Limited annual report is available online at www.southwestwater.co.uk or a copy can be requested from South West Water Limited, Peninsula House, Rydon Lane, Exeter EX2 7HR.

The Company's activities expose it to a variety of financial risks; market risk (interest rate risk), liquidity risk and credit risk in respect of individual assets and liabilities. These risks are principally mitigated by the back to back nature of the Company's assets and liabilities on a cash-flow basis, mitigating the risks on the individual instruments. The Company receives treasury services from the treasury function of Pennon Group plc, the ultimate parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk. The non-underlying fair value movements recognised in the income statement do not reflect underlying cash flows.

SOUTH WEST WATER FINANCE PLC

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS ("KPIs")

The company is considered a business unit of South West Water Limited. For that reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate to develop the understanding of the development, performance or position of South West Water Finance plc. The key performance indicators for the parent company are discussed in the South West Water Limited annual report, which does not form part of this report.

GOING CONCERN

The Company is in a net asset position and expects over the long term to break even and maintain positive cash flows each year.

Having considered the Company's funding position the nature of its relationship with its parent South West Water Limited (a regulated company with long-term sustainable business) and financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

FUTURE OUTLOOK

The Company fulfilled its principal activity during the year and the Directors are of the opinion that the Company will continue to provide South West Water Limited with financing, where appropriate, for the foreseeable future.

This strategic report was approved by the Board on 30 September 2019.

On behalf of the Board



P M Boote
Director

30 September 2019

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS

DIRECTORS

The Directors who served on the Board during the period, and up to the date of signing the financial statements were:

C Loughlin
P M Boote
L F Rowe
S A F Pugsley (appointed on 22 November 2018)
H P Barrett-Hague (resigned on 22 November 2018)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the report of the directors and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs), as adopted by the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Each of the Directors, whose names are listed on page 3, confirms that, to the best of his or her knowledge:

The financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

The Strategic report (pages 1 to 2) and the Directors' report (pages 3 to 5) include a fair review of the development and performance of the business during the year and the position of the Company at the year end, together with a description of the principal risks and uncertainties they face.

Following receipt of advice from the Audit Committee, that the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS (continued)

FUTURE DEVELOPMENTS

The likely future developments of the business are set out in the Strategic Report.

GOING CONCERN

Having considered the Company's funding position and financial projections the Directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future and considers the business model, strategy and operations are sustainable. They therefore have continued to adopt the going concern basis in preparing the financial statements.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2017/18: £nil).

DIRECTORS' INSURANCE AND INDEMNITIES

The Directors have the benefit of the indemnity provisions contained in the Company's Articles and the Company has maintained throughout the year Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its Officers. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

FINANCIAL INSTRUMENTS

The Company enters into derivatives and financial instruments, principally interest rate swaps, to hedge risks associated with interest rate fluctuations. The risks around these financial instruments are further discussed in Note 2.

CORPORATE GOVERNANCE STATEMENT

The parent company, South West Water Limited, has a well-established internal control framework which is operated and applied in relation to the process for preparing the company's financial statements and Annual Report. The framework incorporates activities and required reporting associated with South West Water Finance plc. The internal control framework is discussed in the South West Water Limited Annual Report, which does not form part of this report.

SOUTH WEST WATER FINANCE PLC

REPORT OF THE DIRECTORS (continued)

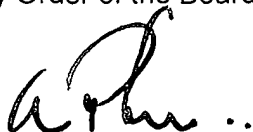
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITOR

So far as each of the Directors in office at the date of signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and

each of the Directors has taken all the steps that each Director ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 3 to 5 was approved by the Board on ~~30~~ September 2019.

By Order of the Board



S.A.F. Pugsley
Company Secretary

~~30~~ September 2019

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC

Opinion

We have audited the financial statements of South West Water Finance Plc for the year ended 31 March 2019 which comprise the Statement of Profit and Loss Account and Other Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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 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.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Overview of our audit approach

Key audit matters	We identified an inherent risk relating to the complexity of accounting for financial instruments, leading to a heightened risk of error in the valuation of financial instruments
Materiality	Overall materiality of £2.5m which represents 0.5% of total assets.

Key audit matters

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

SOUTH WEST WATER FINANCE PLC
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST
WATER FINANCE PLC (CONTINUED)

Risk	Our response to the risk	Key observations communicated to those charged with governance
<p>Accounting for financial instruments and other financial liabilities:</p> <ul style="list-style-type: none"> Listed debt (£420.306m risk, PY comparative £411.285m) Financial liabilities through profit or loss (£49.253m, PY comparative £51.596m) Derivative financial instruments (£75.694m , PY comparative £72.317m) <p><i>Refer to the Strategic Report (page 1); Accounting policies (page 15); and Note 16 of the Financial Statements (page 26)</i></p> <p>We identified an inherent risk relating to the complexity of accounting for financial instruments, leading to a heightened risk of error in the valuation of financial instruments.</p> <p>The risk has remained in line with prior year.</p>	<p>We have performed the below procedures in relation to the identified inherent risk:</p> <ul style="list-style-type: none"> We have obtained and reviewed the key terms of the agreements for the fixed-rate interest bond (£134.188m) and the index-linked bond (£286.118m) and have tied through to the client prepared schedules. We have recalculated the interest charge on the fixed-rate and index-linked bonds and we have recalculated the accretion of indexation on the index-linked bond. We have obtained and reviewed the key terms of the documentation for the financial liabilities through profit or loss and the derivative financial instruments. We have obtained counterparty confirmations supporting the existence and valuation of the derivative financial instruments as at the balance sheet date. We have performed a valuation assessment of the derivative financial instruments using market data. We have recalculated the annual amortisation credit and resulting balance sheet valuation of the financial liabilities through profit or loss. We have obtained an understanding of management's consideration of the new standard (IFRS 9 Financial Instruments) and its impact on the classification and measurement of the Company's financial instruments. 	<p>We concluded that the financial instruments and other financial liabilities have been appropriately classified and accounted for in accordance with IFRS 9.</p>

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £2.496 million (2017/18: £2.434 million), which is 0.5% (2017/18: 0.5%) of total assets. We believe that total assets provide us with an appropriate and generally accepted benchmark for materiality for a company holding listed debt that is then onlent to another company within the same group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2017/18: 75%) of our planning materiality, namely £1.872m (2017/18: £1.826m). We have set performance materiality at this percentage due to a past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £0.124m (2017/18: £0.122m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

SOUTH WEST WATER FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are:
 - Companies Act 2006
 - Financial Reporting Council (FRC)
 - Tax Legislation (governed by HM Revenue and Customs)
- We understood how South West Water Finance plc is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the Company's legal counsel and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Financial Statements with the requirements of the relevant accounting standards and UK legislation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 31 July 2014 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods.

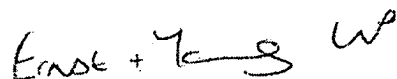
The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 March 2015 to 31 March 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

SOUTH WEST WATER FINANCE PLC INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH WEST WATER FINANCE PLC (CONTINUED)

Use of our report

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

A handwritten signature in black ink, appearing to read "Ernst + Young W", is positioned above the printed name of the auditor.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
30 September 2019

SOUTH WEST WATER FINANCE PLC
STATEMENT OF PROFIT AND LOSS ACCOUNT AND OTHER
COMPREHENSIVE INCOME
for the year ended 31 March 2019

		Before non- underlying items 2019 £000	Non- underlying items (note 7) 2019 £000	2019 £000	Before non- underlying items 2018 £000	Non- underlying items (note 7) 2018 £000	2018 £000
	Note						
Revenue	5	18,219	-	18,219	19,452	-	19,452
Operating costs	6	(18,215)	5,854	(12,361)	(19,449)	(4,035)	(23,484)
Profit/(loss) before tax		4	5,854	5,858	3	(4,035)	(4,032)
Taxation	9	-	(995)	(995)	-	686	686
Profit/(loss) and total comprehensive income for the year	19	4	4,859	4,863	3	(3,349)	(3,346)

The notes on pages 16 to 31 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2019

	Share Capital (note 18) £000	Profit attributable to equity shareholders (note 19) £000	Total Equity £000
At 1 April 2017	50	16,013	16,063
Loss attributable to owners of the parent	-	(3,346)	(3,346)
At 1 April 2018	50	12,667	12,717
Profit attributable to owners of the parent	-	4,863	4,863
At 31 March 2019	50	17,530	17,580

The notes on pages 16 to 31 form part of these financial statements.

SOUTH WEST WATER FINANCE PLC
BALANCE SHEET
at 31 March 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Derivative financial instruments	11	66,790	63,647
Loans and other receivables	12	420,306	411,285
		<u>487,096</u>	<u>474,932</u>
Current assets			
Derivative financial instruments	11	8,904	8,670
Loans and other receivables	12	3,080	3,185
Cash and cash deposits		63	60
		<u>12,047</u>	<u>11,915</u>
Current liabilities			
Financial liabilities at fair value through profit or loss	17	(3,528)	(3,160)
Other borrowings	13	(8,420)	(8,660)
Current tax liabilities	14	(3)	(3)
		<u>(11,951)</u>	<u>(11,823)</u>
Net current assets		<u>96</u>	<u>92</u>
Non-current liabilities			
Borrowings	16	(420,306)	(411,285)
Financial liabilities at fair value through profit or loss	17	(45,725)	(48,436)
Deferred tax liabilities	15	(3,581)	(2,586)
		<u>(469,612)</u>	<u>(462,307)</u>
Net assets		<u>17,580</u>	<u>12,717</u>
Equity			
Share capital	18	50	50
Retained earnings	19	17,530	12,667
Total equity		<u>17,580</u>	<u>12,717</u>

The notes on pages 16 to 31 form part of these financial statements.

The financial statements on pages 13 to 31 were approved by the Board and authorised for issue on 30 September 2019 and signed on its behalf by:



P M Boote
Director
Registered Number: 05722435

SOUTH WEST WATER FINANCE PLC
CASH FLOW STATEMENT
for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Cash generated from operations	20	9,304	8,780
Interest paid		(9,301)	(8,778)
Tax paid		-	-
Net cash generated from operating activities		<u>3</u>	<u>2</u>
Net increase in cash and cash equivalents		3	2
Cash and cash equivalents at beginning of year		60	58
Cash and cash equivalents at end of year		<u>63</u>	<u>60</u>

The notes on pages 16 to 31 form part of these financial statements.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

1 General information

South West Water Finance plc is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The Company is domiciled in the United Kingdom. The address of the registered office is Peninsula House, Rydon Lane, Exeter, EX2 7HR. The nature of the Company's operations are set out in the Strategic Report on page 1.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Other than explained below, these policies have been consistently applied to all the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally derivatives as described in accounting policy note (d)) and in accordance with International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. The area where assumptions and estimates are significant to the financial statements are in relation to the fair value of derivatives disclosed in Notes 10 and 11.

The going concern basis had been adopted in preparing these financial statements as stated by the Directors on page 2.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2018 did not have a material impact on the net assets or results of the Company.

Initial adoption of IFRS 15 'Revenue from Contracts with Customers'

The Company adopted the standard with effect from 1 April 2018 using the full retrospective approach to transition. Management has concluded that IFRS 15 does not have a material impact as the company does not have any contracts with customers that fall in scope of IFRS 15. The accounting policy on revenue following implementation of IFRS 15 is set out below in paragraph (b).

Initial adoption of IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 with effect from 1 April 2018 bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company applied IFRS 9 prospectively from 1 April 2018. The first-time application of this standard in the specific areas is detailed below but has not resulted in any adjustment or reclassification of amounts previously reported. The classification and measurement requirements of IFRS 9 require that financial assets are classified in the statements of financial position according to their nature, the characteristics of their contractual cash flows and the business model adopted for their management. Following assessment of the Company's business model as of the date of initial application, 1 April 2018, the Company has concluded that loans and receivables meet the IFRS 9 criteria to continue being carried at amortised cost. The Company also concluded that the requirements of IFRS 9 did not result in any change to the classification of financial liabilities.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

Initial adoption of IFRS 9 'Financial Instruments' (continued)

The Company continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The impairment aspects of IFRS 9 require the Company to evaluate and recognise expected credit losses (ECLs) on financial assets and to ensure changes in credit risk are assessed at regular intervals, and to make suitable adjustments for ECLs where applicable. The Company's evaluation approach, which now includes the forward-looking assessment of ECLs and changes in credit risk, this did not result in any material changes to the carrying value on adoption of IFRS 9.

Initial adoption of IFRS 16 'Leases'

The adoption of IFRS 16 on 1 April 2019 will affect primarily the accounting for those leases currently classified as operating leases. IFRS 16 no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease. The Company does not have any operating or finance leases and the standard is not expected to have a material effect on the Company's reported revenues, net assets or any specific financial statement line.

(b) Revenue

The Company does not have any revenue from contracts with customers in scope of IFRS 15.

Revenue, excluding Value Added Tax, represents interest income on loans receivable from the immediate Parent Company. Interest receivable is calculated using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period.

(c) Segmental reporting

The Directors believe that the whole of the Company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Company's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Company's non-current assets are all located within the United Kingdom.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Principal accounting policies (continued)

(d) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items where in the judgement of management, the position is uncertain.

The Company is part of the Pennon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising from other Group companies. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

(e) Derivatives and financial instruments

The Company classifies its financial instruments in the following categories:

(i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premiums, discounts and other costs and fees are recognised in the income statement through the amortisation process.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(ii) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments, principally interest rate swaps, to hedge risks associated with interest rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Company previously designated certain hedging derivatives as a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge). On 1 October 2015 hedge accounting was discontinued and the hedged item ceased to be adjusted for changes in

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Principal accounting policies (continued)

(e) Derivatives and financial instruments (continued)

its fair value attributable to the hedged risk. This adjustment is being amortised over the remaining maturity of the 2040 bond.

Derivative financial instruments which do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement. For certain derivative financial instruments, where market volatility and counterparty credit risk result in hedge accounting becoming less certain, hedge accounting is discontinued and non-cash fair value movements are recognised in the income statement as non-underlying items.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets or liabilities based on the remaining maturity of the hedging derivative.

(iii) Cash and cash deposits

Cash and cash deposits comprise cash in hand, short-term deposits held at banks and other short-term highly liquid deposits subject to insignificant risk of changes in value. Bank overdrafts are shown within current borrowings.

(f) Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Company's financial performance.

3 Financial risk management

(a) Financial risk factors

The Company's activities expose it to a variety of financial risks; market risk (Interest rate risk), liquidity risk and credit risk. The Company receives treasury services from the treasury function of Pennon Group plc, the ultimate parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk.

Treasury operations are managed in accordance with policies established by the Pennon Group Plc Board. Major transactions are individually approved by the Company's Board. Treasury activities are reported to the Company's Board and are subject to review by internal audit.

Financial instruments are used to raise finance and to manage risk. The Company does not engage in speculative activity. The principal financial risks faced by the Company relate to interest rate and credit counterparty risk.

(i) Market risk

The Company has both interest-bearing assets and interest-bearing liabilities. The principal activity of the Company is to act as a financing company for raising borrowings for its immediate parent Company, South West Water Limited. All funds raised are lent to South West Water Limited under the same terms.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

South West Water Finance plc's revenue and operating costs vary in line with movements in interest rates. Consequently, the underlying profitability and cash generated from operations is independent of changes in market interest rates. Therefore, the exposure of the Company to market risk is limited over the life of the bond.

68% (2017/18: 66%) of the Company's borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure.

For 2018/19 if interest rates had been on average 0.5% higher with all other variables held constant, post-tax profit for the year and equity would have decreased by £12.8m (2017/18: decreased by £12.9m) due to fair value movements in the derivative financial instruments. If interest rates had been on average 0.5% lower with all other variables held constant, post-tax profit for the year and equity would have increased by £14.2m (2017/18: increased by £14.5m) due to fair value movements in the derivative financial instruments.

For 2018/19 if RPI on index-linked borrowings had been on average 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £1.2m (2017/18: £1.1m).

(ii) Liquidity risk

Refinancing risk is managed by the treasury function of Pennon Group plc, the ultimate parent company. To the extent that the terms of its borrowing and lending are on the same terms, the Company has no liquidity risk.

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

31 March 2019					
Non-derivative financial liabilities	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Total borrowings	-	-	-	1,091.1	1,091.1
Interest payments on borrowings	14.5	14.6	45.0	510.6	584.7

Note total borrowings includes the RPI element of interest.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Liquidity risk (continued)

31 March 2018					
Non-derivative financial liabilities	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Total borrowings	-	-	-	1,090.8	1,090.8
Interest payments on borrowings	14.3	14.5	44.5	525.7	599.0

(iii) Credit risk

Credit and counterparty risk arises from the Company lending to its immediate parent company South West Water Limited (a regulated body with long term sustainable business), which holds the water and sewerage appointments for Cornwall & Devon and small areas of Somerset & Dorset. South West Water Limited's parent company the Pennon Group Plc's Board has agreed a policy for managing such risk, which is controlled through credit limits, counterparty approvals and rigorous monitoring procedures. Therefore, exposure to credit risk is limited.

Credit and counterparty risk also arises from the Company entering into derivative financial instruments. The risks associated with these instruments are also managed through Pennon Group plc using credit limits, counterparty approvals and rigorous monitoring procedures. Therefore, exposure to credit and counterparty risk in relation to financial instruments is also limited.

(b) Capital Risk Management

The management of capital risk is undertaken by South West Water Limited, the immediate parent Company and Pennon Group plc, the ultimate parent company. Details of these companies' capital risk management policies are included in the annual report of each of the respective companies.

	2019 £000	2018 £000
Cash and cash equivalents	(63)	(60)
Total shareholder's equity	17,580	12,717
Total capital	17,517	12,657

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Critical accounting judgements and estimates

The Company's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Estimates – fair value of derivatives

The fair value of derivatives is determined using valuation techniques, based on market conditions. Techniques, such as estimated discounted cash flows are used to determine fair values for the financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated cash flows and include the consideration of the effect of credit risk and the use of estimated future cash flows. Further information on the values of derivatives are set out in note 11.

5 Revenue and segment information

	2019	2018
	£000	£000
Intercompany interest from parent company	18,219	19,452
	18,219	19,452

The Company operated wholly in the United Kingdom in one class of business during the year. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

6 Operating costs

	2019	2018
	£000	£000
Interest payable and similar charges	18,203	19,437
Other finance costs	10	10
Other operating costs	2	2
Other operating costs before non-underlying items	18,215	19,449
Non-underlying items	(5,854)	4,035
Other operating costs after non-underlying items	12,361	23,484

Operating costs include auditor's remuneration of £2,000 (2017/18: £2,000) for the statutory audit of the Company.

There was £nil payable to the Company's auditors for non-audit work for the year to 31 March 2019 (2017/18: £nil).

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Non-underlying items

	2019 £000	2018 £000
Remeasurement of fair value movement in derivatives ^(a)	5,854	(4,035)
Tax (charge)/credit arising on non-underlying items ^(a)	(995)	686
Net non-underlying credit/(charge)	4,859	(3,349)

(a) Hedge accounting was discontinued during 2015/16 in respect of derivative financial instruments as a result of market volatility and counterparty credit risk making hedge accounting less effective. Non-cash fair value movements are now recognised in the income statement as non-underlying items. Of this remeasurement, a credit of £4,625,000 (2017/18: charge £7,576,000) relates to the movement in the fair value of the derivatives, an amortisation credit of £2,343,000 relates to financial liabilities measured at fair value through profit or loss (2017/18: credit £2,343,000) and a £1,114,000 charge reflects the credit value adjustment applied to the derivative assets (2017/18: credit £1,198,000). The tax (charge)/credit on non-underlying items arises on these non-cash fair value movements.

8 Directors' emoluments and employment costs

The Directors did not receive any remuneration from the Company during the year ended 31 March 2019 (2017/18: £nil). The Directors did not receive any remuneration from the Parent Company in respect of this company (2017/18: £nil) and no recharges were made from the Parent Company of Directors salaries or costs (2017/18: £nil).

The Company had no employees during the period ended 31 March 2019 (2018: none).

9 Taxation

	Before non- underlying items 2019 £000	Non- underlying items 2019 £000	Total 2019 £000	2018 £000
Deferred tax – other	-	995	995	(686)
Total deferred tax charge/(credit)	-	995	995	(686)
Tax charge/(credit) for year	-	995	995	(686)

UK corporation tax is calculated at 19% (2017/18: 19%) of the estimated assessable profit for the year.

Reconciliation of total tax charge	2019 £000	2018 £000
Profit/(loss) before tax	5,858	(4,032)
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,113	(766)
Effects of:		
Other timing differences	(117)	80
Permanent differences	(1)	-
Total tax charge for year	995	(686)

UK corporation tax is stated after a credit relating to prior year current tax of £nil (2017/18: credit of £1,000) and a prior year deferred tax credit of £117,000 (2017/18: charge of £80,000).

SOUTH WEST WATER FINANCE PLC **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

9 Taxation (continued)

Reconciliation of current tax charge	2019 £000	2018 £000
Profit/(loss) before tax	<u>5,858</u>	<u>(4,032)</u>
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	1,113	(766)
Effects of:		
Other timing differences	(1,112)	766
Permanent differences	<u>(1)</u>	<u>-</u>
Current tax charge for year	<u>-</u>	<u>-</u>

The current tax charge is lower than the UK headline rate of 19%, due to the application of the disregard rules meaning that the remeasurement of the fair value movement in derivatives is not taxed until realised.

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Financial instruments and other financial liabilities

The accounting policies for financial instruments and other financial liabilities have been applied to the items as below:

		Fair value	Fair value	Amortised cost	
		Financial liabilities through profit or loss	Derivative financial instruments	Debt Instruments at amortised cost	Total
	Note	£000	£000	£000	£000
31 March 2019					
Financial assets					
Derivative financial instruments	11	-	75,694	-	75,694
Debt instruments at amortised cost	12	-	-	423,386	423,386
Cash and cash deposits		-	-	63	63
		-	75,694	423,449	499,143
Financial liabilities					
Borrowings	16	-	-	(420,306)	(420,306)
Other borrowings	13	-	-	(8,420)	(8,420)
Financial liabilities at fair value through profit or loss	17	(49,253)	-	-	(49,553)
		(49,253)	-	(428,726)	(477,979)
31 March 2018					
Financial assets					
Derivative financial instruments	11	-	72,317	-	72,317
Debt instruments at amortised cost	12	-	-	414,470	414,470
Cash and cash deposits		-	-	60	60
		-	72,317	414,530	486,847
Financial liabilities					
Borrowings	16	-	-	(411,285)	(411,285)
Other borrowings	13	-	-	(8,660)	(8,660)
Financial liabilities at fair value through profit or loss	17	(51,596)	-	-	(51,596)
		(51,596)	-	(419,945)	(471,541)

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Derivative financial instruments

	2019 £000	2018 £000
<i>Derivatives not in a hedge accounting relationship:</i>		
Non-current assets	66,790	63,647
Current assets	8,904	8,670
	75,694	72,317

The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows.

At 31 March 2019 interest rate swaps to swap from fixed to floating rate and hedge financial liabilities with a notional value of £150.0m existed, with a weighted average maturity of 21.3 years (31 March 2018: £150.0m, with 22.3 years). The interest rate of the swaps is 6 Month Libor plus a weighted average margin of 1.81% (31 March 2018: 1.81%).

Valuation hierarchy

The Company uses the following hierarchy for determining the fair value of financial instruments by valuation techniques:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (that is, using prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows are used to determine fair values for the financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated cash flows.

The amounts of financial instruments carried at fair value by valuation method were:

	2019 £000	2018 £000
Level 2 inputs		
Assets		
Derivatives not in a hedge accounting relationship	75,694	72,317
Total Assets	75,694	72,317

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Loans and other receivables

	2019	2018
	£000	£000
Current		
Amounts owed by immediate parent company	3,080	3,185
	3,080	3,185
Non-current		
Amounts owed by immediate parent company	420,306	411,285
Loans and other receivables	423,386	414,470

Amounts owed by parent company consist of:

Loans of £3,080,000 (2018: £3,185,000) do not carry any interest and are repayable on demand.

Non-current loans comprise the following:

A loan maturing in more than 5 years with a book value of £134,188,000 (2018: £133,859,000) and face value of £150,000,000 at 31 March 2019 (31 March 2018: £150,000,000). The effective interest rate at the balance sheet date was fixed at 6.83% (31 March 2018: 6.83%).

A loan maturing in more than 5 years with a book value of £286,118,000 (31 March 2018: £277,426,000) and with fair value of £377,893,000 at 31 March 2019 (31 March 2018: £355,367,000). The effective interest rate at the balance sheet date was RPI + 1.99% (31 March 2018: RPI + 1.99%).

The Directors consider that the carrying amounts of current loans and other receivables approximates to their fair values. None of the loans to related parties is past due but not impaired.

13 Other borrowings

	2019	2018
	£000	£000
Accruals	8,420	8,660
	8,420	8,660

Other borrowings predominantly relate to interest accruals on borrowings. The Directors consider that the carrying amount of other payables approximates to their fair values.

14 Current Tax

	2019	2018
	£000	£000
Current year creditor	1	1
Prior year tax items	2	2
Total	3	3

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

	2019 £000	2018 £000
Liabilities at 1 April	2,586	3,272
Other non-underlying charges/(credits) in the income statement	995	(686)
Liabilities at 31 March	3,581	2,586

All deferred tax balances relate to derivatives.

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the deferred tax asset is expected to be recovered over more than one year.

All deferred tax assets and liabilities within the same jurisdiction are offset.

16 Borrowings

	2019 £000	2018 £000
Non-current		
2040 bond	134,188	133,859
Indexed linked bonds	286,118	277,426
Total borrowings	420,306	411,285

The book and fair value of the non-current borrowings were:

	2019 Book Value £000	2019 Fair Value £000	2018 Book Value £000	2018 Fair Value £000
2040 bond	134,188	197,499	133,859	197,486
Index linked bonds	286,118	377,893	277,426	355,367
	420,306	575,392	411,285	552,853

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Borrowings (continued)

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates. Fair values of these borrowings have been determined using level 2 measures as set out in note 11.

The maturity of all non-current borrowings at book and fair value at the balance sheet date is over 5 years.

The effective interest rates at the balance sheet date were:

	2019	2018
2040 bond	6.83%	6.83%
Index linked bonds	RPI + 1.99%	RPI + 1.99%

The bonds are wholly guaranteed by South West Water Limited.

17 Financial liabilities at fair value through profit and loss

	2019 £000	2018 £000
Current	3,528	3,160
Non current	45,725	48,436
Total financial liabilities at fair value through profit and loss	49,253	51,596

Financial instruments at fair value through profit and loss reflect the fair value movement of the hedged risk on a hedged item which had been designated in a fair value hedging relationship. At 1 October 2015 hedge accounting was discontinued and the hedged item ceased to be adjusted for changes in its fair value attributable to the hedged risk. This adjustment is being amortised over the remaining maturity of the 2040 bond.

18 Share capital

	2019 £000	2018 £000
Authorised: 100,000 ordinary shares of £1 each	100	100
Issued share capital		
Issued and fully paid 2 ordinary shares of £1 each	-	-
Issued and partly paid 50,000 ordinary shares of £1 each, at £0.25p per share, totalling £12,500	50	50
	50	50

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Retained earnings

	2019	2018
	£000	£000
At 1 April	12,667	16,013
Profit/(loss) for year	4,863	(3,346)
At 31 March	17,530	12,667

20 Cash flow from operating activities

Reconciliation of profit before tax for the year to cash generated from operations:

	2019	2018
	£000	£000
Profit/(loss) before tax for the year	5,858	(4,032)
Adjustments for:		
Operating costs (interest and other finance costs only)	18,213	19,447
Non-underlying movement in derivatives	(5,854)	4,035
Changes in working capital:		
Increase in loans and other receivables	(8,915)	(10,670)
Increase in trade and other payables	2	-
Cash generated from operations	9,304	8,780

21 Related party transactions

During the year, the Company entered into the following transactions with related parties:

	2019	2018
	£000	£000
<u>Immediate Parent company</u>		
Sale of goods and services:		
Loan interest receivable	18,219	19,452
Administrative charges	5	5
Year end balances		
Financial assets:		
Loan to parent company (as described in note 12)	420,306	411,285
Accrued interest and other balances due from Parent company	3,080	3,185
Called up share capital not paid	37	37

SOUTH WEST WATER FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Ultimate Parent Company

The Company is a wholly owned subsidiary of South West Water Limited, which is incorporated in England and which is a wholly owned subsidiary of Pennon Group plc. No consolidated financial statements are prepared by South West Water Limited as it is exempt under the provisions of the Companies Act 2006 from the requirement to produce Group Financial Statements as it is a wholly-owned subsidiary of Pennon Group plc which is registered within the European Economic Area and which itself produces consolidated Financial Statements.

The ultimate parent and controlling party is Pennon Group plc, a company incorporated in England. Group consolidated financial statements are included in the Annual Report of Pennon Group plc. Pennon Group plc is the largest and smallest group of undertakings to consolidate these financial statements. The Annual Reports for both South West Water Limited and Pennon Group plc are available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR.