SOUTHERN WATER SERVICES (FINANCE) LIMITED

ANNUAL REPORT

AND

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 MARCH 2012

SOUTHERN WATER SERVICES (FINANCE) LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Contents

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2012

The directors of Southern Water Services (Finance) Limited ('SWSF') (Registered No. CR 112331) present their report and the audited non-statutory financial statements for the year ended 31 March 2012.

The Company is incorporated in the Cayman Islands and has no requirements to prepare statutory financial statements. However under the Disclosure and Transparency Rules (DTR) 4.1, and the Common Terms Agreement, which governs the Company's banking arrangements, non-statutory financial statements are required to be produced.

PRINCIPAL ACTIVITIES

The Company provides financing to Southern Water Capital Limited and its subsidiaries, and enters into swap transactions to manage the cash flow exposures of these borrowings.

RESULTS AND DIVIDENDS

The profit after tax for the year amounted to £0.2m (2011 restated: £0.7m). The directors do not recommend the payment of a final dividend (2011: £nil).

DIRECTORS

The Directors who served during the year and up to the date of signing were:

M Welton (Resigned 4 January 2012)
M Wright
M Carmedy (Appointed 4 January 2012)

The Company Secretary in the year and at the date of signing was Kevin Hall.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of the Annual Report and non-statutory Financial Statements ("the financial statements").

The directors are required to prepare financial statements for each financial period in accordance with United Kingdom accounting standards and which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period.

The directors consider that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2012. The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and applicable accounting standards have been followed.

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the expectation that the Company will continued to be able to meet its liabilities as they fall due, as well as the continued financial support of the parent company Southern Water Services Limited. The directors have received confirmation that Southern Water Services Limited intends to support the Company for at least one year after these financial statements are approved.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PROVISION OF INFORMATION TO INDEPENDENT AUDITOR

So far as the directors are aware, there is no relevant information of which the Company's auditor is unaware. The directors have taken all the steps, (such as making enquiries of other directors and the auditor and any other steps required by the director's duty to exercise due care, skill and diligence), that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

INDEPENDENT AUDITOR

Deloitte LLP were appointed in the year and have indicated their willingness to continue in office. A resolution that they be reappointed will be proposed at the annual general meeting.

Approved by the Board of Directors and signed on behalf of the Board.

… ………………….
Kevin Hall
Company Secretary
27 July 2012

Registered office
Ugland House
P O Box 309
George Town
Grand Cayman, Cayman

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 £m	2011 (restated – see note 17) £m
Administrative expenses		**(0.1)**	-
Loss on ordinary activities before interest and taxation		**(0.1)**	-
Interest receivable and similar income	3	**165.9**	183.2
Interest payable and similar charges	4	**(165.5)**	(182.7)
Profit on ordinary activities before taxation	2	**0.3**	0.5
Taxation on profit on ordinary activities	5	**(0.1)**	0.2
Profit for the financial year	13	**0.2**	0.7

The above results relate entirely to continuing operations.

There is no difference between the profit on ordinary activities stated above and their historical cost equivalents.

The Company has no recognised gains and losses other than those included above for the year and therefore no separate statement of total recognised gains and losses has been presented. As a result of the restatements set out in Note 17 below, the total gains and losses recognised since the last annual report are £500.7 million, including the profit for the year of £0.2 million.

The Notes on pages 5 to 13 form part of these financial statements.

BALANCE SHEET AS AT 31 MARCH 2012

	Notes	**2012**	2011 (restated – see note 17)
		£m	£m
Fixed assets			
Financial assets			
- Derivative financial instruments	11	**813.1**	492.2
Current assets			
Debtors: Amounts falling due within one year	6	**47.7**	46.2
Debtors: Amounts falling due after one year	7	**3,305.5**	3,280.4
Cash	8	**127.6**	5.6
		3,480.8	3,332.2
Creditors: Amounts falling due within one year	9	**(142.4)**	(19.1)
Net current assets		**3,338.4**	3,313.1
Total assets less current liabilities		**4,151.5**	3,805.3
Creditors: Amounts falling due after one year	10	**(3,305.9)**	(3,280.8)
Derivative financial instruments	11	**(813.1)**	(492.2)
Net assets		**32.5**	32.3
Capital and reserves			
Called up equity share capital	12	**-**	-
Profit and loss account	13	**32.5**	32.3
Total equity shareholder's funds	14	**32.5**	32.3

The financial statements of Southern Water Services (Finance) Limited (Registered No. CR 112331) on pages 3 to 13 were approved by the Board on 27 July 2012. They are signed on its behalf by:

Michael Carmedy
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial instruments and in accordance with applicable UK accounting standards. Certain restatements have been made to the comparative financial information presented within these accounts, as set out in note 17. The accounts have been prepared on a consistent basis, other than as set out in note 17.

The Company has taken advantage of the exemption in FRS 8 'Related Party Disclosures' not to disclose transactions with other members of the group.

The Company is a wholly owned subsidiary company of a group headed by Greensands Holdings Limited, and is included in the consolidated financial statements of that company, which are publicly available (see Note 15). Consequently, the Company has taken advantage of the exemption within FRS 1 'Cashflow statements (revised 1996)' from preparing a cash flow statement.

b) Going concern

These financial statements have been prepared on a going concern basis. This basis is appropriate as the structure of the inter company loans and swap arrangements in place are such that the Company is expected to continue to make a profit over the term of the current debt arrangements and benefits from group securitisation arrangements such that it should be "made whole" if required. Further, the Company has received confirmation from its parent company, Southern Water Services Limited, that it intends to provide financial support to the Company should it be required to enable the Company to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these accounts.

c) Interest income, interest payable and similar income and charges

Interest income, interest payable and similar income and charges are recognised on an accruals basis, except where such expenditure is deferred and carried forward as set out herein. The policy for interest income and expense is detailed in the financial instruments policy.

d) Taxation

The taxation charge in the profit and loss account is based on the profit or loss for the year as adjusted for disallowable and non-taxable items using current rates and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with FRS 19 'Deferred Tax'. Deferred taxation balances are not discounted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

e) Financial Instruments

The Company has adopted the provisions of FRS 25, 'Financial Instruments: Disclosure and Presentation, and FRS 26, 'Financial Instruments: Recognition and Measurement'.

Loans and receivables are measured at amortised cost using the effective interest rate method and not revalued. Amortised cost is calculated taking into account any issue costs and any discount or premium on settlement. Interest costs are expensed in the profit and loss account as incurred.

The Company uses derivative financial instruments in the form of interest rate swaps to hedge its risks associated with interest rate fluctuations. The Company does not elect to apply hedge accounting. Derivative financial instruments are recognised initially and subsequently in the balance sheet at fair value with any movements during the year charged or credited to the profit and loss account. The fair value is determined by reference to market values for similar instruments.

At each reporting date an assessment is carried out to determine whether there is any indication that financial assets may be impaired. Where there is objective evidence that an impairment loss has arisen, the carrying amount is reduced in accordance with FRS 26 'Financial Instruments: Measurement', with the loss being recognised in the profit and loss account in the year in which the respective assessment takes place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

2 Profit on ordinary activities before taxation

The Company had no employees, other than the directors, during the year ended 31 March 2012 (2011: nil).

In 2012 and 2011 audit fees of £1,000 were borne by Southern Water Services Limited ('SWS').

The services of the directors are deemed to be wholly attributable to their services to SWS. Accordingly no details in respect of the emoluments paid to the directors are included here as they are fully disclosed in the financial statements of SWS.

3 Interest receivable and similar income

	2012	2011 (restated – see note 17)
	£m	£m
Interest on loans to group undertakings	**120.1**	132.0
Indexation	**45.8**	51.2
	165.9	183.2

4 Interest payable and similar charges

	2012	2011 (restated – see note 17)
	£m	£m
Loan interest and facility fee charges	**119.1**	129.0
Indexation	**45.8**	51.2
Interest payable to group undertakings	**0.7**	2.6
Amortisation of gilt lock proceeds (note i)	**(0.1)**	(0.1)
	165.5	182.7

Movements in the fair value of derivative liabilities through the profit and loss account in the period amount to a charge of £320.9m (2011: £92.0m). This is offset by the movements in the fair value of derivative assets which amount to the equivalent opposite value.

(i) The Company entered into an agreement prior to the issue of a £300m bond in 2007, whereby the proceeds of the loan were fixed, resulting in a 'gilt lock'. The loan was issued at a discount with compensating proceeds under the gilt lock of £6.3m. This receipt has been deferred to the balance sheet and will be released to the profit and loss account over the life of the bond.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

5 Tax on profit on ordinary activities

	2012	2011
	£m	£m
Current Tax		
UK corporation tax on profits for the year at 26% (2011: 28%)	**0.1**	(0.2)
Tax charge/(credit) on profit on ordinary activities	**0.1**	(0.2)

No deferred tax arose during the year to 31 March 2012 (2011: nil).

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax due to the following factors:

	Year ended 31 March 2012	Year ended 31 March 2011
	£m	£m
Current tax		
Profit on ordinary activities before tax	**0.3**	0.5
Current tax		
UK corporation tax rate at standard rate of tax of 26% on profit for the year (2011: 28%)	**0.1**	0.1
Adjustments in accordance with securitisation tax rules (see note (i) below)	**-**	-
Adjustments in respect of prior years	**-**	(0.3)
Current tax charge/(credit) for year	**0.1**	(0.2)

(i) For UK corporation tax purposes, the Company has been considered as a securitisation company under the ‘Taxation of Securitisation Companies Regulations 2006’ (SI 2006/3296). Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead the Company is required to pay tax on its retained profits as specified in the documentation governing the securitisation transaction into which the Company has entered. This has not had a significant effect in either 2011 or 2012.

Factors that may affect future tax charges:

On 21 March 2012 the UK Government announced a reduction in the main rate of corporation tax from 26% to 24% effective from 1 April 2012.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 22% by 1 April 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

6 Debtors: Amounts falling due within one year

	2012	2011
	£m	£m
Loan to parent undertaking (see note (i) below)	**30.3**	30.3
Group relief surrendered	**0.7**	0.5
Prepayments	**3.0**	3.0
Accrued interest receivable	**11.2**	10.3
Other borrowings	**2.5**	2.1
	47.7	46.2

Notes

(i) The amounts due from the parent undertaking is a balance of £30.3m (2011: £30.3m), this amount is unsecured, interest free, and is repayable in whole or part upon demand at any time, provided that:
  (a) on the date of such demand, no class A, B or mezzanine debt is outstanding (see note 10); or
  (b) it is done with the consent of the security trustee

7 Debtors: Amounts falling due after one year

Under the loan agreement between SWS and SWSF, SWSF on-lends to SWS an amount equal to each bond or other debt raised externally at the same interest rate plus 0.01%.

	2012	2011 (restated – see note 17)
	£m	£m
Loans and receivables from parent undertaking	**3,305.5**	3,280.4

Loans and receivables are measured at amortised cost using the effective interest rate method.

8 Cash

Cash of £127.6m (2011: £5.6m) is held in a designated bank account in order to meet certain interest requirements on loan finance.

9 Creditors: Amounts falling due within one year

	2012	2011
	£m	£m
Receipts in advance from parent undertaking	**3.0**	3.0
Accruals and deferred income	**118.5**	10.4
Amounts owed to parent company	**0.4**	-
Deferred gilt lock proceeds (note 10 (ii) below)	**0.1**	0.1
Loan from parent undertaking	**20.4**	5.6
	142.4	19.1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

10 Creditors: Amounts falling due after one year

Loans and other borrowings	**2012**	2011 (restated – see note 17)
	£m	£m
Class A £350m 6.192% fixed rate 2029	**388.2**	389.6
Class A £150m 3.706% index linked 2034	**230.5**	220.3
Class A £35m 3.706% index linked 2034	**54.4**	52.1
Class A £350m 6.640% fixed rate 2026	**386.6**	388.3
Class A £150m 3.816% index linked 2023	**213.9**	204.5
Class A £350m 5.000% fixed rate 2021	**350.0**	349.9
Class A £150m 5.000% fixed rate 2041	**147.8**	147.7
Class A £200m 4.500% fixed rate 2052	**198.5**	198.5
Class A £300m 5.125% fixed rate 2056	**292.4**	292.4
Class A £300m 6.125% fixed rate 2019	**297.3**	297.0
Artesian £165m 4.076% index linked 2033	**257.8**	246.0
Artesian £156.5m 3.635% index linked 2032	**212.4**	201.4
Total Class A debt	**3,029.8**	2,987.7
Class B £250m 7.869% fixed rate 2038 (note (i) below)	**255.2**	257.6
Deferred gilt lock proceeds (note (ii) below)	**5.5**	5.7
Total loans and other borrowings	**3,290.5**	3,251.0
Amounts owed to group companies		
Senior Mezzanine £15.4m LIBOR plus 6.25% 2038 (note (iii) below)	**15.4**	15.4
Inter company creditor	**-**	14.4
Total amounts owed to group companies	**15.4**	**29.8**
Total creditors falling due after one year	**3,305.9**	3,280.8

These loans are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertaking of each of SWS, SWSF, SWS Holdings Limited, and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

Notes in respect of the specific instruments above:

(i) The 3 month sterling LIBOR plus 4.75% interest rate on the class B £250m is fixed at 7.869% until March 2014.

(ii) Prior to the issue of the new £300m bond, the Company entered into a gilt lock agreement, resulting in the receipt of £6.3m.The proceeds have been deferred and are being released to the profit and loss account over the life of the loan.

(iii) The senior mezzanine loan is owed to Southern Water Capital Limited. The floating rate of LIBOR plus 6.25% interest rate on the senior mezzanine loan has been converted to a fixed rate of 5.71% plus 6.25% until March 2022.

	2012	2011 (restated – see note 17)
	£m	£m
Repayments fall due as follows:		
Between two and five years	**-**	-
After five years not by instalments	**3,300.4**	3,275.1
	3,300.4	3,275.1

The note above does not include gilt lock proceeds of £5.5m (2011: £5.7m) which will be amortised as per note (ii) above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

11 Financial Instruments

(i) Financial risk management objectives and policies

The principal financial risks to which the Company is exposed are interest rate, liquidity and RPI risks. The Board has approved policies for the management of these risks.

Interest rate risk
The Company's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile within the Company policy, which is to maintain a higher proportion of net debt at fixed rates of interest having regard to the prevailing interest rate outlook.

Liquidity risk
The Company raises funds, as required, to ensure that it has sufficient cash and/or facilities to fund the business of the Southern Water Services Limited for the next twelve months.

RPI risk and sensitivity analysis
The principal market risks are interest rates and movements in RPI. Interest rates are currently either fixed or fully effective swap instruments are in place to swap floating rates for fixed. RPI impacts indexation, however annual indexation credited to interest income is the same as that charged to interest expense, so there is no impact on the Company's profit or loss.

(ii) Derivative financial instruments

Fair values of derivative financial instruments

The fair values of derivative financial instruments at the balance sheet date were:

	2012		2011 (restated – see note 17)	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps	**813.1**	**813.1**	492.2	492.2

The notional principal amount of the outstanding interest swap contracts at 31 March 2012 was £1,575.7m (2011: £877.0m).

Cash receipts under the swap contracts will continue over the term of the instrument, with a cash payment equal to the indexation receivable from SWS payable at the end of the term of the related debt. The interest swap contracts will affect the profit and loss account throughout the period of the instruments.

(iii) Fair values of non-derivative financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. The carrying amounts of short term borrowings approximate to book value.

	Book value 2012 £m	**Fair value 2012 £m**	Book value 2011 £m	Fair value 2011 £m
Long term borrowings	**(3,305.9)**	**(3,467.4)**	(3,280.8)	(3,264.3)
Short term loan from parent	**20.4**	**20.4**	5.6	5.6
Long term debtors	**3,305.5**	**3,467.4**	3,280.4	3,264.3
Other short term debtors	**30.3**	**30.3**	30.3	30.3
Restricted Cash	**127.6**	**127.6**	5.6	5.6

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

11 Financial Instruments (continued)

(iv) Interest rate risk

In respect of income earning financial assets and interest bearing financial liabilities, the following tables indicate their effective interest.

Weighted average effective interest rates by class

	Loans & Receivables 2012 %	**Financial Liabilities 2012 %**	Loans & Receivables 2011 %	Financial Liabilities 2011 %
Class A	**4.99**	**4.98**	5.03	5.02
Class B	**6.74**	**6.72**	6.74	6.72
Artesian	**4.06**	**4.05**	4.23	4.22
Mezzanine	**11.97**	**11.96**	11.97	11.96

(v) Maturity of financial liabilities

The maturity profile of the Company's financial liabilities at 31 March 2012 is disclosed within note 10.

(vi) Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level1 that are observable for the asset of liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from calculation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets at FVTPL*				
Derivative financial assets	-	813.1	-	813.1
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(813.1)	-	(813.1)

	2011			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets at FVTPL*				
Derivative financial assets	-	492.2	-	492.2
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(492.2)	-	(492.2)

There were no transfers between Level 1 and 2 during the year.

* Fair value through profit and loss

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

12 Share capital

	2012	2011
Authorised:	**£**	£
Equity shares		
25,000 Ordinary Shares of £1 each	**25,000**	25,000
	25,000	25,000

	2012	2011
Allotted, issued and fully paid:	**£**	£
Equity shares		
1,000 Ordinary Shares of £1 each	**1,000**	1,000
Called up share capital	**1,000**	1,000

13 Reserves

	Profit and loss account £m
At 1 April 2011 (restated – see note 17)	32.3
Profit for the year	0.2
At 31 March 2012	**32.5**

	Profit and loss account £m
At 1 April 2010 (restated – see note 17)	31.6
Profit for the year	0.7
At 31 March 2011	**32.3**

14 Reconciliation of movement in shareholder's funds

	2012 £m	2011 (restated – see note 17) £m
Opening shareholder's funds as previously reported	**-**	(468.2)
Prior year adjustment	**-**	499.8
Opening shareholder's funds (2011: restated)	**32.3**	31.6
Profit for the financial year	**0.2**	0.7
Net addition to shareholder's funds	**0.2**	0.7
Closing shareholder's funds	**32.5**	32.3

15 Ultimate holding company and related party transactions

The immediate parent undertaking is Southern Water Services Limited.
The ultimate parent and controlling company is Greensands Holdings Limited, a company incorporated in the Jersey. As at 31 March 2012, the major shareholders in Greensands Holdings Limited were a consortium including IIF International SW UK Investments Limited (advised by JP Morgan Investments Inc.) and The Northern Trust Company.

Greensands Holdings Limited is the only group company that prepares consolidated financial statements, which contain the financial statements of Southern Water Services (Finance) Limited. Copies of Greensands Holdings Limited's consolidated financial statements may be obtained from the Company Secretary of Greensands Holdings Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX.

16 Capital instruments

The Company's objective when managing capital is to maintain a positive value of capital employed to safeguard the Company's ability to continue as a going concern, so that it can continue to provide finance for its parent company, Southern Water Services Ltd.
No specific value of capital, or capital ratio, is required to be maintained.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

17 Restatement

During the year, the directors have reviewed the accounting practices adopted by the Company and as a result have restated the comparative figures to better represent the commercial arrangements which the Company is a party to. This has involved the Company recognising as an asset its right to receive proceeds from SWS to compensate for losses on its external swap agreements, and the recognition of the credit risk of the group in the valuation of derivatives. As a result of these changes, the Company no longer applies hedge accounting. The effect of these changes on the results for 2011 is as follows;

		Adjustments				
	As previously reported	**1**	**2**	**3**	**Total**	**As restated**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed assets (derivatives)	-	492.2	-	-	492.2	492.2
Current assets	3,501.0	-	-	(168.8)	(168.8)	3,332.2
Current liabilities	(19.1)	-	-	-	-	(19.1)
Non-current liabilities	(3,279.5)	-	-	(1.3)	(1.3)	(3,280.8)
Derivative liabilities	(670.6)	-	178.4	-	178.4	(492.2)
Net assets/(liabilities)	**(468.2)**				**500.5**	**32.3**
Interest receivable	230.7	-	-	(47.5)	(47.5)	183.2
Interest payable	(231.9)	-	-	49.2	49.2	(182.7)
Profit/(loss) before tax	**(1.2)**				**1.7**	**0.5**
Tax	0.3			(0.1)	(0.1)	0.2
Profit/(loss) after tax	**(0.9)**				**1.6**	**0.7**

The adjustments reflect the following:

1. Recognition of an asset related to the right to reimbursement for swap losses recognised
2. Recognition of credit risk in the fair value of derivative liabilities
3. Deferred tax effect of adjustment 1 and 2 above, and the reclassification of interest receivable plus other sundry items

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF SOUTHERN WATER SERVICES (FINANCE) LIMITED FOR THE YEAR ENDED 31 MARCH 2012

We have audited the non-statutory financial statements of Southern Water Services (Finance) Limited for the year ended 31 March 2012 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Disclosure and Transparency Rules (DTR) 4.1. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Deloitte LLP

Chartered Accountants
London, United Kingdom
27 July 2012