



SOUTHERN WATER SERVICES LIMITED

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2008

Key Performance Improvements

- Environmental Performance – One of the most improved performances in the industry with serious pollution incidents down in 2007/08 by more than 50 per cent and only three wastewater treatment works experiencing a failure in the year compared with 18 in 2004, 14 in 2005 and 15 in 2006. All beaches in the region met European bathing water standards for the third year running and drinking water quality remained among the best in Europe.
- Capital Delivery -The capital improvement programme, which runs between 2005 and 2010, delivered on both spend and outputs. The £80 million Margate and Broadstairs environmental improvement scheme to treat up to 70 million litres of wastewater every day completed in the year and the £15 million Cross Solent main to replace pipes under the Solent which supply drinking water to the Isle of Wight commenced and is expected to be finished by the end of June. The £15.5 million, three-year project to replace the Victorian water mains in Brighton and Hove progressed well and is currently six months ahead of programme.
- Leakage – The company recorded the lowest level of leakage per property of the UK's water and sewerage companies. The company also performed significantly better than the target set by Ofwat.
- Customer Relations – The company's Strategic Direction Statement and draft Water Resources Management Plans were published and public consultation started.

Finance Director Howard Goodbourn said: "Our commitment to delivering service improvements for our customers continues and is reflected in the level of investment we have been making and this is now delivering positive results across the business. The national awards the company has received are an independent endorsement of our success."

Financial Highlights

- £396.9m invested to deliver new and improved water supply and wastewater treatment infrastructure - part of a £2 billion programme across Kent, Sussex, Hampshire and the Isle of Wight between 2005 and 2010
- Cash flow from income less operating expenditure totalled £365.0m. Cash outflow required to deliver the capital investment programme totalled £381.5m resulting in a negative cash flow of £16.5m before interest, tax, dividends and financing.
- Operating profits before exceptional items up by 5.4% to £257.7m (2006/07 £244.6m).
- Profit after taxation for the financial year was £87.4m (2006/07 £94.1m).
- The exceptional item relates to a fine of £20.3m levied by the regulator Ofwat and accepted by the Company for the misreporting of customer services statistics and for failing to make guaranteed standard payments to customers up until October 2005.

FINANCIAL REVIEW

Profit and Loss Account

- Turnover increased by 7.5% to £618.7m (2006/07 £575.8m). This was principally due to an increase in the K factor (the annual price movement as set by Ofwat) which was required to secure and service the ongoing finance for the capital investment programme for the current regulatory review period which totals approximately £2bn.
- Cost of sales increased by 10.0% to £334.2m (2006/07 £303.7m) and administration expenses, before exceptional items, decreased by 4.6% to £27.2m (2006/07 £28.5m). The overall increase in costs resulted mainly from additional depreciation, higher electricity prices, an increase in the bad debt provision and the effects of inflation, offset by operating efficiencies.
- Profit after taxation for the financial year was £87.4m (2006/07 £94.1m). The retained profit for the year of £19.6 million has been transferred to reserves.

Balance Sheet

- At the end of the period to 31 March 2008, the Company had fixed assets of £3,546.6m (2007: £3,319.5m) an increase of £227.1m from March 2007. This increase results from the capital investment programme less amounts charged for depreciation. The regulatory capital value at 31 March 2008 was £3,248m (2007: £2,914m).
- As a result of the new bond issue and indexation, creditors falling due after more than one year increased to £3,204.0m from £2,859.5m at March 2007.
- As at 31 March 2008, the SWS defined benefit pension scheme had an accounting deficit net of deferred tax of £58.3m (2007: £72.8m). In accordance with UK GAAP this deficit is included in the balance sheet.
- Overall net assets increased to £811.4m from £781.3m.

Cash Flow

- Net cash inflow from operating activities increased to £365.0m for 2007/08 from £339.7m in 2006/07, mainly due to the increased turnover.
- The net cash outflow from the servicing of finance increased to £115.3m for 2007/08 from £77.8m in 2006/07. This increase largely arose from the timing of a £15.7m bond interest payment relating to 2006/07 that was actually paid on 2 April 2007, resulting in a year on year increase of £31.4m.
- There was a net outflow of cash relating to the capital expenditure of £381.5m (2006/07 £486.9m) and a net cash outflow before financing in 2007/08 of £217.6m (2006/07 £303.9m).
- During July 2007 the Company issued a further bond for the sum of £300m.

Note:

The figures and financial information for the year 2007-08 do not constitute the statutory financial statements for that year. Those financial statements have not yet been delivered to the Registrar, nor have the auditors yet reported on them. These preliminary unaudited results are expected to be available on the Company's website by 17 June 2008.

PROFIT AND LOSS ACCOUNT (un-audited)

For the year ended 31 March 2008

	2008 £m	2007 £m
Turnover	618.7	575.8
Cost of sales	(334.2)	(303.7)
Gross profit	284.5	272.1
Administrative expenses before exceptional items	(27.2)	(28.5)
Other operating income	0.4	1.0
Operating profit before exceptional items	257.7	244.6
Exceptional items	(20.3)	-
Operating profit after exceptional items	237.4	244.6
Profit on disposal of fixed assets	9.5	20.2
Net interest and similar charges	(145.0)	(129.4)
Profit on ordinary activities before taxation	101.9	135.4
Tax on profit on ordinary activities	(14.5)	(41.3)
Profit on ordinary activities after taxation	87.4	94.1
Dividends	(67.8)	(61.8)
Retained profit for the financial year	19.6	32.3

The above results relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (un-audited)

For the year ended 31 March 2008

	2008	2007
	£m	£m
Profit on ordinary activities after taxation	87.4	94.1
Actuarial gain/(loss) recognised in the pension fund	13.7	27.4
Movement on deferred tax relating to pension deficit	(3.2)	(8.2)
Total recognised gains for the year	<u>97.9</u>	<u>113.3</u>

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

BALANCE SHEET (un-audited)

As at 31 March 2008

	2008 £m	2007 £m
Fixed assets		
Tangible assets	3,517.4	3,290.3
Investments	<u>29.2</u>	<u>29.2</u>
	3,546.6	3,319.5
Current assets		
Stocks	2.2	2.2
Debtors: amounts falling due within one year	203.3	181.5
Debtors: amounts falling due after one year	812.3	812.3
Cash and deposits	<u>201.8</u>	<u>130.9</u>
	1,219.6	1,126.9
Creditors: amounts falling due within one year	<u>(236.2)</u>	<u>(261.3)</u>
Net current assets	983.4	865.6
Total assets less current liabilities	<u>4,530.0</u>	<u>4,185.1</u>
Creditors: amounts falling due after more than one year	(3,204.0)	(2,859.5)
Provision for liabilities and charges		
Environmental obligations	(0.9)	(1.0)
Deferred taxation	(405.1)	(422.6)
Grants and contributions	(50.3)	(47.9)
Net assets excluding pension deficit	<u>869.7</u>	<u>854.1</u>
Pension deficit	(58.3)	(72.8)
Net assets including pension deficit	<u>811.4</u>	<u>781.3</u>
Capital and reserves		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	765.0	734.9
Total shareholders' funds	<u>811.4</u>	<u>781.3</u>

CASH FLOW STATEMENT (un-audited)
for the year ended 31 March 2008

	2008	2007
	£m	£m
Net cash inflow from operating activities	365.0	339.7
Returns on investments and servicing of finance		
Interest received	72.9	72.2
Interest paid	(174.5)	(136.3)
Preference share dividends	(13.7)	(13.7)
Net cash outflow from returns on investments and servicing of finance	(115.3)	(77.8)
Taxation	(18.0)	(17.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(428.5)	(505.3)
Receipt of grants and contributions	13.6	10.2
Sale of tangible assets	33.4	8.2
Net cash outflow for capital expenditure and financial investment	(381.5)	(486.9)
Equity dividends paid	(67.8)	(61.8)
Net cash outflow before financing	(217.6)	(303.9)
Financing		
Increase in borrowings	294.0	198.5
Issue costs of new loans/redemption premium /gilt lock receipts	4.3	(1.6)
Repayment of borrowings	-	-
Net cash inflow from financing	298.3	196.9
Increase/(decrease) in net cash	80.7	(107.0)
Reconciliation to net debt		
Net debt at beginning of year	(2,749.9)	(2,412.3)
Increase/(decrease) in net cash	80.7	(107.0)
Movements in borrowings	(294.0)	(198.5)
Debt issue costs/redemption premium	(4.3)	1.6
Other non cash changes	(46.5)	(33.7)
Net debt at end of year	(3,014.0)	(2,749.9)