



SOUTHERN WATER SERVICES LIMITED

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2007

Key Performance Improvements

- Significantly more spent on service improvements for customers in 2006/7 than in any previous year. Two-year investment of £834 million, £7 million ahead of Ofwat's target; over 100 schemes delivered, 30 ahead of target.
- Leakage level dropped by 10 million litres a day, nearly 11 per cent. This is the lowest level of leakage per property of the UK's water and sewerage companies and better than our Ofwat target.
- First results from an £80 million environmental improvement scheme in Spring 2007 with the first flows of wastewater from our new treatment works in Sandwich, Kent, ensuring cleaner seas for Margate and Broadstairs.
- Work began in June 2006 on a £15.5 million scheme to replace 57km of Victorian water pipes in Brighton and Hove.
- Public apology to customers affected by a new billing system at the company's Worthing call centre – significant improvements now in place

Finance Director Howard Goodbourn said: "We are dedicated to improving services to customers so it is only right that our investment to deliver better services is ahead of target. In addition, many customers are rightly concerned about water leaks so we have focused on this area to beat our targets."

Financial Highlights

- £525.4m invested to deliver new and improved water supply and wastewater treatment infrastructure - part of a £1.8 billion programme across Kent, Sussex, Hampshire and the Isle of Wight between 2005 and 2010
- Cash flow from income less operating expenditure totalled £339.7m. Cash outflow required to deliver the capital investment programme totalled £486.9m resulting in a negative cash flow of £147.2m before interest, tax, dividends and financing.
- Operating profits up by 13.7% to £244.6m (2005/06 £215.1m).
- Profit after taxation for the financial year was £94.1m.
- The increase in profit on disposals to £20.2m (2005/06 £5.0m) relates mainly to the sale and leaseback of the head office.

FINANCIAL REVIEW

Profit and Loss Account

- Turnover increased by 6.3% to £575.8m (2005/06 £541.5m). 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 6.5% to £303.7m (2005/06 £285.2m), and administration expenses, before exceptional items, decreased by 1.0% to £28.5m (2005/06 £28.8m). The overall increase in costs resulted mainly from additional depreciation, higher electricity prices, and the effects of inflation, offset by operating efficiencies.
- Profit after taxation for the financial year was £94.1m (2005/06 £61.4m). The retained profit for the year of £32.3 million has been transferred to reserves.

Cash Flow

- Net cash inflow from operating activities increased to £339.7m for 2006/07 from £331.6m in 2005/06, mainly due to the increased turnover.
- The net cash outflow from the servicing of finance decreased to £79.4m for 2006/07 from £106.7m in 2005/06, due to costs associated with a bond refinancing incurred in 2005/06.
- There was a net outflow of cash relating to the capital expenditure of £486.9m (2005/06 £253.1m) and a net cash outflow before financing in 2006/07 of £305.5m (2005/06 £90.1m).
- During September 2006 the Company issued a further bond for the sum of £200m.

Balance Sheet

- At the end of the period to 31 March 2007, the Company had fixed assets of £3,319.5m (2006: £2,952.9m) an increase of £366.6m from March 2006. This increase results from the capital investment programme less amounts charged for depreciation. The regulatory capital value at 31 March 2007 was £2,914m.
- As a result of the new bond issue creditors falling due after more than one year increased to £2,859.5m from £2,611.4m at March 2006.
- As at 31 March 2007, the SWS defined benefit pension scheme had an accounting deficit net of deferred tax of £72.8m (2006: £96.6m). In accordance with UK GAAP this deficit is included in the balance sheet.
- Overall net assets increased to £781.3m from £729.8m.

Note:

The figures and financial information for the year 2006-07 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 are expected to be available on the Company's web site by 6 July 2007.

PROFIT AND LOSS ACCOUNT (un-audited)

For the year ended 31 March 2007

	2007 £m	2007 £m	2006 £m	2006 £m
Turnover		575.8		541.5
Cost of sales		(303.7)		(285.2)
Gross profit		272.1		256.3
Administrative expenses				
- before exceptional items	(28.5)		(28.8)	
- exceptional items	-		(14.1)	
Administrative expenses		(28.5)		(42.9)
Other operating income		1.0		1.7
Operating profit		244.6		215.1
Profit on disposal of fixed assets		20.2		5.0
Net interest and similar charges		(129.4)		(126.1)
Profit on ordinary activities before taxation		135.4		94.0
Tax on profit on ordinary activities		(41.3)		(32.6)
Profit on ordinary activities after taxation		94.1		61.4
Dividends		(61.8)		(44.8)
Retained profit for the financial year		32.3		16.6

The above results relate to continuing operations.

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

For the year ended 31 March 2007

	2007	2006
	£m	£m
Profit on ordinary activities after taxation	94.1	61.4
Actuarial gain/(loss) recognised in the pension fund	27.4	(2.0)
Movement on deferred tax relating to pension deficit	(8.2)	0.6
Total recognised gains for the year	113.3	60.0
Prior year adjustment	-	(96.9)
Total gains/(losses) recognised since last annual report	113.3	(36.9)

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 2007

	2007	2006
	£m	£m
Fixed assets		
Tangible assets	3,290.3	2,923.7
Investments	29.2	29.2
	3,319.5	2,952.9
Current assets		
Stocks	2.2	1.1
Debtors: amounts falling due within one year	181.5	119.3
Debtors: amounts falling due after one year	812.3	812.3
Cash and deposits	130.9	240.9
	1,126.9	1,173.6
Creditors: amounts falling due within one year	(261.3)	(242.3)
Net current assets	865.6	931.3
Total assets less current liabilities	4,185.1	3,884.2
Creditors: amounts falling due after more than one year	(2,859.5)	(2,611.4)
Provision for liabilities and charges	(423.6)	(400.2)
Grants and contributions	(47.9)	(46.2)
Net assets excluding pension deficit	854.1	826.4
Pension deficit	(72.8)	(96.6)
Net assets including pension deficit	781.3	729.8
Capital and reserves		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	734.9	683.4
Total shareholders' funds	781.3	729.8

CASH FLOW STATEMENT (un-audited)
for the year ended 31 March 2007

	2007	2006
	£m	£m
Net cash inflow from operating activities	339.7	331.6
Returns on investments and servicing of finance		
Interest received	72.2	78.0
Interest paid	(136.3)	(162.4)
Issue costs of new loans	(1.6)	(8.6)
Preference share dividends	(13.7)	(13.7)
Net cash outflow from returns on investments and servicing of finance	(79.4)	(106.7)
Taxation	(17.1)	(17.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(505.3)	(272.4)
Receipt of grants and contributions	10.2	13.8
Sale of tangible assets	8.2	5.5
Net cash outflow for capital expenditure and financial investment	(486.9)	(253.1)
Equity dividends paid	(61.8)	(44.8)
Net cash outflow before financing	(305.5)	(90.1)
Financing		
Increase in borrowings	198.5	499.5
Premium arising on new loans	-	-
Repayment of borrowings	-	(420.0)
Repayment of long-term loan	-	-
Net cash inflow from financing	198.5	79.5
(Decrease)/ increase in net cash	(107.0)	(10.6)
Reconciliation to net debt		
Net debt at beginning of year	(2,412.3)	(2,307.3)
(Decrease)/increase in net cash	(107.0)	(10.6)
Movements in borrowings	(198.5)	(79.5)
Debt issue costs	1.6	8.6
Other non cash changes	(33.7)	(23.5)
Net debt at end of year	(2,749.9)	(2,412.3)