



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

**For the six months ended 30 September 2006**

## **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 deficits shown at 30 September 2006 and 30 September 2005 are based on the valuations at 31 March 2006 and 31 March 2005 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 have 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.

## **FRS21**

The Profit and Loss account for September 2005 has been restated to reflect the impact of FRS21. As a result the final proposed dividend for the year ended 31 March 2005 of £5m has been recognised in the period to 30 September 2005.

## **Financing**

A bond of £200m was successfully issued under the existing EMTN programme during October 2006. There have been no credit rating changes to any of the bonds issued by SWSF.

## **General levels of service procedure**

In October 2005, Southern Water Services Ltd (SWS Ltd) 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 enquires and complaints, and were discovered in the course of a project to install a new customer billing system. Southern Water has provided Ofwat with an undertaking that the Company will not benefit from these inconsistencies to the detriment of its customers. The matter remains under investigation by Ofwat, and the Serious Fraud Office has announced it is carrying out its own investigation.

The costs of the investigation, together with the costs of identifying and making the GSS payments, were shown in the full year accounts for the year ended March 2006, as an exceptional item of £14.1M.

On 31 March 2006, the Company was notified by Ofwat that it will be fined for its failure since April 2005 to achieve customer service performance standards under the GSS. Although no penalty has yet been fixed, the Company could be fined up to a maximum of 10% of its annual turnover.

**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	
	2006	2005
	unaudited	unaudited (restated)
	£m	£m
Turnover	<u>289.5</u>	<u>274.1</u>
Operating profit and profit on ordinary activities before interest and taxation	120.7	114.3
Profit on disposal of fixed assets	2.9	1.9
Net interest payable	(65.0)	(70.3)
Profit on ordinary activities before taxation	<u>58.6</u>	<u>45.9</u>
Tax on profit on ordinary activities	(19.6)	(15.8)
Profit on ordinary activities after taxation	<u>39.0</u>	<u>30.1</u>
Dividends	(24.9)	(24.8)
Retained profit for the period	<u>14.1</u>	<u>5.3</u>
<b>STRGL</b>		
Profit for the financial year	39.0	30.1
Actuarial loss on pension scheme	(3.0)	(12.9)
Movement on deferred tax relating to pension liability	0.9	3.9
Total recognised gains and losses for the year	<u>36.9</u>	<u>21.1</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>

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## Balance Sheet

	As at 30 September	
	2006 unaudited	2005 unaudited
	£m	£m
Fixed assets	<u>3101.2</u>	<u>2792.5</u>
Cash	142.6	339.6
Other net current assets/(liabilities)	(130.3)	(90.5)
Debtors: amounts falling due after more than one year	812.3	812.3
Creditors: amounts falling due after more than one year	(2,625.2)	(2,600.1)
Provision for liabilities and charges	(410.6)	(389.8)
Pension liability	(100.8)	(108.5)
Grants and contributions	(46.9)	(44.3)
Net assets	<u><u>742.3</u></u>	<u><u>711.2</u></u>
Capital and reserves:		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	695.9	664.8
Total equity shareholders' funds	<u><u>742.3</u></u>	<u><u>711.2</u></u>

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## Cash Flow

	Six months ended 30 September	
	2006	2005
	unaudited	unaudited
	£m	£m
Net cash inflow from operating activities	179.4	182.9
Net interest paid	3.8	(8.6)
Preference share dividends	(6.9)	(6.9)
Taxation	(8.5)	(8.5)
Capital expenditure and financial investment	(229.0)	(104.2)
Equity dividends paid	(24.9)	(24.9)
Net cash inflow/(outflow) before financing	<u>(86.1)</u>	<u>29.8</u>
Financing:		
Issue of Bonds	0.0	493.5
Issue of Preference shares	0.0	0.0
New loans granted	0.0	0.0
Repayment of loans	0.0	(422.1)
Net cash inflow from financing	<u>0.0</u>	<u>71.4</u>
Increase in cash	<u><u>(86.1)</u></u>	<u><u>101.2</u></u>

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