



Interim Consolidated Accounts for Southern Water Services Ltd

for the six months ended 30 September 2009

Interim Accounts

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Basis of preparation

The abridged accounts contained within this report represent the consolidation of Southern Water Services Ltd and its subsidiary, Southern Water Services (Finance) Ltd.

The pension deficits shown at 30 September 2009 and 30 September 2008 are based on the valuations at 31 March 2009 and 31 March 2008 respectively updated by the scheme 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 gains/losses has been made and shown in the STRGL.

Financial Review

Turnover for the period was £346.4m, an increase of 1.6% compared to the same period last year. This increase was principally due to the regulatory price increase offset by reduced water demand from both domestic and commercial customers as a result of the wet summer and the economic climate, and also domestic customers electing to switch to the metered tariff.

Operating profit increased by 2.2% to £158.8m reflecting the increase in turnover, as operating costs remained in line with last year. The company has continued to reduce operating costs although savings made have been offset by increases in the bad debt charge (£1.0m), as a result of economic conditions and depreciation (£1.7m) due to the continued capital investment.

Net interest payable fell by £38.0m to £49.8m largely following the fall in RPI causing a reduction in interest charged on the index linked debt.

Capital investment to deliver improved services to customers, amounted to £103.9m in the period to September 2009 a fall of £36.5m compared to the corresponding period last year, this is in line with the capital programme for the current regulatory period which ends on 31 March 2010. During the early part of the calendar year work began on the Brighton & Hove Wastewater treatment scheme and expenditure has increased in the current period as the project progresses.

The pension scheme deficit has continued to fall following the rise in the market value of its investments as equity prices continue to climb. The deficit, net of deferred taxation, is now valued at £51.2m compared to £83.3m at 31 March 2009 and £102.8m at 30 September 2008.

Net cash flow from operating activities has increased by 8% to £246.8m following the regulatory price increase and from improved cash collection from customers in spite of the economic conditions. Capital expenditure has reduced to £114.0m following the reduction in the capital programme compared with £185.2m for the same period in 2008.

During the first six months of this year the company took out a bank loan of £50.0m and repaid £40.0m of its Senior Mezzanine debt and £106.0m of its Junior Mezzanine debt. No new bonds were issued in the period and there have been no credit rating changes to any of the bonds issued by SWSF.

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

Profit and Loss Account

	Six months ended 30 September	
	2009	2008
	unaudited	unaudited
	£m	£m
Turnover	<u>346.4</u>	<u>340.8</u>
Operating profit before exceptional items	158.8	155.4
Profit on disposal of fixed assets	1.0	2.4
Net interest payable	(49.8)	(87.8)
Profit on ordinary activities before taxation	<u>110.0</u>	<u>70.0</u>
Tax on profit on ordinary activities	(33.6)	(23.0)
Profit on ordinary activities after taxation	<u>76.4</u>	<u>47.0</u>
Dividends	(20.4)	(71.7)
Retained profit/(loss) for the period	<u><u>56.0</u></u>	<u><u>(24.7)</u></u>
STRGL		
Profit for the financial period	76.4	47.0
Actuarial gain/(loss) on pension scheme	44.2	(61.7)
Movement on deferred tax relating to pension liability	<u>(12.4)</u>	<u>17.4</u>
Total gains and losses recognised since last annual report and financial statements	<u><u>108.2</u></u>	<u><u>2.7</u></u>

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Balance Sheet

	As at 30 September	
	2009 unaudited £m	2008 unaudited £m
Fixed assets	<u>3,629.2</u>	<u>3,566.8</u>
Cash	389.1	177.6
Other net current assets/ (liabilities)	24.1	(4.5)
Debtors: amounts falling due after more than one year	812.3	812.3
Creditors: amounts falling due after more than one year	(3,429.6)	(3,220.7)
Provision for liabilities and charges	(473.7)	(434.5)
Pension deficit	(51.2)	(102.8)
Grants and contributions	(51.4)	(51.3)
Net assets	<u><u>848.8</u></u>	<u><u>742.9</u></u>
Capital and reserves:		
Called up share capital	0.1	0.1
Share premium	46.3	46.3
Profit and loss account	802.4	696.5
Total equity shareholders' funds	<u><u>848.8</u></u>	<u><u>742.9</u></u>

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Cash Flow

	Six months ended 30 September	
	2009	2008
	unaudited	unaudited
	£m	£m
Net cash inflow from operating activities	246.8	228.1
Ofwat fine	-	(20.3)
Net interest paid	6.5	(2.5)
Preference share dividends	-	(6.9)
Taxation	(8.0)	(11.5)
Capital expenditure and financial investment	(114.0)	(185.2)
Equity dividends paid	(20.4)	(41.2)
Net cash inflow/(outflow) before financing	<u>110.9</u>	<u>(39.5)</u>
Financing:		
New loans granted	50.0	-
Repayment of loans	(134.6)	-
Net cash outflow from financing	<u>(84.6)</u>	<u>-</u>
Increase/(decrease) in cash	<u>26.3</u>	<u>(39.5)</u>

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