

### Financial information on MKW and SEW

1. This appendix sets out financial information on MKW and SEW to supplement the information set out in section 2 of the provisional findings.
2. Table 1 presents current cost regulatory accounts for the last two regulatory reporting periods for SEW and MKW to allow comparison. However, the results for each company are discussed separately in the following paragraphs.

### Financial information on MKW

3. Table 1 shows current cost profit and loss account, balance sheet and cash-flow statement for MKW for the two most recent regulatory reporting periods.<sup>1</sup>
4. Turnover increased by around 13 per cent between 2004/05 and 2005/06 due to the revenue increase allowed by Ofwat. In addition to water income of £44.4 million (shown in the table), MKW's turnover from non-regulated activities in 2005/06 was £4.2 million.
5. Current cost operating profit was £10.6 million in 2004/05 and £13.6 million in 2005/06.
6. In 2005/06, capital expenditure fell behind plan by £5.3 million (17 per cent) mainly due to rephasing on supply/demand projects (largely main laying).<sup>2</sup> The June return mentions access negotiations and environmental surveys as contributing factors, but

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<sup>1</sup>2004/05 fell under the 1999 price review (PR99) and 2005/06 came under the 2004 price review (PR04) which spans the five-year period to 2009/10.

<sup>2</sup>Capital expenditure in PR99 at £106 million was around 5 per cent below planned expenditure of £111 million over the entire price review period.

notes that the more straightforward schemes have been accelerated to compensate and that the required outputs for PR04 should be delivered.

7. Net cash outflow before financing was £13.2 million in 2004/05 and £12.4 million in 2005/06 and was financed by new bank borrowing.

## **Financial information on SEW**

8. Table 1 shows current cost profit and loss account, balance sheet and cash-flow statement for SEW for the two most recent regulatory reporting periods.<sup>3</sup>
9. SEW's turnover and operating profit increased from 2004/05 to 2005/06 primarily due to the 15.8 per cent + RPI increase in prices permitted by the regulator from 1 April 2005. Around 97 per cent of SEW's total income is generated from the provision of water to customers. SEW also earns a small amount of income from non-regulated activities including sewage billing and meter reading on behalf of Thames Water and Southern Water.
10. Current cost operating profit more than doubled from £18.3 million in 2004/05 to £42.6 million in 2005/06. This was due in part to a £10 million exceptional write-off in 2004/05 relating to an aborted billing system project. SEW's 2005/06 profit was increased by a £5 million exceptional income from land disposals and by the enhanced revenue allowance following the PR04 determination.
11. Capital expenditure for 2005/06 was £43.4 million,<sup>4</sup> significantly below the level assumed in the final determination of £59.4 million.<sup>5</sup> This shortfall arose largely in supply/demand capital expenditure (£24 million funded in the determination

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<sup>3</sup>2004/05 fell under the 1999 price review (PR99) and 2005/06 came under the 2004 price review (PR04) which spans the five-year period to 2009/10.

<sup>4</sup>On a cash basis net of receipts of grants.

<sup>5</sup>Total capital expenditure over the five-year PR99 period was £180 million compared with planned expenditure of £211 million, a shortfall of £31 million or 17 per cent.

compared with £8 million spent). SEW's June 2006 return lists the following factors as contributing to the adverse variance:

- reappraisal of scheme options due to, in particular, rising power costs;
- staff deployment to manage the ongoing drought situation;
- new property developments not coming on line as quickly as anticipated; and
- land acquisition proving problematic, with landowners seeking larger margins for the sale of land specifically required for resource development.

12. Net cash outflow before financing was £42.4 million in 2004/05 and £30.1 million in 2005/06. These outflows were funded by a combination of borrowings, retained profits, and a small amount (£3.8 million) of additional equity raised in 2004/05.

TABLE 1 Current cost regulatory accounts

£ million

	MKW		SEW	
	2004/05 restated	2005/06	2004/05 restated	2005/06
<b>Profit and loss account for year ended 31 March</b>				
Turnover (appointed business)	39.2	44.4	94.8	112.6
Current cost operating costs	-29.3	-31.3	-76.7	-75.0
Operating income	0.2	0.1	0.0	5.0
Working capital adjustment	<u>0.7</u>	<u>0.3</u>	<u>0.1</u>	<u>0.0</u>
Current cost operating profit	10.6	13.6	18.3	42.6
Other income	0.2	0.2	0.2	0.2
Net interest receivable less payable	-7.6	-7.4	-10.2	-22.8
Financing adjustment	<u>3.8</u>	<u>3.0</u>	<u>5.6</u>	<u>5.2</u>
Current cost profit before taxation	6.9	9.4	13.7	25.1
Current tax	0.0	0.3	-4.6	-6.9
Deferred tax	<u>2.4</u>	<u>-2.5</u>	<u>-0.6</u>	<u>0.5</u>
Current cost profit on ordinary activities	9.4	7.2	8.5	18.7
Extraordinary items	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Current cost profit attributable to shareholders</b>	<b>9.4</b>	<b>7.2</b>	<b>8.5</b>	<b>18.7</b>
Dividends	<u>-4.2</u>	<u>-6.6</u>	<u>-13.0</u>	<u>-45.3</u>
Current cost profit retained	<u>5.2</u>	<u>0.6</u>	<u>-4.5</u>	<u>-26.6</u>
<b>Balance sheet as at 31 March</b>				
<i>Assets and liabilities</i>				
Tangible assets	690.9	719.9	2,510.8	2,580.0
Third party contributions since 1989/90	-48.0	-51.5	-35.8	-36.6
Working capital	<u>-13.5</u>	<u>-12.8</u>	<u>-0.8</u>	<u>5.6</u>
Net operating assets	629.5	655.6	2,474.2	2,549.0
Cash and investments	13.1	16.5	218.0	196.9
Non-trade debtors	35.0	37.9	1.3	1.4
Non-trade creditors due within one year	-22.4	-0.6	-3.8	-3.8
Creditors due after one year	-144.6	-180.1	-413.3	-436.2
Deferred tax provision	-9.5	-11.7	-22.5	-21.2
Other provisions	0.0	0.0	0.0	0.0
Dividends payable	<u>0.0</u>	<u>-1.5</u>	<u>0.0</u>	<u>0.0</u>
Net assets employed	<u>501.1</u>	<u>516.0</u>	<u>2,254.0</u>	<u>2,286.0</u>
<i>Capital and reserves</i>				
Called-up share capital	19.8	19.8	5.2	5.2
Share premium	5.7	5.7	0.0	0.0
Profit and loss account	2.5	5.6	94.4	73.1
Current cost reserve as at 31 March	473.1	485.0	2,154.4	2,207.7
Other reserves	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total capital and reserves	<u>501.1</u>	<u>516.0</u>	<u>2,254.0</u>	<u>2,286.0</u>
<b>Cash flow statement for year ended 31 March</b>				
Net cash flow from operating activities	22.1	24.3	53.9	58.4
<i>Returns from investment and servicing of finance</i>				
Interest received	4.7	0.9	3.4	20.1
Interest paid	-7.2	-7.1	-25.3	-21.1
Interest in finance lease rentals	0.0	0.0	-1.4	-0.9
Non-equity dividends paid	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Net cash flow from returns on investments and servicing of finance	-2.5	-6.2	-23.4	-2.0
<i>Taxation</i>				
Taxation paid/received	-4.0	0.0	0.0	-5.0
<i>Capital expenditure and financing of investment</i>				
Gross cost of purchase of fixed assets	-20.2	-18.8	-28.5	-31.6
Receipts of grants and contributions	2.1	2.1	1.0	0.8
Infrastructure renewals expenditure	-4.3	-5.2	-12.5	-12.6
Disposal of fixed assets	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>7.2</u>
Net cash flow from investing activities	-22.3	-21.7	-39.9	-36.2
Acquisitions and disposals	0.0	0.0	0.0	0.0
Equity dividends paid	-4.5	-5.5	-13.0	-45.3
<i>Management of liquid resources</i>				
Withdrawals from short term deposits	0.0	0.0	0.0	0.0
Disposal or redemption of other liquid assets	0.0	0.0	0.0	0.0
Purchase of short term deposits	0.0	0.0	-20.1	0.0
Purchase of other liquid investments	<u>-2.0</u>	<u>-3.3</u>	<u>0.0</u>	<u>0.0</u>
New cash flow from management of liquid resources	-2.0	-3.3	-20.1	0.0
Net cash flow before financing	<u>-13.2</u>	<u>-12.4</u>	<u>-42.4</u>	<u>-30.1</u>
<i>Financing</i>				
Capital in finance lease rentals	0.0	0.0	-5.3	-1.3
New bank loans taken out	21.5	34.0	176.2	12.0
Repayment of bank loans	-15.1	-21.5	-130.0	-1.6
Proceeds from share issues	<u>6.8</u>	<u>0.0</u>	<u>3.8</u>	<u>0.0</u>
Net cash inflow from financing	<u>13.2</u>	<u>12.5</u>	<u>44.8</u>	<u>9.1</u>
Increase/decrease in cash in the year	0.0	0.1	2.3	-21.1

Source: South East Water Regulatory accounts 2005/06 and Mid Kent Water Regulatory accounts 2005/06.