



SOUTHERN WATER SERVICES LIMITED

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2006

KEY HIGHLIGHTS

- Profit after taxation for the financial year was £61.4m. Of this an ordinary share dividend of £5.0m was paid to shareholders, £16.6m was transferred to reserves, and the remainder assisted in the financing of capital investment. Capital expenditure totalling £319.0m was invested to deliver new and improved water supply and wastewater treatment infrastructure.
- The cashflow from income less operating expenditure totalled £331.6m. However, the cash outflow required to pay interest and deliver the capital investment programme totalled £416.7m resulting in a negative cashflow of £85.1m.
- Capital investment during the year included the fast tracking of 53 schemes in order to help alleviate the current drought situation. In addition the leak detection team was doubled in size to 120 staff.

FINANCIAL REVIEW

Profit and Loss Account

- Turnover increased by 14.0% to £541.5m (2004/05 £475.0m). 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 7.9% to £285.2m (2004/05 £264.4m), and administration expenses, before exceptional items, increased by 11.2% to £28.8m (2004/05 £25.9m). The increase in costs resulted mainly from additional depreciation, higher electricity prices, and the effects of inflation, offset by operating efficiencies.
- The company has adopted FRS25 'disclosure of financial instruments' which has led to the reclassification of £13.7m of preference share dividend payments as interest.
- Profit after taxation for the financial year was £61.4m (2005: £51.7m). The retained profit for the year of £16.6 million has been transferred to reserves.
- During the period the Company brought to the attention of Ofwat certain inconsistencies relating to the reporting of response levels to, and handling of, customer enquiries and complaints. Together with Ofwat the Company launched a joint investigation into this issue. The costs of this investigation, together with the costs of identifying and making compensation payments due to customers is shown as an exceptional item of £14.1m. Of this it is anticipated that between £1m and £2m will be paid to customers.

Cashflow

- Net cash inflow from operating activities increased to £331.6m for 2005/06 from £301.6m in 2004/05, mainly due to the increased turnover.
- The net cash outflow from the servicing of finance increased to £106.7m for 2005/06 from £101.5m in 2004/05, due to costs associated with a bond refinancing.
- There was a net outflow of cash relating to the capital expenditure of £253.1m (2004/05 £189.4m) and a net cash outflow before financing in 2005/06 of £90.1m (2004/05 £35.1m).
- The refinancing was carried out during May to July 2005. This comprised a bond issue of £500m and the repayment of £420m of bonds in issue at March 2005, together with putting in place an additional undrawn revolving credit facility of £120m. This resulted in a net cash inflow from financing during 2005/06 of £79.5m.

Balance Sheet

- At the end of the period to 31 March 2006, the Company had fixed assets of £2,952.9m (2005: £2,784.1m) an increase of £168.8m from March 2005. This increase results from the capital investment programme less amounts charged for depreciation.
- As a result of the bond refinancing creditors falling due after more than one year increased to £2,611.4m from £2,517.1m at March 2005.
- As a result of the implementation of FRS25 'disclosure of financial instruments' the preference shares of £260.0m are now reported as part of creditors falling due after more than one year.
- During the year FRS 17 'Retirement benefits' was fully implemented and the pension deficit of £96.6m (2005: £98.0m) was recognised on the balance sheet.
- Overall net assets increased to £729.8m from £714.6m.

Note:

The figures and financial information for the year 2005-06 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 the end of June 2006.

PROFIT AND LOSS ACCOUNT (unaudited)

For the year ended 31 March 2006

	2006	2006	2005	2005
	£m	£m	£m	(restated) £m
Turnover		541.5		475.0
Cost of sales		(285.2)		(264.4)
Gross profit		256.3		210.6
Administrative expenses				
- before exceptional items	(28.8)		(25.9)	
- exceptional items	(14.1)		-	
Administrative expenses		(42.9)		(25.9)
Other operating income		1.7		1.5
Operating profit		215.1		186.2
Profit on disposal of fixed assets		5.0		3.0
Net interest and similar charges		(126.1)		(120.3)
Profit on ordinary activities before taxation		94.0		68.9
Tax on profit on ordinary activities		(32.6)		(17.2)
Profit on ordinary activities after taxation		61.4		51.7
Dividends		(44.8)		(43.4)
Retained profit for the financial year		16.6		8.3

The above results relate entirely to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (unaudited)

For the year ended 31 March 2006

	2006	2005
	£m	(restated) £m
Profit on ordinary activities after taxation	61.4	51.7
Actuarial (loss)/gain recognised in the pension fund	(2.0)	13.1
Movement on deferred tax relating to pension deficit	0.6	(3.9)
Total recognised gains for the year	<u>60.0</u>	<u>60.9</u>
Prior year adjustment	(96.9)	
Total losses recognised since last annual report	<u>(36.9)</u>	

The prior year adjustment relates to the implementation of FRS 17.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

BALANCE SHEET (unaudited)

As at 31 March 2006

	2006	2005
	£m	(restated)
		£m
Fixed assets		
Tangible assets	2,923.7	2,754.9
Investments	29.2	29.2
	2,952.9	2,784.1
Current assets		
Stocks	1.1	1.0
Debtors: amounts falling due within one year	119.3	106.1
Debtors: amounts falling due after one year	812.3	812.3
Cash and deposits	240.9	239.4
	1,173.6	1,158.8
Creditors: amounts falling due within one year	(242.3)	(183.8)
Net current assets	931.3	975.0
Total assets less current liabilities	3,884.2	3,759.1
Creditors: amounts falling due after more than one year	(2,611.4)	(2,517.1)
Provision for liabilities and charges	(400.2)	(385.7)
Grants and contributions	(46.2)	(43.7)
Net assets excluding pension deficit	826.4	812.6
Pension deficit	(96.6)	(98.0)
Net assets including pension deficit	729.8	714.6
Capital and reserves		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	683.4	668.2
Total shareholders' funds	729.8	714.6

CASH FLOW STATEMENT (unaudited)
for the year ended 31 March 2006

	2006	2005
	£m	(restated) £m
Net cash inflow from operating activities	331.6	301.6
Returns on investments and servicing of finance		
Interest received	78.0	65.1
Interest paid	(162.4)	(152.3)
Issue costs of new loans	(8.6)	(0.6)
Preference share dividends	(13.7)	(13.7)
Net cash outflow from returns on investments and servicing of finance	(106.7)	(101.5)
Taxation	(17.1)	(16.9)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(272.4)	(189.4)
Receipt of grants and contributions	13.8	10.0
Sale of tangible assets	5.5	4.5
Net cash outflow for capital expenditure and financial investment	(253.1)	(174.9)
Equity dividends paid	(44.8)	(43.4)
Net cash outflow before financing	(90.1)	(35.1)
Financing		
Increase in borrowings	499.5	156.5
Premium arising on new loans	-	18.5
Repayment of borrowings	(420.0)	-
Repayment of long-term loan	-	4.3
Net cash inflow from financing	79.5	179.3
(Decrease)/ increase in net cash	(10.6)	144.2
Reconciliation to net debt		
Net debt at beginning of year	(2,307.3)	(1,996.1)
FRS 25 adjustment	-	(260.0)
Adjusted opening net debt	(2,307.3)	(2,256.1)
(Decrease)/increase in net cash	(10.6)	144.2
Movements in borrowings	(79.5)	(156.5)
Loan premium received	-	(18.5)
Debt issue costs	8.6	0.6
Other non cash changes	(23.5)	(21.0)
Net debt at end of year	(2,412.3)	(2,307.3)