

**Southern Water Services Limited**

**Interim Report for the six months  
ended 30 September 2011**



# Southern Water Services Limited

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# Southern Water Services Limited

## Financial performance

### Key financial performance indicators

	Six months ended 30 September 2011 Unaudited	Six months ended 30 September 2010 Unaudited	Increase/ (Decrease)
	£m	£m	%
<b>Turnover</b>	356.3	343.3	3.8
<b>Operating costs</b>	215.3	206.6	4.2
<b>Operating profit</b>	141.0	136.7	3.1
<b>Gross capital expenditure</b>	206.1	193.1	6.7
<b>Net cash inflow from operating activities</b>	195.0	204.2	(4.5)

### Profit and loss account

Turnover has increased by 3.8% to £356.3m (2010: £343.3m) compared with an average tariff increase on metered and unmetered income of 6.1%. The reduction compared to the tariff increase relates to a revised method for estimating the amount of metered water and waste water charges unbilled at the period end. Operating profit increased by 3.1% to £141.0m (2010: £136.7m) in line with the growth in turnover.

Net interest payable rose to £95.5m (2010:£85.9m)

The directors did not declare a final dividend for 2010-11 (2010: £35.0m equivalent to £625.00 per ordinary share paid to shareholders in May 2010).

Interim dividends of £21.0m (2010: £20.4m) were charged to the profit and loss account, equivalent to £375.70 per ordinary share.

Interim dividends represent payments made under the "SWSG Dividend Loop" whereby the Company makes dividend and tax relief payments to a parent company, to finance the receipt of an equal amount of interest paid by Southern Water Services Group Limited. The result of this is a circular transaction, the net effect of which is a net cash flow for the Company of £nil.

### Balance sheet

Capital investment to deliver improved services to customers amounted to £206.1m in the period to September 2011. This, after accounting for depreciation, has resulted in an increase in fixed assets of £105.0m from March 2011 to £4,017.3m.

Creditors falling due after one year have increased from £3,504.7m at September 2010 to £3,645.4m at September 2011, an increase of £140.7m (4%) principally resulting from an increase in inflation on index linked bonds of £89.3m and a drawdown of our capex facility of £50m.

The net pension deficit decreased to £40.9m from £65.7m at September 2010, based on the latest actuarial valuation as at 31 March 2011 updated by the scheme actuary to 30 September 2011 to reflect market yields and asset values in the period.

# Southern Water Services Limited

## Financial performance (continued)

### Cash flow

Net cash inflow from activities amounted to £195.0m (2010: £204.2m). As can be seen in Note 5 this decrease mainly arises from an increase in working capital.

Net interest received increased to £4.4m in September 2011 (September 2010: £0.5m)

Preference share dividend payments of £13.0m were paid during the period.

Continued investment in the regulatory asset base has resulted in a significant increase in capital expenditure amounting to £219.5m (2010: £189.3m). Expenditure in the year largely related to the progress made on the Brighton & Hove wastewater scheme and the expansion in the Universal Metering project which began last year.

Equity dividends paid were £21.0m (September 2010: £55.4m).

# Southern Water Services Limited

## Operational performance

Following three consecutive exceptional winters, we did not meet the Ofwat leakage target for 2010-11. However a revised target has just been agreed with Ofwat and the company is on track to meet the revised target for 2011-12 of 93 MI/d. We continue to deliver one of the lowest levels of leakage of all water and sewerage companies in England and Wales and the lowest level in the South East.

We continue to make good progress on delivery of our AMP5 capital programme with a number of regulatory outputs being delivered ahead of the required dates, including the River Arun scheme, to improve the security of supply to customers and advancement of some elements of the Environmental Quality programme. We continue to drive out efficiencies in the delivery of our capital programme and are projecting to outperform the PR09 final determination allowance.

Over the past six months our customer service has continued to improve using the service levels as measured by the Service Incentive Mechanism (SIM) developed by Ofwat with improvements on every measure: the customer experience; volume of complaints; and 'unwanted' telephone contacts. There has been one investigation with Consumer Council for Water (CCW), the only one in an eighteen month period.

Our reservoir levels are slightly below average for this time of year but still well above their minimum recorded levels. More importantly, groundwater levels across the region are at average or just below-average for this time of year. As such, as long as winter rainfall is average or slightly-below, we would not envisage having to impose water restrictions next year. However, we continue to monitor the situation closely and would hope to have plenty of autumn and winter rain to boost levels.

Ofwat agreed with our assessment that serviceability for 2010-11 was 'Stable' on three of the service areas, but had slipped to 'Marginal' on wastewater infrastructure assets. We agreed an action plan with Ofwat to arrest the problem, and we continue to work to meet the challenge in reducing the level of pollution incidents.

### **Transfer of privately owned sewers and lateral drains**

On 1 July 2011, The 'Water Industry (Schemes for Adoptions of Private Sewers 2011)' came into force, whereby all privately owned sewers and lateral drains connected to an existing public sewer became the responsibility of sewerage undertakers.

An estimated additional 17,500 kilometres of privately owned sewers and lateral drains were transferred on 1 October 2011, an increase of 80% in the sewer network for which the Company is now responsible.

# Southern Water Services Limited

## Summarised profit and loss account

For the six months ended 30 September 2011

	Notes	Six months ended 30 September 2011 Unaudited £m	Six months ended 30 September 2010 Unaudited £m	Year ended 31 March 2011 Audited £m
<b>Turnover</b>		<b>356.3</b>	343.3	647.1
<b>Operating profit before exceptional item</b>		<b>141.0</b>	136.7	230.1
Exceptional item		-	-	(38.6)
Profit on disposal of fixed assets		<b>0.9</b>	0.3	0.8
Net interest payable		<b>(95.5)</b>	(85.9)	(180.2)
<b>Profit on ordinary activities before taxation</b>		<b>46.4</b>	51.1	12.1
Tax on profit on ordinary activities	2	<b>(16.7)</b>	(18.6)	19.9
<b>Profit on ordinary activities after taxation</b>		<b>29.7</b>	32.5	32.0
Dividends:				
- SWSG Dividend Loop <sup>1</sup>	3	<b>(21.0)</b>	(20.4)	(42.1)
- Ordinary dividends	3	-	(35.0)	(35.0)
<b>Retained profit/(loss) for the period</b>		<b>8.7</b>	(22.9)	(45.1)

## Summarised statement of total recognised gains and losses

For the six months ended 30 September 2011

	Six months ended 30 September 2011 Unaudited £m	Six months ended 30 September 2010 Unaudited £m	Year ended 31 March 2011 Audited £m
<b>Profit on ordinary activities after taxation</b>	<b>29.7</b>	32.5	32.0
Actuarial (loss)/gain on pension scheme	<b>(4.7)</b>	1.8	48.6
Movement on deferred tax relating to pension liability	<b>0.6</b>	(1.6)	(18.5)
Movement on current tax relating to pension liability	-	-	4.1
<b>Total gains and losses recognised since last annual report and financial statements</b>	<b>25.6</b>	32.7	66.2

<sup>1</sup> See Page 1 for explanation of the SWSG Dividend Loop

# Southern Water Services Limited

## Summarised balance sheet

As at 30 September 2011

	Notes	Six months ended 30 September 2011 Unaudited £m	Six months ended 30 September 2010 Unaudited £m	Year ended 31 March 2011 Audited £m
Fixed assets and investments		<b>4,017.3</b>	3,788.7	3,912.3
Cash		<b>162.0</b>	225.3	172.0
Other net current assets		<b>(25.1)</b>	58.0	(78.9)
Debtors: amounts falling due after more than one year		<b>812.3</b>	812.3	812.3
Creditors: amounts falling due after more than one year		<b>(3,645.4)</b>	(3,504.7)	(3,512.2)
Provision for liabilities and charges		<b>(428.2)</b>	(477.2)	(420.2)
Pension deficit	6	<b>(40.9)</b>	(65.7)	(36.8)
Grants and contributions		<b>(48.0)</b>	(49.1)	(49.1)
<b>Net assets</b>		<b>804.0</b>	787.6	799.4
<b>Capital and reserves:</b>				
Called up share capital	4	<b>0.1</b>	0.1	0.1
Share premium	4	<b>46.3</b>	46.3	46.3
Profit and loss account	4	<b>757.6</b>	741.2	753.0
<b>Total equity shareholders' funds</b>		<b>804.0</b>	787.6	799.4

# Southern Water Services Limited

## Summarised cash flow statement

For the six months ended 30 September 2011

	Notes	Six months ended 30 September 2011 Unaudited £m	Six months ended 30 September 2010 Unaudited £m	Year ended 31 March 2011 Audited £m
<b>Net cash inflow from operating activities</b>	5	<b>195.0</b>	204.2	472.5
Net interest received/(paid)		4.4	0.5	(76.8)
Preference share dividends		(13.0)	(15.4)	(22.3)
Taxation:				
- Payments made within SWSG Dividend Loop		(7.4)	(8.0)	(14.8)
- Other group relief payments		-	-	(8.6)
Capital expenditure and investment		(219.5)	(189.3)	(375.9)
Equity dividends paid:				
- SWSG Dividend Loop		(21.0)	(20.4)	(42.1)
- Ordinary dividends		-	(35.0)	(35.0)
<b>Net cash outflow before financing</b>		<b>(61.5)</b>	(63.4)	(103.0)
<b>Financing:</b>				
New loans granted		50.0	-	-
Repayment of loans		(122.5)	-	(13.7)
Swap receipts		124.0	-	-
<b>Net cash inflow/(outflow) from financing</b>		<b>51.5</b>	-	(13.7)
<b>Decrease in cash</b>		<b>(10.0)</b>	(63.4)	(116.7)

# Southern Water Services Limited

## Notes to the interim financial information

### 1 Basis of preparation

The financial information for Southern Water Services Limited is for the six months ended 30 September 2011 and has been prepared on a going concern basis in accordance with UK GAAP and on the basis of accounting policies consistent with those used for the audited financial statements of Southern Water Services Limited at 31 March 2011.

The financial information does not constitute statutory accounts of the company within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2011 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records and returns), or section 498(3) (failure to obtain necessary information and explanations).

The financial information for the six months ended 30 September 2011 and the equivalent period in 2010 has not been audited.

The financial information includes only that of Southern Water Services Limited as an individual company and does not contain consolidated financial information as the parent of subsidiary companies.

### 2 Taxation

The tax charge is based on the estimated effective rate of tax, including deferred tax, for the full year to 31 March 2011.

### 3 Dividends

The following dividends were paid by the company:

	<b>Six months ended 30 September 2011 Unaudited £m</b>	<b>Six months ended 30 September 2010 Unaudited £m</b>	<b>Year ended 31 March 2011 Audited £m</b>
<b>Equity dividends paid</b>			
- SWSG Dividend Loop	<b>21.0</b>	20.4	42.1
- Ordinary dividends	-	35.0	35.0
	<b>21.0</b>	55.4	77.1

# Southern Water Services Limited

## Notes to the interim financial information (continued)

### 4 Movement in shareholders' funds

	Six months ended 30 September 2011				Six months ended 30 September 2010	Year ended 31 March 2011
	Unaudited				Unaudited	Audited
	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m	Total £m	Total £m
<b>At 1 April</b>	<b>0.1</b>	<b>46.3</b>	<b>753.0</b>	<b>799.4</b>	810.3	810.3
Profit after tax	-	-	29.7	29.7	32.5	32.0
Dividends paid						
- SWSG Dividend Loop	-	-	(21.0)	(21.0)	(20.4)	(42.1)
- Ordinary dividends	-	-	-	-	(35.0)	(35.0)
Actuarial loss on pension scheme	-	-	(4.7)	(4.7)	1.8	48.6
Movement on deferred tax relating to pension asset	-	-	0.6	0.6	(1.6)	(18.5)
Movement on current tax relating to pension asset	-	-	-	-	-	4.1
<b>Shareholders' funds at end of period</b>	<b>0.1</b>	<b>46.3</b>	<b>757.6</b>	<b>804.0</b>	787.6	799.4

### 5 Reconciliation of operating profit to net cash flow from operating activities

	Six months ended 30 September 2011	Six months ended 30 September 2010	Year ended 31 March 2011
	Unaudited	Unaudited	Audited
	£m	£m	£m
Operating profit after exceptional items	141.0	136.7	191.5
Depreciation (net of amortisation of grants and contributions)	93.7	97.4	183.1
Increase in stocks	(0.1)	(0.1)	(0.4)
(Increase)/decrease in debtors	(58.4)	(29.7)	86.4
Increase in creditors	18.8	0.1	10.5
Difference between pension charge and cash contributions	-	-	0.8
(Decrease)/increase in environmental provision	-	(0.2)	0.6
<b>Net cash inflow for operating activities</b>	<b>195.0</b>	204.2	472.5

### 6 Pension

The pension deficits shown at 30 September 2011 and 30 September 2010 are based on the valuations at 31 March 2011 and 31 March 2010 respectively updated by the scheme actuary reflecting market yields and asset values. These are not formal interim valuations of the scheme assets and liabilities, however an assessment of the actuarial gains/losses has been made and shown in the STRGL.