

SOUTHERN WATER SERVICES LIMITED

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2009

Key Performance Improvements

Operational Performance – Southern Water recorded its best ever operational performance as measured by the regulator, Ofwat during 2008/09 and achieved a significant improvement in the number of pollution incidents. The company also achieved a 99.2 per cent pass rate for wastewater treatment works meeting European quality standards. Once again, Southern Water achieved the lowest leakage level per property of all UK water and wastewater companies and continued to supply quality tap water among the best in Europe. The company also increased its renewable energy output by 180 per cent.

Capital Delivery – The current capital programme, which runs between 2005 and 2010, delivered on both expenditure and outputs in 2008/09 with £271.4 million worth of investment in the company's water and wastewater infrastructure. Significant projects included the £15 million Cross Solent main to replace pipes under the Solent which supply drinking water to the Isle of Wight, £87 million of investment to upgrade six wastewater treatment works in Sussex and Hampshire to bring nitrogen removal to works in the South East for the first time and a £1.25 million scheme in the South Downs to safeguard Sussex water supplies in times of drought. In Kent, the company invested £35 million in a recycling centre in Ashford to turn sludge into fertiliser for agriculture and £3 million in replacing a key water main in Thanet to secure quality water supplies for the future.

Customer Relations – Southern Water delivered its best performance against industry regulator Ofwat's Customer Service measures during 2008/09. For the first time in its history, the company achieved 100 per cent success when responding to billing contacts and replying to written complaints within ten working days and also beat its target for answering calls. The company's website was improved and was recognised as the most customer-friendly of all the utility companies. In 2009, Southern Water submitted its proposals for a £2.2 billion programme to Ofwat to maintain and improve services to its four million customers from 2010 to 2015.

Awards – Southern Water's efforts were recognised in 21 national and regional awards in 2008, including the Utility Industry Achievement Awards and the Water Industry Achievement Awards. The awards were made for customer care, partnerships, innovative procurement, community campaigns, conservation and considerate construction.

Finance Director Howard Goodbourn said: "Over the year we have seen our best level of service for customers, coupled with strong financial performance. Our commitment to delivering for our customers continues and this is reflected in our service performance across all areas of our business."

Financial Highlights

- £271.4m 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 £443.3m. Cash outflow required to deliver the capital investment programme totalled £312.5m resulting in a positive cash flow of £130.8m before interest, tax, dividends and financing.
- Operating profits before exceptional items increased by 21.9% to £314.2m (2007/08 £257.7m).
- Profit after taxation for the financial year was £97.4m (2007/08 £87.4m).

FINANCIAL REVIEW

Profit and Loss Account

- Turnover increased by 9.6% to £677.8m (2007/08 £618.7m). 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 0.9% to £337.1m (2007/08 £334.2m) and administration expenses, before exceptional items, decreased by 1.5% to £26.8m (2007/08 £27.2m). The overall increase in costs resulted mainly from additional depreciation and the effects of inflation, offset by operating efficiencies.
- The tax on profit on ordinary activities has increased from £14.5m in 2007/08 to £52.0m in 2008/09 largely due to an increase in taxable profits and the fact that the prior year included the effects of the reduction in the tax rate change (£29.1m) and the abolition of the Industrial Buildings Allowance (£4.6m).
- Profit after taxation for the financial year was £97.4m (2007/08 £87.4m). The retained loss for the year of £22.7 million has been transferred to reserves.

Balance Sheet

- At the end of the period to 31 March 2009, the Company had fixed assets of £3,645.8m (2007/08: £3,546.6m), an increase of £99.2m from March 2008. This increase results from the capital investment programme less amounts charged for depreciation.
- Creditors falling due after more than one year increased to £3,393.2m from £3,204.0m at 31 March 2008. This was principally as a result of a new bond issue of £300.0m and indexation charges of £56.5m offset by loan repayments during the year of £20.0m and transfers to short-term creditors of £146.0m.

The transfer to short term creditors was to take account of repayments of Mezzanine debts due to be undertaken in April 2009.

- As at 31 March 2009, the SWS defined benefit pension scheme had an accounting deficit net of deferred tax of £83.3m (2007/08: £58.3m). In accordance with UK GAAP this deficit is included in the balance sheet.
- Overall net assets decreased to £761.0m from £811.4m.

Cash Flow

- Net cash inflow from operating activities increased to £443.3m for 2008/09 from £365.0m in 2007/08, mainly due to the increased turnover in the year, a reduction in costs excluding depreciation and improved debt collection.
- The net cash outflow from the servicing of finance decreased to £106.8m for 2008/09 from £115.3m in 2007/08. This decrease largely arose from the timing of a £15.7m bond interest payment relating to 2006/07 that was actually paid in 2007/08, offset by an increase in swap receipts in 2008/09 due to the receipt of £7.5m, being the first interest rate swap amount on the 2007/08 bond issue.
- There was a net outflow of cash relating to the capital expenditure of £312.5m (2007/08 £381.5m) and a net cash outflow before financing in 2008/09 of £117.1m (2007/08 £217.6m).
- During March 2009 the Company issued a further bond for the sum of £300m.

Note:

The figures and financial information for the year 2008/09 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 will be available on the Company's website by 17 June 2009.

PROFIT AND LOSS ACCOUNT (un-audited)

For the year ended 31 March 2009

	2009 £m	2008 £m
Turnover	677.8	618.7
Cost of sales	(337.1)	(334.2)
Gross profit	340.7	284.5
Administrative expenses before exceptional items	(26.8)	(27.2)
Other operating income	0.3	0.4
Operating profit before exceptional items	314.2	257.7
Exceptional items	-	(20.3)
Operating profit after exceptional items	314.2	237.4
Profit on disposal of fixed assets	7.6	9.5
Net interest and similar charges	(172.4)	(145.0)
Profit on ordinary activities before taxation	149.4	101.9
Tax on profit on ordinary activities	(52.0)	(14.5)
Profit on ordinary activities after taxation	97.4	87.4
Dividends	(120.1)	(67.8)
Retained (loss)/profit for the financial year	(22.7)	19.6

The above results relate to continuing operations.

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

For the year ended 31 March 2009

	2009	2008
	£m	£m
Profit on ordinary activities after taxation	97.4	87.4
Actuarial (loss)/gain recognised in the pension fund	(38.5)	13.7
Movement on deferred tax relating to pension deficit	10.8	(3.2)
Total recognised gains for the year	<u>69.7</u>	<u>97.9</u>

BALANCE SHEET (un-audited)

As at 31 March 2009

	2009 £m	2008 £m
Fixed assets		
Tangible assets	3,616.6	3,517.4
Investments	29.2	29.2
	<u>3,645.8</u>	<u>3,546.6</u>
Current assets		
Stocks	1.6	2.2
Debtors: amounts falling due within one year	212.6	203.3
Debtors: amounts falling due after one year	820.3	812.3
Cash and deposits	360.4	201.8
	<u>1,394.9</u>	<u>1,219.6</u>
Creditors: amounts falling due within one year	<u>(311.2)</u>	<u>(236.2)</u>
Net current assets	1083.7	983.4
Total assets less current liabilities	<u>4,729.5</u>	<u>4,530.0</u>
Creditors: amounts falling due after more than one year	(3,393.2)	(3,204.0)
Provision for liabilities and charges		
Environmental obligations	(0.4)	(0.9)
Deferred taxation	(440.1)	(405.1)
Grants and contributions	(51.5)	(50.3)
Net assets excluding pension deficit	<u>844.3</u>	<u>869.7</u>
Pension deficit	(83.3)	(58.3)
Net assets including pension deficit	<u>761.0</u>	<u>811.4</u>
Capital and reserves		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	714.6	765.0
Total shareholders' funds	<u>761.0</u>	<u>811.4</u>

CASH FLOW STATEMENT (un-audited)
for the year ended 31 March 2009

	2009 £m	2008 £m
Net cash inflow from operating activities	443.3	365.0
Returns on investments and servicing of finance		
Interest received	70.7	72.9
Interest paid	(163.8)	(174.5)
Preference share dividends	(13.7)	(13.7)
Net cash outflow from returns on investments and servicing of finance	(106.8)	(115.3)
Taxation	(21.0)	(18.0)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(330.6)	(428.5)
Receipt of grants and contributions	9.6	13.6
Sale of tangible assets	8.5	33.4
Net cash outflow for capital expenditure and financial investment	(312.5)	(381.5)
Equity dividends paid	(120.1)	(67.8)
Net cash outflow before financing	(117.1)	(217.6)
Financing		
Increase in borrowings	298.3	294.0
Issue costs of new loans/redemption premium /gilt lock receipts	(2.1)	4.3
Repayment of borrowings	(20.0)	-
Net cash inflow from financing	276.2	298.3
Increase in net cash	159.1	80.7
Reconciliation to net debt		
Net debt at beginning of year	(3,014.0)	(2,749.9)
Increase in net cash	159.1	80.7
Movements in borrowings	(278.3)	(294.0)
Debt issue costs/redemption premium	2.1	(4.3)
Other non cash changes	(58.7)	(46.5)
Net debt at end of year	(3,189.8)	(3,014.0)