

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



2005

For the six months ended 30 September 2005



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.

Financing

A refinancing was carried out during May to July 2005. This comprised a bond issue of £500m under the existing EMTN programme, putting in place an additional revolving credit facility of £120m, and calling £420m of bonds in issue at March 2005. There have been no credit rating changes to any of the bonds issued by Southern Water Services (Finance) Ltd.

FRS 17

The accounts contained in this report reflect the adoption of FRS 17. The deficit shown at 30 September 2005 is based on the valuation at 31 March 2005 updated by our actuaries reflecting market yields at 30 September 2005. This is not a formal interim valuation of the scheme assets and liabilities, however an assessment of the actuarial loss 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.

FRS 25

As Southern Water Services Ltd is not a listed company it is only required to adopt the presentational element of FRS 25. As a result the preference shares have been disclosed as loans rather than equity and the associated dividends have been re-classified as interest.

General levels of service procedure

Southern Water Services Ltd (SWS Ltd) has brought to the attention of its regulator OFWAT certain inconsistencies in its General Levels of Service procedures. These inconsistencies relate to the reporting and handling of response levels to customer enquiries and complaints, and were discovered in the course of a project to install a new customer billing system.

Both the SWS Ltd and OFWAT press releases relating to this issue are appended to this document.

It is too early to ascertain a reliable estimate of the financial impact arising from this issue - therefore under FRS12 no assessment of the potential effect has been included in the accounts contained within this report.

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

Interim Accounts

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Profit and Loss Account

	Six months ended 30 September	
	2005	2004
	unaudited	unaudited restated*
	£m	£m
Turnover	<u>274.1</u>	<u>237.5</u>
Operating profit and profit on ordinary activities before interest and taxation	114.3	91.4
Profit on disposal of fixed assets	1.9	0.9
Net interest payable	(70.3)	(60.4)
Profit on ordinary activities before taxation	<u>45.9</u>	<u>31.9</u>
Tax on profit on ordinary activities	(15.8)	(11.6)
Profit on ordinary activities after taxation	<u>30.1</u>	<u>20.3</u>
Dividends	(19.8)	(20.0)
Retained profit for the period	<u>10.3</u>	<u>0.3</u>
STRGL		
Profit for the financial year	30.1	20.3
Actuarial loss on pension scheme	(12.9)	-
Movement on deferred tax relating to pension liability	3.9	-
Total recognised gains and losses for the year	<u>21.1</u>	<u>20.3</u>
Prior year adjustment FRS17	<u>(93.0)</u>	
Total gains and losses recognised since last annual report and financial statements	<u>(71.9)</u>	

* Restated for FRS17 and FRS25

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Balance Sheet

	As at 30 September	
	2005	2004
	unaudited	unaudited restated*
	£m	£m
Fixed assets	<u>2792.5</u>	<u>2733.9</u>
Cash	339.6	294.7
Other net current assets/(liabilities)	(90.5)	(112.8)
Debtors: amounts falling due after more than one year	812.3	816.6
Creditors: amounts falling due after more than one year	(2,600.1)	(2,505.3)
Provision for liabilities and charges	(389.8)	(381.9)
Pension liability	(108.5)	(107.9)
Grants and contributions	(44.3)	(43.1)
Net assets	<u><u>711.2</u></u>	<u><u>694.2</u></u>
Capital and reserves:		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	664.8	647.8
Total equity shareholders' funds	<u><u>711.2</u></u>	<u><u>694.2</u></u>

* Restated for FRS17 and FRS25

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Cash Flow

	Six months ended 30 September	
	2005 unaudited £m	2004 unaudited £m
Net cash inflow from operating activities	182.9	160.2
Net interest paid	(8.6)	(10.8)
Non equity dividends paid	(6.9)	0.0
Taxation	(8.5)	(8.6)
Capital expenditure and financial investment	(104.2)	(92.8)
Equity dividends paid	(24.9)	(23.4)
Net cash inflow/(outflow) before financing	<u>29.8</u>	<u>24.6</u>
Financing:		
Issue of Bonds	493.5	174.1
Issue of Preference shares	0.0	0.0
New loans granted	0.0	0.0
Repayment of loans	(422.1)	0.0
Net cash inflow from financing	<u>71.4</u>	<u>174.1</u>
Increase in cash	<u>101.2</u>	<u>198.7</u>

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The effect of adopting FRS 17 and FRS 25 is required to be shown retrospectively comparative figures have been restated as shown below:

Profit and Loss Account

**Six months ended 30 September
2004
unaudited
£m**

Retained profit as previously stated	1.2
Effect of adopting FRS 17	
Operating profit and profit on ordinary activities before interest and taxation	0.7
Net interest payable	(2.0)
Tax	0.4
Retained Profit as restated	<u>0.3</u>

Balance Sheet

	Net current liabilities £m	Provisions for liabilities and charges £m	Net pension liability £m	P&L Reserve £m
As previously stated	(122.3)	(379.0)	-	749.1
Effect of adopting FRS 17	9.5	(2.9)	(107.9)	(101.3)
As restated	<u>(112.8)</u>	<u>(381.9)</u>	<u>(107.9)</u>	<u>647.8</u>

	Creditors greater than 1 year £m	Share capital and premium £m
As previously stated	(2,245.3)	306.4
Effect of adopting FRS 25	(260.0)	(260.0)
As restated	<u>(2,505.3)</u>	<u>46.4</u>

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Southern Water press releases

16 November 2005: Update on customer guaranteed standards payments

Southern Water is identifying customers entitled to compensation payments as an investigation into the company's service standards continues. Extra staff have been brought in to review thousands of paper records and examine millions of microfilmed records of customer correspondence, since the investigation, involving a specialist team of independent investigators, began on October 24.

The company is also recruiting and training more staff to deal with the day-to-day business of its customer service centre, which receives up to 8,500 telephone calls and up to 1,600 letters every day.

Under a Guaranteed Standards Scheme Southern Water is obliged to make payments to customers if it does not reply to letters within certain timescales and the company is now identifying anyone who should have been paid and has not. It will then make them payments of £25 and in some circumstances £35 where there has been an exceptional delay.

Chief Executive Les Dawson said: "We have identified a problem and we must find out the extent of it, fix it and make the appropriate payment to anyone entitled.

"We are currently going through all of our customer contact records systematically to do that and by the end of the month we should have sent a cheque to any customer due a payment since April 2004 for our late response to a written complaint. Following this we will similarly start to make payments relating to billing inquiries."

Any customer who feels they are entitled to a Guaranteed Standards Payment and has not received one does not need to take any action. Southern Water aims to make payment to them as soon as possible.

Mr Dawson said: "We are treating this matter with the utmost priority and apologise to all customers affected by this. At this early stage, it is difficult to say how many letters have not been responded to within the required timescale or how far these inconsistencies go back. But the investigation will establish this and give a clear indication of the sums involved."

The investigation at Southern Water was launched after the company notified its regulator Ofwat and also contacted the Serious Fraud Office about inconsistencies in general levels of service procedures.

The inconsistencies were discovered during a project to install a new billing system and showed that figures reported to Ofwat, relating to response times for written billing inquiries and service complaints, did not always match actual performance.

25 October 2005: General levels of service procedure

Southern Water Services Limited (SWSL) has brought to the attention of its regulator OFWAT certain inconsistencies in its General Levels of Service procedures. These inconsistencies relate to the reporting and handling of response levels to customer enquiries and complaints, and were discovered in the course of a project to install a new customer billing system

The Company has also spoken to the Serious Fraud Office to see whether or not this would be a suitable matter for them to investigate.

The Board of SWSL has appointed the law firm Linklaters and a specialist team from KPMG to investigate these inconsistencies. This investigation will be led by SWSL's newly-appointed Chief Executive, Les Dawson. The Company will ensure that customers who have been disadvantaged will be reimbursed. The Company is determined to improve its service to customers. It is for this reason that SWSL immediately alerted the authorities and is acting urgently and in full cooperation with them.

OFWAT press release

25 October 2005: PN26/05 OFWAT statement about Southern Water

We are taking very seriously the statement made by Southern Water today about their irregularities in the handling and reporting of customer enquiries and complaints.

Customers' interests must be protected. Southern Water has given us an assurance that customers who have been disadvantaged will be reimbursed.

A priority will be to ensure that all the facts come to light and that lessons are learnt.