



Interim Consolidated Accounts (un-audited) for Southern Water Services Ltd

For the six months ended 30 September 2007

Important notice

This report should not be relied on as a guide to future performance, and should not be relied on in deciding whether to undertake investment in the company. It should be noted that the information in this report has not been reviewed by the company's auditors.

Format and basis of consolidation

The abridged accounts contained within this report represent the consolidation of Southern Water Services Ltd and its subsidiary, Southern Water Services (Finance) Ltd. These accounts are presented in fulfilment of a finance document, the Common Terms Agreement, and as such are not presented in full Companies Act format.

FRS 17

The pension deficits shown at 30 September 2007 and 30 September 2006 are based on the valuations at 31 March 2007 and 31 March 2006 respectively updated by actuaries reflecting market yields and asset values. These are not formal interim valuations of the scheme assets and liabilities, however an assessment of the actuarial losses has been made and shown in the STRGL. Actuarial gains and losses for the whole year and the surplus/deficit at the end of the year will be presented in the annual financial statements.

Financing

A bond of £300m was successfully issued under the existing EMTN programme during July 2007. There have been no credit rating changes to any of the bonds issued by SWSF.

General levels of service procedure

In October 2005, the new management team at SWS brought to the attention of Ofwat certain inconsistencies relating to the reporting of response levels to, and handling of, customer enquiries and complaints. These were discovered in the course of the Customer Services Transformation Project, which involved the installation of a new SAP-based billing system.

Following this discovery a full independent investigation was carried out by a specialist team appointed by Southern Water and Ofwat. As a result of this investigation Ofwat is proposing to fine SWS £20.3m for misreporting customer service statistics and failing to make guaranteed standard payments to customers up until October 2005. SWS accepts the fine and consequently a provision has been included in these accounts for the period ended 30 September 2007.

SWS has taken significant steps to ensure that customers are reimbursed for any financial loss and that regulatory reporting and control systems are improved to avoid the risk of a re-occurrence.

Please note that these Interim Accounts have not been reviewed by the company's auditors

Interim Accounts

Contents

Profit and loss account and STRGL

Page

4

Balance sheet

5

Cash flow

6

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Profit and Loss Account

	Six months ended 30 September	
	2007	2006
	unaudited	unaudited
	£m	£m
Turnover	<u>315.3</u>	<u>289.5</u>
Operating profit and profit on ordinary activities before interest and taxation	112.5	120.7
Profit on disposal of fixed assets	5.9	2.9
Net interest payable	(73.5)	(65.0)
Profit on ordinary activities before taxation	<u>44.9</u>	<u>58.6</u>
Tax on profit on ordinary activities	(21.6)	(19.6)
Profit on ordinary activities after taxation	<u>23.3</u>	<u>39.0</u>
Dividends	(47.9)	(24.9)
Retained (loss)/profit for the period	<u>(24.6)</u>	<u>14.1</u>
STRGL		
Profit for the financial period	23.3	39.0
Actuarial gain/(loss) on pension scheme	29.3	(3.0)
Movement on deferred tax relating to pension liability	(8.8)	0.9
Total gains and losses recognised since last annual report and financial statements	<u>43.8</u>	<u>36.9</u>

Note :

Operating profit and profit on ordinary activities is stated after charging an exceptional item of £20.3m as detailed on page 2.

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Balance Sheet

	As at 30 September	
	2007 unaudited	2006 unaudited
	£m	£m
Fixed assets	<u>3,397.4</u>	<u>3,101.2</u>
Cash	366.0	142.6
Other net current liabilities	(62.7)	(130.3)
Debtors: amounts falling due after more than one year	812.3	812.3
Creditors: amounts falling due after more than one year	(3,161.4)	(2,625.2)
Provision for liabilities and charges	(472.5)	(410.6)
Pension liability	(52.5)	(100.8)
Grants and contributions	(48.8)	(46.9)
Net assets	<u><u>777.8</u></u>	<u><u>742.3</u></u>
Capital and reserves:		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	731.4	695.9
Total equity shareholders' funds	<u><u>777.8</u></u>	<u><u>742.3</u></u>

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Cash Flow

	Six months ended 30 September	
	2007	2006
	unaudited	unaudited
	£m	£m
Net cash inflow from operating activities	219.9	179.4
Net interest paid	(91.9)	3.8
Preference share dividends	0.0	(6.9)
Taxation	(8.5)	(8.5)
Capital expenditure and financial investment	(228.3)	(229.0)
Equity dividends paid	(47.9)	(24.9)
Net cash outflow before financing	<u>(156.7)</u>	<u>(86.1)</u>
Financing:		
Issue of Bonds	298.7	0.0
Issue of Preference shares	0.0	0.0
New loans granted	0.0	0.0
Repayment of loans	0.0	0.0
Net cash inflow from financing	<u>298.7</u>	<u>0.0</u>
Increase/(decrease) in cash	<u>142.0</u>	<u>(86.1)</u>

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