Interim Financial Information and Report

For the six months ended
30 September 2017 (Unaudited)

Southern Water

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Interim management report – operational performance

We are pleased to publish an update on our performance at the halfway point of the financial year.

Our focus over the past six months has been to make further improvements across the business, particularly in customer service and data management, while working hard to strengthen our relationships with our regulators, stakeholders and community partners.

Overview

From April to September 2017 we are pleased to report the following:

- *Ofwat rated us as first in the industry for our handling of water supply queries between April and June. We were also ranked seventh in the industry overall in its second quarterly customer satisfaction survey – our highest ever position. Our SIM score overall for the year to date puts us in 14th position against all UK water companies – we were at 16th at March 2017.*
- *We now have more than 164,000 registered customers using our online portal to access their accounts at a time that's convenient to them. This is an increase from 80,000 at year end.*
- *We recorded a significant reduction in the number of sewer blockages and external flooding incidents compared to the same period in 2016.*
- *We have already helped 214,192 customers struggling to pay their water bills – significantly above our original business plan target of 161,103.*
- *We have launched a new phase of our Beauty of the Beach campaign, which aims to protect the region's bathing waters and support the work of The Environment Agency and Natural England.*
- *Our engineers have carried out more than 3,200 water-saving home visits across our region to help customers save water, money and energy.*
- *Building on the success of our metering programme our new initiative Target 100 will help customers reduce per capita consumption to 100 litres per head, per day to reduce demand on the natural water environment.*
- *We have partnered with South East Water to provide a single bill to customers for water and wastewater services rather than separate bills.*
- *We have strengthened links with our communities including:*
  - *supporting local charity projects chosen by our employees*
  - *new partnerships with our region's football clubs to help spread water-saving messages.*
- *We have continued to increase the amount of renewable energy used to power our operations, and maintained our record in recycling 100% of the waste produced as a by-product of our wastewater treatment process.*
- *We are also pleased to report an improvement in the way we manage leaks from our network. Our latest figure for this six-month period shows we have exceeded our target of keeping within 87.1 million litres of water lost per day, achieving 84.4 mega litres per day.*

Despite these successes, we recognise that we need to improve our performance in a number of areas. In particular, we have identified the need to review and strengthen our monitoring and reporting processes and our compliance with environmental regulations in respect of water quality and the performance of our wastewater treatment assets. As disclosed in our last annual report, we are working hard to make changes in these areas. In order to ensure that our processes and systems are fully compliant with all relevant regulatory standards we have formed a new Compliance and Asset Resilience team and are liaising closely with our regulators, the Drinking Water Inspectorate, the Environment Agency and Ofwat to help ensure that our stakeholders can have confidence that we are delivering our promises and raising our levels of service.

In preparation for the future, we have also completed initial consultations on our business plan for 2020–25 and begun the process of modelling how we will continue to deliver sustainable and resilient services to our customers. The water industry regulator, Ofwat, has challenged all water companies to rethink their place within the communities they serve, imagining a future where we work together with customers to develop a collaborative vision of water services. We are embracing this challenge and are already making changes within the business, which will help us to rapidly deliver this step change.

How we measure our progress

Our targets are detailed in our business plan for 2015 to 2020 and are based on six key areas that our customers said they wanted us to focus on:

- *Responsible customer service*
- *Affordable bills*
- *Better information and advice*
- *A constant supply of high-quality drinking water*
- *Removing wastewater effectively*
- *Looking after the environment.*

We measure our achievements by how we are doing against a series of targets we promised customers we would meet – our promise commitments.

Over the five years of our plan (2015–20), we will spend more than £3 billion improving water and wastewater services – with £1.8 billion invested in new and improved assets alone, equivalent to almost £1,000 for every property in our region.

For more detailed information and a guide to our performance as at March 2017, see our Annual Report & Financial Statements 2016–17.

Our Customer Advisory Panel (CAP) was set up to independently monitor our business plan delivery performance. It reports back to customers, stakeholders and regulators on its view of our progress. A copy of the latest CAP report is available to download from our website – **southernwater.co.uk/media**.

The performance figures quoted in this report are based on our unaudited internal reporting. These will be independently assured at the end of the 2017–18 financial period by our external operational auditors and reviewed by the CAP.

Working for our customers

Responsible customer service

Our Service Incentive Mechanism (SIM) score – our customer satisfaction rating – of 82 has seen us move up the industry league tables, from 18th to 16th by March 2017 and to 14th position so far this year.

Over the past six months we have tried to make life a little easier for our customers by:

- *simplifying and expanding the services on offer via our online account management portal. To date, more than £12 million has been collected from customers transacting online since we launched the portal, with 120,000 payments taken, 20,000 Direct Debits set up and around 15,000 meter readings submitted*
- *improving our billing, cash and debt recovery processes to focus on a targeted and tailored approach to debt prevention and recovery. Early collections performance has improved compared to the same period in the 2016–17 financial year, which has resulted in fewer accounts being transferred to our Debt Collection Agencies. In addition we have focused on targeted litigation activity and customer engagement to improve our interaction with customers in long-term debt. We are also investing in our debt management system, which will help us to develop a new customer segmentation model and increase our cash collection rates. This has also resulted in the creation of a new team focused on supporting those customers who are financially vulnerable*
- *reorganising teams in our contact centres to make the process of dealing with customer queries quicker and easier*
- *improving the responsiveness of our website and social feeds, to keep customers informed of issues that might affect them, in real time*
- *setting up a new, dedicated Home Move team tasked with the seamless creation of new customer accounts and better management of customers moving in and out of our service area*
- *partnering with South East Water to provide a single bill to customers for water and wastewater services rather than separate bills. From April to September 2017, 194,475 customers were migrated to the new billing process with South East Water. A further 56,485 were migrated in October 2017.*

We were pleased that our efforts have been acknowledged in a recent report by the Consumer Council for Water (CCW). CCW's Consumer Complaints Annual Report published in September 2017 noted a 45% reduction in written complaints to Southern Water in 2016–17.

This year we continue to build on this success with a further 17% reduction in written complaints since April.

Unfortunately, we continued to see an increase in the number of 'unwanted contacts'. These contacts are unwanted from a customer point of view, where customers approach us about an issue. In part, this increase is due to additional processes and controls introduced to help us more accurately categorise unwanted and wanted calls.

Customer service remains one of our principal target areas for improvement and we are focused on raising our level of performance in this area.

Affordable bills

Over the past six months we have worked closely with local authorities, housing associations, debt advice groups and agencies like the Citizens Advice Bureau to better understand the needs of our customers in difficult circumstances and how we can help. By September 2017, we had reached out to 214,192 customers to offer them tailored advice about how to pay their bills and tackle debt, higher than our target of reaching 161,103 at this point in our five-year business plan.

We also continue to offer home visits by our specialist partners to support customers who may need it, be that by offering:

- *independent counselling on managing debt*
- *advice on how to access the help they may be entitled to, or*
- *guidance on applying for the right Southern Water scheme or tariff to help make life a little easier.*

Better information and advice

Through targeted campaigns, we continue to speak to our customers to address a number of issues they told us were important to them. These include advice on how to save water, and hence, energy and money, how to prevent flooding and damage to properties and possessions, and what we are doing to continue to provide transparent and fair charges for our services.

One of the highlights over the past six months has been our work with a number of national restaurant chains to advise them on how to prevent the fat, oil and grease generated by their businesses from entering and blocking the sewer network.

We have also continued to raise awareness with our customers via our campaign, 'The Unflushables', on what they can do to help themselves avoid costly and unpleasant blockages in their own homes by not flushing non-biodegradable items down their loos. In July 2017, the campaign was shortlisted for a national award by the Chartered Institute of Public Relations.

Customers who are looking to reduce their water use and in turn lower their water bill are offered water efficiency visits.

Our water efficiency team delivered over 3,200 such home visits between April and September to fit free water-saving devices and advise customers on how to lower their water use and keep down their costs.

Our new Target 100 initiative goes even further. The South East is a water stressed area – and the impact of climate change and high levels of population growth will make this an even greater challenge. Our Universal Metering Programme and water efficiency work had a significant impact on reducing per capita consumption (PCC) to one of the lowest levels in the industry. This is important as it helps to mitigate our principal risks of having a resilient supply of good quality water and being resilient to drought.

Government has challenged the industry to reduce PCC to levels to around 120 litres per person per day. During 2016–17 we reduced it to 131 litres per person, per day. Our ambition is to reduce PCC to 100. To do this, we need to increase our work on water efficiency and work with developers, local authorities and other stakeholders. We will do this by:

- *lobbying for changes to sustainability regulations*
- *co-creating and co-delivering customer education campaigns*
- *trialling new technologies and ways of working*
- *sharing data and best practice.*

Delivering reliable services

A constant supply of high-quality drinking water

Delivering safe, clean drinking water to our customers' homes and businesses is the most important service we provide. We are therefore pleased to report that in September we achieved 99.97% compliance with the Drinking Water Inspectorate's (DWI) quality measures.

We are also pleased to report an improvement in the way we manage leaks from our network. Our latest figure for this six-month period shows we have exceeded our target of keeping within 87.1 million litres of water lost per day, achieving 84.4. We recorded a figure of 88 million litres of water lost per day at this time last year.

At the same time though, we were recently found guilty of supplying water that was unfit for human consumption and for using unauthorised materials following a burst main in the Rownhams area of Southampton in October 2015. We were fined a total of £480,000. Since the incident, we have carried out a full technical review which identified a number of actions. These have now been completed and included:

- *updating our operational and engineering design procedures for strategic water mains*
- *making our site management procedures clearer to follow so if something does go wrong we can quickly identify the issue*
- *giving our people additional training.*

To make sure we make all the necessary improvements to our processes and systems so that we are fully compliant with all relevant regulatory standards, we have also formed a new Compliance and Asset Resilience team. It is helping us to address concerns raised by the DWI in 2016 about our water sampling and data collection processes.

Removing wastewater effectively

We have seen some good results for our performance in managing wastewater for our customers so far this year.

The number of sewer blockages is 0.22 per kilometre of sewer – better than our target for this point in the year of 0.29. Blockages caused by fat, oil, grease and unflushables have fallen to 49% from 57% in 2016–17 and 61% in 2015–16 as a result of targeted communications campaigns across our region and home visits to customers in hotspot areas.

We are also on track with reducing external flooding incidents, recording a figure of 2,980 across our region – significantly lower than our target of keeping external floods to fewer than 3,800.

As a result of ongoing measures we are taking to improve the resilience of our network and mitigate the effects of severe weather, we are optimistic about maintaining our performance in terms of such flooding incidents, the effect of which is one of our principal risks, to the end of the year.

We also announced plans in September to build a new 10-kilometre sewer pipeline in Chichester which will increase capacity for new developments planned in the area. Capital investments in the wastewater business include replacing damaged sea defences next to the historical Fort Cumberland site in Portsmouth, which in turn protect our pumping stations from severe weather.

We expect that our end of year target to keep the number of internal flooding incidents below 405 will be achieved, as a result of our continued customer awareness campaigns mentioned earlier.

Protecting our natural resources

We are determined to improve our record in caring for the environment in which we, and our customers, live and work.

We are therefore pleased to note that we are continuing to recycle 100% of the waste produced as a by-product of our wastewater treatment process. We are also using more renewable energy thereby continuing to reduce our carbon footprint.

Around 15,000 solar panels have now been installed at three of our sites – Hardham in West Sussex, and Testwood and Otterbourne in Hampshire. The panels can produce a total 4.2 MW – which would be enough to provide electricity for between 1,000 and 1,400 UK homes every year.

So far this year we have recorded 117 category three (less serious) pollution incidents, which is an improvement on our figures for the same period last year, but we want to do much better. Our record on lowering the number of these incidents is improving – during 2016–17 we recorded a 12% reduction from 2015–16. This represents a 79% reduction in these incidents since 2011–12.

We have more than halved category one and two serious pollutions since 2014–15 and reduced these by 80% since 2011–12.

In our annual report for 2016–17, we explained that we had identified the need to review and improve our end-to-end reporting processes and controls in relation to environmental data. Compliance with regulations remains one of our principal risks and work is continuing, supplemented by the creation of a company Data Analytics and Reporting team, to strengthen our approach to data management and reporting.

We are committed to building better relationships with stakeholders and regulators in our region – such as the Environment Agency – to work on how we can improve our environmental record.

For example, in June, we hosted a successful lowland catchment workshop which identified areas for closer collaboration with stakeholders across the region to improve the environment of coastal areas, rivers and streams.

A number of meetings and visits to our sites have also been arranged for regulators (such as the DWI), environmental non-government organisations, and local authorities, to promote greater transparency and information-sharing.

Bathing waters

One of the most visible examples of our environmental management is the condition of our bathing waters.

We are pleased that we have maintained 53 of our bathing waters at 'excellent' standard so far this year.

Among our work with environmental groups and stakeholders to pursue technical solutions to tackle joint problems, we have also expanded our successful Beauty of the Beach awareness campaign.

The campaign, which has seen us partner with The Environment Agency, enlists the help of all beach-users to join us in keeping bathing areas clear of rubbish and dog waste. The combination of films featuring local case studies and social media messages has been so well received and effective at local level, that the campaign is now being used as a template for a nationwide initiative.

Health and Safety

Health and safety at work continues to be a priority and in these first six months of 2017–18 we recorded more than 100 days free of any reportable injury to our employees.

In July, as mentioned in our annual report, we were awarded the Order of Distinction from the Royal Society for the Prevention of Accidents (RoSPA), an external recognition of our commitment to maintaining an excellent health and safety record over the past 18 years.

In September we also held our annual health and safety conference with our suppliers to share best practice and highlight the importance of working together to ensure everyone feels safe when they come to work.

As the high volume of construction work continues on our sites over the remainder of the year, we are committed to making sure we protect the health and safety of everyone who works for and with us.

Community

Most of our employees also live in the region we serve. These close ties to our communities mean that supporting good causes in our region is hugely important to our company.

By September 2017 we had raised more than £90,000 for the Kent, Surrey & Sussex Air Ambulance Trust – our current corporate charity partner. With almost another year to run of this two-year partnership, we look set to smash our target of raising £100,000 by the end of the two-year period.

Also by September, our four regional charity partners for 2016–17 (as selected by our employees) completed the projects for which they were supported by Southern Water. Each one received funding and access to volunteer workers from among our own employees to help with a scheme dear to their hearts.

We have now begun similar work with four new regional charity partners. These are:

Beanstalk – a Childrens' literacy project in Kent

The Countryside Education Trust in Hampshire

Age UK on the Isle of Wight

St Barnabas House Hospice in Sussex

We awarded community grants in two areas to help local charities and community groups in Woolston, Southampton and East Worthing.

In May, we held our first Community Engagement conference to promote corporate fundraising ideas across a range of industries while other highlights included our fundraising charity raft race at Bewl in July and our charity clay shoot in September. In addition, our company volunteers gave 3,224 hours service to their local communities and chosen charities.

We also attended 15 events to raise awareness about looking after our water resources with a total footfall of more than 250,000.

As part of our efforts to help our communities to get the best from our services while adopting responsible water use, we have also become the official water partner of Brighton & Hove Albion Football Club. It is setting its own example by using recycled water to keep its pitch in top form while carrying our awareness messages on its publicity boards.

Looking ahead

The main focus for us in the coming months is to put together a plan to protect the reliability and quality of our services up 2025 and beyond while continuing to deliver an improved standard of service to our customers.

Under the price review process for 2019 (PR19), our regulator Ofwat sets the terms under which water companies can operate for the next five-year period. It means that all water companies must satisfy Ofwat that they have credible and detailed business plans for delivering reliable, high-quality services at an affordable price for customers up to 2025.

Ofwat describes PR19 as the 'framework for a resilient long-term future for water, providing more of what matters to customers at a price they can afford and are willing to pay'. To produce this framework, we are involved in intensive and systematic planning to demonstrate how we propose to fund our business to secure long-term stability and improved quality of our region's water services for the next few years. Our key themes will focus on providing great customer service, resilience in our operations, affordability and innovation.

To this end, we are not only liaising with customers and stakeholders in our region but with policy leaders at national government level to make sure we get our objectives right for the South East and the sector as a whole.

In July we co-hosted a parliamentary reception and held stakeholder panels in the spring and summer to help build a shared vision for the future and explore opportunities to develop innovations to make the sector more efficient.

Some of the innovative solutions under discussion to tackle ongoing challenges such as climate change, population growth and water scarcity, included:

- *developing water re-use schemes that allow us to take highly treated wastewater and put it back into the natural water cycle, before abstracting it again and treating it to drinking water quality standards*
- *fitting monitors to our sewer overflows, which help track flows and prioritise areas for investment and improvement to protect the natural environment*
- *looking at new nutrient extraction technology to protect our water supply and potentially use extracted materials to generate products that have value elsewhere.*

A new market

April's launch of the competitive retail market for non-household customers meant that for the first time, organisations such as local authorities, businesses and charities could choose their water and wastewater retailer – the company which handles their billing and customer service.

We announced in 2016 that we were selling our non-household retail business to Business Stream, a specialist retailer at the forefront of the competitive market in Scotland. All of our non-household customers, approximately 100,000 customers, have been transferred. The profit on the sale of £15.0 million is disclosed in note 4 to the interim financial information.

To help us prepare for the market opening, we delivered face-to-face training to more than 300 employees directly involved in the changes and created new training packages for all staff to complete.

Despite its challenges, we surpassed the average industry market performance standard for the period to September, placing us sixth overall out of 20 wholesalers.

We signed 22 wholesale-retail contracts with retailers, which enables the retailers to work with us in our area. Out of these, there are currently 16 retailers actively operating in the Southern Water region. There have been over 3,000 non-household customers switching from one retailer to another in our area since the market opened.

Other 'firsts' for us in this period included our launch of a wholesaler conference for water retailers across the UK. Hosted by our water efficiency team, the event helped to outline benefits for business customers and promote specific partnership offers. Senior representatives from Ofwat, CCWater and Waterwise attended and our CEO, Ian McAulay, spoke passionately about the partnership opportunities.

Interim management report – financial performance

Key financial performance indicators

	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m	Increase/ (decrease) %
Revenue	**413.1**	409.2	1.0
Operating costs	**(284.7)**	(277.2)	2.7
Operating profit	**129.5**	133.5	(3.0)
Gross capital expenditure	**201.5**	128.7	56.6
Net cash inflow from operating activities	**216.1**	243.8	(11.4)

Income statement

Revenue for the period increased to £413.1 million (period to 30 September 2016: £409.2 million). This increase principally results from changes to our water and wastewater tariffs which are linked to RPI, partially offset by the loss of our retail non-household revenue following the sale of this part of the business to Business Stream on 1 April 2017.

Operating costs for the first half of the year of £284.7 million increased by 2.7% (period to 30 September 2016: £277.2 million). This increase in costs is largely driven by inflation together with increased expenditure to address and improve regulatory compliance and costs associated with restructuring. In addition we have invested in improving our debt collection activities and the cost of this has been offset by a reduction in the bad debt provision charge. We recognise that bad debt remains a principal risk and continue to invest in initiatives to mitigate this.

As a consequence of the above, operating profit for the period decreased by 3.0% to £129.5 million (period to 30 September 2016: £133.5 million).

Other income amounted to £15.0 million and relates to the sale of our non-household retail business to Business Stream. Further details are included on page 8.

Finance costs for the period increased to £91.8 million (period to 30 September 2016: £80.8 million). This increase was largely due to higher indexation charged on inflation linked loans caused by higher RPI.

We raise finance in order to fund our capital investment programme. Our financial instruments comprise fixed, floating and inflation linked loans and derivatives.

The inflation linked loans and derivatives are in place to match movements in our revenues and Regulatory Capital Value and we are required to measure the fair value movement of the derivatives through the income statement.

The fair value gain on our derivative financial instruments amounted to £44.5 million (period to 30 September 2016: loss £380.5 million). To calculate the fair value of our derivative instruments we discount their forecast future cash flows using UK government bond yields. These future forecast cash flows are predictable, and match the future forecast movement in our revenues and Regulatory Capital Value, but government yields are constantly moving with the result that the valuation of our derivative instruments can be volatile. There has been a slight increase in gilt yields during the past six months which has resulted in a decrease in the liability associated with our derivative instruments for this period, despite there being little change to their future forecast cash flows. The changes in value that are recorded during the lives of derivatives, unless crystallised, do not represent cash flows.

Tax on profit from continuing operations amounted to a charge of £23.1 million (period to 30 September 2016: credit of £60.1 million). The credit in the prior year was mainly as a result of the loss of £380.5 million recognised on the fair value of our derivative financial instruments.

The profit from continuing operations after tax was £103.6 million (period to 30 September 2016: loss of £238.6 million).

Statement of financial position

As at 30 September 2017, non- current assets were £6,676.6 million (£6,587.2 million at 31 March 2017), an increase of £89.4 million from 31 March 2017. This increase mainly results from capital investment of £201.5 million, sewer adoptions of £4.8 million, capitalised interest of £6.7 million offset by depreciation and amortisation of £123.6 million for the period.

Current assets have decreased by £19.1 million from £485.3 million at 31 March 2017 to £466.2 million at 30 September 2017. This decrease principally results from the payment of the final dividend for 2016–17 of £63.2 million offset by an increase in trade receivables following the transfer of our non-household customers to Business Stream. Final bills were raised to these customers in February and March 2017, which resulted in accelerated cash receipts and lower debtors at March 2017.

Current liabilities of £352.2 million at 30 September 2017 are £2.7 million higher than at 31 March 2017. Current liabilities at 30 September 2017 include a higher interest accrual than March, of £65.1 million, due to the timing of interest payments on our bonds. This increase is offset by the payment of the final dividend for 2016–17 of £63.2 million, which was accrued at March 2017.

Long term borrowings have also remained largely in line with 31 March 2017, increasing by £16.0 million, from £3,933.7 million at 31 March 2017 to £3,949.7 million at 30 September 2017. This increase predominantly results from indexation charged on index-linked bonds for the period.

The liability associated with our derivative financial instruments decreased by £44.5 million, from £1,338.0 million at 31 March 2017 to £1,293.5 million at 30 September 2017 largely due to a slight increase in government bond yields as described in the commentary in relation to the income statement on page 9.

The pension deficit at 30 September 2017 of £165.7 million (31 March 2017: £176.9 million) is based on the latest actuarial valuation as at 31 March 2017 updated by a qualified independent actuary to reflect the latest market yields and asset values as at 30 September 2017. The decrease in the deficit of £11.2 million largely results from the use of a higher discount rate following a rise in corporate bond yields.

Discussions are ongoing with the Trustees and Pensions Regulator in respect of the March 2016 triennial valuation. As such there are uncertainties associated with the timing and quantum of future contributions in relation to the deficit.

Companies of the size and scale of Southern Water are sometimes subject to a number of claims disputes and potential litigation. The significant ones can often take many years to be withdrawn or to reach resolution and currently include ongoing investigations by regulatory bodies (the EA, DWI and Ofwat) as well as a potential claim in respect of property search income. The directors consider that, where it is possible to be estimated reasonably an appropriate position has been taken in reflecting such items in these financial statements. It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some of these given the stage of the investigations and claims and the potential range of outcomes.

Overall net assets increased from £954.1 million at 31 March 2017 to £1,039.2 million at 30 September 2017.

Cash flow

Net cash inflow from operating activities in the period amounted to £216.1 million (period to 30 September 2016: £243.8 million). This reduction in cash inflow mainly results from a revision to the timing of cash receivables following the sale of our non-household retail business to Business Stream.

Net cash used in investing activities amounted to £232.9 million (period to 30 September 2016: £178.4 million). The increase of £54.5 million primarily relates to the progression of our capital investment programme, where we are in the third year of our five-year business plan.

Net cash used in financing activities amounted to £83.2 million (period to 30 September 2016: received £218.8 million) a decrease of £302.0 million. This decrease mainly results from the net cash inflow from loans of £240.0 million in 2016 and the timing of the payment of the final dividend for 2016–17 of £63.2 million which was made in April 2017.

Equity dividends paid also include £23.0 million in relation to the Southern Water Services Group Limited (SWSG) dividend loop (period to 30 September 2016: £22.7 million). Under the SWSG dividend loop the company makes dividend payments via intermediary holding companies to SWSG. These dividends, along with associated group tax relief payments enable SWSG to pay the interest due to Southern Water Services Limited on an inter-company loan. The result of this is a circular transaction, the effect of which is a net cash flow for the company of nil.

Going concern

Please see the directors' assessment of going concern contained in note 1 of the interim financial information.

Principal risks

Risk management is a core component of our wider governance and internal control framework. It provides the overarching structure through which the company is managed to achieve its objectives. The categories of principal risks and uncertainties that the business faces over the remainder of this financial year are those we reported in our last Annual Report and Accounts listed below (in no particular order).

- *Customer Service*
- *Bad debt*
- *Resilience to drought*
- *Preventing flooding of our sites and from our network*
- *Resilient supply of good quality water*
- *Cyber security*
- *Wastewater treatment works failures and pollution incidents*
- *Health and safety*
- *Financing our business*
- *Defined benefit pension scheme*
- *Compliance with regulations and legislation*
- *Delivery of our capital investment programme*
- *Regulatory reform*

The significance and potential financial risks of these uncertainties change over time. Any key matters or significant updates since the annual report are provided within the interim report.

Further detail on these risks and uncertainties is included in the Annual Report and Accounts for the year ended 31 March 2017, which can be found on the Southern Water website.

Interim management report – Directors’ responsibilities statement

Directors’ responsibilities statement

The directors confirm to the best of their knowledge that:

- *the report and condensed financial statements have been prepared in accordance with UK GAAP; and give a true and fair view of the assets, liabilities, financial position and loss of the group as required by Disclosure and Transparency Rule 4.2.4R;*
- *the report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events) during the period and description of the principal risks and uncertainties for the remaining months of the financial period; and*
- *the report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related parties’ transactions and changes therein).*

Signed on behalf of the Board who approved the half yearly financial report on 27 November 2017:

Bill Tame
Chairman

William Lambe
Chief Financial Officer

Condensed income statement

For the six months ended 30 September 2017

Condensed income statement for the six months ended 30 September 2017			
		Six months ended 30 September 2017	Six months ended 30 September 2016
	Notes	**Unaudited**	Unaudited
Continuing operations		£m	£m
Revenue		**413.1**	409.2
Other operating income		**1.1**	1.5
Operating costs			
– before depreciation and amortisation		**(161.1)**	(154.7)
– depreciation and amortisation		**(123.6)**	(122.5)
Total operating costs		**(284.7)**	(277.2)
Operating profit		**129.5**	133.5
Other income	4	**15.0**	–
Profit on disposal of fixed assets		**0.6**	0.3
Finance income		**28.9**	28.8
Finance costs		**(91.8)**	(80.8)
Fair value gains/(losses) on derivative financial instruments		**44.5**	(380.5)
Net finance cost	5	**(18.4)**	(432.5)
Profit/(loss) before taxation from continuing operations		**126.7**	(298.7)
Tax (charge)/credit	6	**(23.1)**	60.1
Profit/(loss) after taxation from continuing operations		**103.6**	(238.6)

Condensed statement of other comprehensive income

For the six months ended 30 September 2017

Condensed statement of other comprehensive income for the six months ended 30 September 2017			
	Notes	**Six months ended 30 September 2017 Unaudited £m**	Six months ended 30 September 2016 Unaudited £m
Profit/(loss) for the period		**103.6**	(238.6)
Items that cannot be reclassified to profit or loss			
Actuarial gain/(loss) on retirement benefit obligation	13	**14.4**	(131.7)
Deferred tax asset movement relating to retirement benefit obligation	6	**(1.9)**	23.7
Deferred tax asset movement due to rate change	6	**–**	10.6
		12.5	(97.4)
Total comprehensive income/(loss) for the period		**116.1**	(336.0)

Condensed statement of financial position

As at 30 September 2017

Condensed statement of financial position as at 30 September 2017			
	Notes	Six months ended 30 September 2017 Unaudited £m	Year ended 31 March 2017 Audited £m
Non-current assets			
Intangibles	8	**67.4**	61.1
Property, plant and equipment	9	**5,767.7**	5,684.6
Other non-current assets	10	**812.3**	812.3
Investments		**29.2**	29.2
		6,676.6	6,587.2
Current assets			
Inventories		**2.5**	2.7
Trade and other receivables		**278.4**	197.3
Cash and cash equivalents		**185.3**	285.3
		466.2	485.3
Total assets		**7,142.8**	7,072.5
Current liabilities			
Trade and other payables		**(312.8)**	(310.1)
Borrowings		**(39.4)**	(39.4)
		(352.2)	(349.5)
Non-current liabilities			
Borrowings		**(3,949.7)**	(3,933.7)
Derivative financial instruments	11	**(1,293.5)**	(1,338.0)
Deferred tax liabilities		**(274.4)**	(257.6)
Retirement benefit obligations	12	**(165.7)**	(176.9)
Provisions for liabilities		**(0.4)**	(0.5)
Other non-current liabilities		**(67.7)**	(62.2)
		(5,751.4)	(5,768.9)
Total liabilities		**(6,103.6)**	(6,118.4)
Total net assets		**1,039.2**	954.1
Equity			
Called up share capital		**0.1**	0.1
Share premium account		**46.3**	46.3
Revaluation reserve		**–**	–
Retained earnings		**992.8**	907.7
Shareholders' equity		**1,039.2**	954.1

Condensed statement of changes in equity

For the six months ended 30 September 2017

Condensed statement of changes in equity for the six months ended 30 September 2017

	Called up share capital £m	Share premium £m	Revaluation reserve £m	Retained earnings £m	**Total £m**
Balance at 1 April 2017	**0.1**	**46.3**	**–**	**907.7**	**954.1**
Profit for the financial period	–	–	–	103.6	103.6
Other comprehensive income for the period	–	–	–	12.5	12.5
Total comprehensive income for period	**–**	**–**	**–**	**116.1**	**116.1**
Equity dividends paid (note 7)	–	–	–	(31.0)	(31.0)
At 30 September 2017	**0.1**	**46.3**	**–**	**992.8**	**1,039.2**

Condensed statement of changes in equity for the six months ended 30 September 2016

	Called up share capital £m	Share premium £m	Revaluation reserve £m	Retained earnings £m	**Total £m**
Balance at 1 April 2016	**0.1**	**46.3**	**745.1**	**568.3**	**1,359.8**
Profit for the financial period	–	–	–	(238.6)	(238.6)
Other comprehensive loss for the period	–	–	–	(97.4)	(97.4)
Total comprehensive income for period	**–**	**–**	**–**	**(336.0)**	**(336.0)**
Equity dividends paid (note 7)	–	–	–	(83.7)	(83.7)
Revaluation reserve transfer	–	–	(6.2)	6.2	–
At 30 September 2016	**0.1**	**46.3**	**738.9**	**154.8**	**940.1**

The revaluation reserve arose on transition to FRS 101 at 1 April 2014, when the company elected to measure its infrastructure and operational assets at their fair value and to use that fair value as their deemed cost at that date.

In January 2017, the company undertook a bonus issue of 735,000,000 ordinary shares out of its revaluation reserve. Following this bonus issue, the company completed a capital reduction exercise, creating £735.0 million of distributable reserves.

Condensed statement of cash flows

For the six months ended 30 September 2017

Condensed statement of cash flows for the six months ended 30 September 2017			
	Notes	**Six months ended 30 September 2017 Unaudited £m**	Six months ended 30 September 2016 Unaudited £m
Operating activities			
Cash generated from operations		**224.8**	249.5
Tax paid		**(8.7)**	(5.7)
Net cash from operating activities	13	**216.1**	243.8
Investing activities			
Purchase of property, plant and equipment		**(184.9)**	(122.7)
Purchase of intangibles		**(7.1)**	-
Receipt of grants and contributions		**1.5**	1.0
Sale of property, plant and equipment		**0.6**	0.3
Movement on loan to subsidiary		**(55.5)**	(57.0)
Other income		**12.5**	_
Net cash used in investing activities		**(232.9)**	(178.4)
Financing activities			
Interest received		**29.0**	28.5
Interest paid		**(10.2)**	(26.6)
Equity dividends paid		**(94.2)**	(22.7)
Preference share dividends		**(8.0)**	–
Repayment of loans		**–**	(50.0)
New loans granted		**–**	290.0
Issue costs of new loans		**–**	(0.3)
Finance lease payments		**0.2**	(0.1)
Net cash (used)/received in financing activities		**(83.2)**	218.8
Net (decrease)/increase in cash and cash equivalents		**(100.0)**	284.2
Cash and cash equivalents at beginning of the period		**285.3**	17.9
Cash and cash equivalents at end of the period	14	**185.3**	302.1

Notes to the interim financial information

1 Basis of preparation and accounting policies

The audited annual financial statements of company are prepared in accordance with FRS 101 incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. The condensed financial statements for the six months ended 30 September 2017, which are unaudited, have been prepared in accordance with FRS 104 'Interim Financial Reporting' as adopted by the United Kingdom.

The condensed financial statements for the six months ended 30 September 2017 do not constitute statutory accounts of the company. Statutory accounts for the year ended 31 March 2017 were approved by the board on 27 June 2017 and the auditor's report on those accounts was unqualified. The condensed financial statements for the six months ended 30 September 2017 should be read in conjunction with the annual report and financial statements for the year ended 31 March 2017 which have been delivered to the Registrar of Companies and can be obtained from the Company Secretary, Southern House, Yeoman Road, Worthing, BN13 3NX, or from our website.

Having reassessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

The accounting policies adopted in these condensed financial statements are consistent with those applied and set out in the annual report and financial statements for the year ended 31 March 2017, except as described below.

The tax charge is based on the estimated effective tax rate before exceptional items, fair value adjustments and adjustments in respect of prior periods, for the full year to 31 March 2018.

2 Key assumptions and significant judgments

In preparing these condensed financial statements, the significant judgments made in applying the company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2017.

3 Seasonality of operations and segmental analysis

The company's business is not seasonal in nature.

The directors believe that the whole of the company's activities constitute a single class of business. The company's revenue is generated wholly from within the United Kingdom. The Southern Water Board and management team review all internal management information on a single segment basis and accordingly no segmental information is provided in this interim report.

4 Other income

Other income of £15.0 million relates to the profit on disposal of the non-household retail business function on 1 April 2017. Of this, net cash proceeds of £12.5 million has been received, with the final balance of £2.5 million outstanding.

Notes to the interim financial information (continued)

5 Net finance costs

Net finance costs	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Finance income		
Interest revenue from SWSG Limited	**28.4**	28.4
Deposit income on short-term bank deposits	**0.5**	0.4
	28.9	28.8
Finance costs		
Interest payable on other loans	**(3.5)**	(4.2)
Interest paid to Southern Water Services (Finance) Ltd	**(68.8)**	(66.2)
Indexation	**(19.3)**	(8.3)
Amortisation of issue costs	**(1.8)**	(1.6)
Amortisation of gilt lock proceeds	**0.1**	0.1
Amortisation of deferred credits	**4.9**	4.8
Amortisation of bond premium	**0.3**	0.2
Other finance expense	**(2.4)**	(2.2)
Dividends on preference shares	**(8.0)**	(6.7)
	(98.5)	(84.1)
Amounts capitalised on qualifying assets	**6.7**	3.3
	(91.8)	(80.8)
Fair value gains/(losses) on derivative financial instruments		
Derivative financial instruments not designated as hedges	**44.5**	(380.5)
Net finance costs	**(18.4)**	(432.5)

Notes to the interim financial information (continued)

6 Taxation

Taxation presented in the income statement is based on the result for the period using current rates and takes into account tax deferred due to timing differences.

Tax on profit/(loss) on continuing operations	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Uunaudited £m
Current tax:		
In respect of the current period	**8.3**	5.8
Total current tax charge	**8.3**	5.8
Deferred tax:		
Origination and reversal of temporary differences	**14.8**	(60.9)
Effect of corporation tax rate change	**–**	(5.0)
Total deferred tax charge/(credit)	**14.8**	(65.9)
Total tax charge/(credit) on profit/(loss) on continuing operations	**23.1**	(60.1)

In line with the requirements of FRS 104, the tax charge for the six months ended 30 September 2017 is based on the estimated effective tax rate before exceptional items, fair value gains/losses and adjustments in respect of prior periods, for the full year to 31 March 2018.

Reductions in the main rate of corporation tax to 19% from the 1 April 2017 and to 17% from the 1 April 2020 were enacted in the Finance Bill 2016 at the Balance sheet date, and deferred tax balances at 30 September 2017 are calculated based on these reduced rates.

In addition to the tax charged/(credited) to the income statement, the following amounts of tax relating to components of other comprehensive income were recognised:

Deferred tax	Six months ended 30 September 2017 Unaudited £m	Six months ended 30 September 2016 Unaudited £m
Arising on income and expenses recognised on other comprehensive income:		
Tax charge/(credit) on actuarial gains/(losses) on defined benefit pension scheme	**1.9**	(23.7)
Deferred tax asset movement due to rate change	**–**	(10.6)
Total deferred tax charges/(credits) recognised in other comprehensive income	**1.9**	(34.3)

Notes to the interim financial information (continued)

7 Dividends

The following dividends were paid by the company:

Dividends		
	Six months ended 30 September 2017	Six months ended 30 September 2016
	Unaudited	Unaudited
	£m	£m
Equity dividends paid:		
– SWSG Dividend Loop*	**23.0**	22.7
– External	**8.0**	61.0
	31.0	83.7

* These dividends are paid via intermediary holding companies to Southern Water Services Group Limited (SWSG) and, along with associated group tax relief, enable SWSG to pay the interest due to SWS on an inter-company loan. The result of this is a circular transaction, the effect of which is a net cash flow for the company of nil.

8 Intangible assets

Intangible assets	
	£m
Cost	
At 1 April 2017	110.2
Additions	7.9
At 30 September 2017 (unaudited)	118.1
Accumulated amortisation	
At 1 April 2017	49.1
Charge for the period	1.6
At 30 September 2017 (unaudited)	50.7
Net book amount	
At 30 September 2017 (unaudited)	**67.4**

Notes to the interim financial information (continued)

9 Property, plant and equipment

Property, plant and equipment	
	£m
Cost	
At 1 April 2017	8,009.3
Additions	205.1
Disposals	(1.6)
At 30 September 2017 (unaudited)	8,212.8
Accumulated depreciation	
At 1 April 2017	2,324.7
Charge for the period	122.0
Disposals	(1.6)
At 30 September 2017 (unaudited)	2,445.1
Net book amount	
At 30 September 2017 (unaudited)	**5,767.7**

10 Non-current assets

Non-current assets	
	£m
Amounts owed by SWSG	**812.3**

Amounts owed by group undertakings represent a loan to Southern Water Services Groups Limited which is secured on the assets held under the Southern Water Services Group Security agreement and repayable on 31 July 2052 with interest payable at 7% per annum.

Notes to the interim financial information (continued)

11 Derivative financial instruments

Categories of financial instruments at fair value	Six months ended 30 September 2017	Year ended 31 March 2017
	Unaudited	Audited
	£m	£m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Interest rate swaps – not hedge accounted	**12.4**	9.3
Total derivative financial assets	**12.4**	9.3
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Interest rate swaps – not hedge accounted	**(1,305.9)**	(1,347.3)
Total derivative financial liabilities	**(1,305.9)**	(1,347.3)

The derivative assets and liabilities meet the offsetting criteria in paragraph 42 of IAS 32. This results in the presentation of a net derivative liability of £1,293.5 million at 30 September 2017 in the statement of financial position.

Changes in value of financial instruments at fair value	Six months ended 30 September 2017	Six months ended 30 September 2016
	Unaudited	Unaudited
	£m	£m
Profit for the year has been arrived at after charging/(crediting):		
Financial assets at fair value		
Designated as FVTPL	**3.1**	6.1
Financial liabilities at fair value		
Designated as FVTPL	**41.4**	(386.6)
Fair value gains/(losses) on derivative financial instruments	**44.5**	(380.5)

The fair values of derivative instruments (interest rate swaps) at the reporting date are determined using quoted prices adjusted for credit risk.

The regulatory framework, under which revenues and the Regulatory Capital Value are indexed, exposes the company to inflation risk. The company enters into inflation linked derivative financial instruments to manage its exposure to that risk.

Under interest rate swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

Notes to the interim financial information (continued)

12 Retirement benefit obligations

The retirement benefit obligations shown at 30 September 2017 and 30 September 2016 are based on the valuations at 31 March 2017 and 31 March 2016 respectively, updated by a qualified independent 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 losses has been made and shown in the summarised statement of other comprehensive income.

The major assumptions used by the actuary are set out in the table below:

Categories of financial instruments at fair value	Six months ended 30 September 2017	Year ended 31 March 2017
	Unaudited	Audited
	%	%
Price inflation (RPI)	3.3	3.3
Price inflation (CPI)	2.3	2.3
Rate of increase in salaries (plus an age-related promotional scale)	2.4	2.4
Rate of increase of pensions in payment (MIS* members only)***	2.3	2.3
Rate of increase of pensions in payment (Old section** members only)***	3.3	3.3
Rate of increase of pensions in payment (all other members)***	3.2	3.2
Rate of increase for deferred pensions (MIS* members only)***	2.3	2.3
Rate of increase for deferred pensions (all other members)***	3.2	3.2
Discount rate	2.9	2.8

* MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

** For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the Scheme.

*** In excess of any Guaranteed Minimum Pension (GMP) element.

Notes to the interim financial information (continued)

12 Retirement benefit obligations (continued)

The amounts included in the statement of financial position arising from the company's obligations under the defined benefit scheme were as follows:

Amounts included in the statement of financial position	Six months ended 30 September 2017	Year ended 31 March 2017
	Unaudited	Audited
	£m	£m
Total fair value of assets	733.3	742.9
Present value of the defined benefit obligation	(899.0)	(919.8)
Deficit recognised in the statement of financial position	(165.7)	(176.9)

Analysis of the movement in the scheme's deficit during the period	Six months ended 30 September 2017	Six months ended 30 September 2016
	Unaudited	Unaudited
	£m	£m
At 1 April	(176.9)	(102.3)
Employer's contributions	2.6	2.7
Employer's current service cost	(3.4)	(2.7)
Financing charge on net statement of financial position	(2.4)	(1.4)
Administration expenses	–	(1.2)
Actuarial gain/(loss)	14.4	(131.7)
Deficit in the scheme at end of the period	(165.7)	(236.6)

Notes to the interim financial information (continued)

13 Cash generated by operations

Cash generated by operations		
	Six months ended 30 September 2017	Six months ended 30 September 2016
	Unaudited	Unaudited
	£m	£m
Continuing operations		
Operating profit	**129.5**	133.5
Adjustments for:		
Depreciation of property, plant and equipment	**122.0**	117.7
Amortisation of intangible assets	**1.6**	4.8
Amortisation of grants and contributions	**(1.1)**	(1.5)
Operating cash flow before movement in working capital	**252.0**	254.5
Decrease/(increase) in inventories	**0.2**	(0.5)
Increase in receivables	**(26.7)**	(10.3)
(Decrease)/increase in payables	**(0.7)**	5.8
Cash generated by operations	**224.8**	249.5
Tax paid		
– Group relief	**(3.3)**	–
– Payments made within SWSG Dividend Loop	**(5.4)**	(5.7)
Net cash from operating activities	**216.1**	243.8

Notes to the interim financial information (continued)

14 Analysis of net debt

Analysis of net debt (unaudited)	At 1 April 2017 £m	Cash flow £m	Other non-cash changes £m	**At 30 September 2017 £m**
Cash and cash equivalents	285.3	(100.0)	–	**185.3**
Derivative financial instruments	(1,338.0)	–	44.5	**(1,293.5)**
Borrowings due within one year	(39.4)	–	–	**(39.4)**
Borrowings due after one year	(3,933.7)	(0.2)	(15.8)	**(3,949.7)**
Net debt	(5,025.8)	(100.2)	28.7	**(5,097.3)**

Balances at 30 September 2017 comprise:	Current assets £m	Current liabilities £m	Non-current liabilities £m	**Total £m**
Cash and cash equivalents	185.3	–	–	**185.3**
Derivative financial instruments	–	–	(1,293.5)	**(1,293.5)**
Borrowings due within one year	–	(39.4)	–	**(39.4)**
Borrowings due after one year	–	–	(3,949.7)	**(3,949.7)**
Net debt	185.3	(39.4)	(5,243.2)	**(5,097.3)**

The non-cash movement of £28.7 million relates to an increase in debt as a result of indexation, movements on the fair value of derivatives, plus the amortisation of loan issue costs, gilt lock proceeds, deferred proceeds and an increase in finance lease obligations.

Loans due within one year relate to loans from group undertakings that are repayable on demand.

Notes to the interim financial information (continued)

15 Contingent liabilities

Contractors submit claims to the company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water's valuation.

The company had no contingent liabilities for capital claims at the period-end (September 2016: £nil).

Companies of the size and scale of Southern Water are sometimes subject to a number of claims disputes and potential litigation. The significant ones can often take many years to be withdrawn or to reach resolution and currently include ongoing investigations by regulatory bodies (the EA, DWI and Ofwat) as well as a potential claim in respect of property search income. The directors consider that, where it is possible to be estimated reasonably an appropriate position has been taken in reflecting such items in these financial statements. It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some of these given the stage of the investigations and claims and the potential range of outcomes.

16 Capital commitments

Capital commitments	Six months ended 30 September 2017 Unaudited £m	Year ended 31 March 2017 Audited £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	**430.1**	354.8
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	**18.4**	9.7
	448.5	364.5

17 Related party transactions

The consortium of investors owning Greensands Holdings Limited (GSH) are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

There has been no material change during the six months ended 30 September 2017 in transactions with these related parties from that disclosed in the company's annual report and GSH consolidated financial statements for the year ended 31 March 2017.

Independent review report to the members of Southern Water Services Limited

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the condensed income statement, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and related notes 1 to 17.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 101 'Reduced Disclosure Framework'). The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting'.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
London, United Kingdom

29 November 2017

southernwater.co.uk

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