

SOUTHERN WATER CAPITAL LIMITED

REPORT OF THE DIRECTORS
AND ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2008

Registered number: 04608528

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COMPANIES HOUSE

SOUTHERN WATER CAPITAL LIMITED

Company information

Directors

P Peters
J Zibarras

Secretary

K Hall

Auditors

PriceWaterhouseCoopers LLP
First Point
Buckingham Gate
Gatwick
RH6 0PP

Bankers

The Royal Bank of Scotland plc
4th Floor
21/2 Devonshire Square
London
EC2M 4XB

Registered office

Southern House
Yeoman Road
Worthing
West Sussex
BN13 3NX

Register number

04608528

SOUTHERN WATER CAPITAL LIMITED
Report of the directors and accounts for the year
ended 31 March 2008

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Southern Water Capital Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2008

The directors present their report and the audited accounts for the year ended 31 March 2008.

The report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

PRINCIPAL ACTIVITIES

The principal activity of the Company changed during the year from an ultimate holding company to an intermediate holding company for the subsidiary undertakings disclosed in note 8 to the accounts.

The financial statements contain information about Southern Water Capital Limited as an individual company and do not contain consolidated financial information as the parent of the group. Although the company presented consolidated financial statements in the prior year, it is now exempt under section 228a of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the publicly available consolidated financial statements of the parent company, Greensands Holdings Limited, a company registered in Jersey.

REVIEW OF THE BUSINESS

During the year Royal Bank Investments Limited sold their entire interest in Southern Water Capital Limited, the company's previous ultimate parent, to Greensands Investments Limited. For further detail of this transaction, see note 15.

The Company did not trade during the year, and there is no intention for it to trade in the future.

The company received dividends of £30.4m (2007: £22.0m) from its investment in Southern Water Investments Limited. It has also received preference share dividends of £13.7m (2007: £13.7m) and other interest due from Southern Water Services Finance Limited of £33.5m (2007: £18.5m).

The company has net assets of £61.4m (2007: £56.1m) comprised largely of an investment of £321.8m (2007: £321.2m) in Southern Water Investments Limited, mezzanine debt due from Southern Water Services Finance Limited of £233.2m (2007: £233.2m) and amounts due to Greensands Investments Limited of £468.7m (2007: £nil). This debt arose when Greensands Investments Limited repaid the debt of the company with all other external providers of finance.

The principal risk for the company is the occurrence of events that might affect the value of its investment in Southern Water Investments Limited or the recoverability of its debt in Southern Water Services Finance Limited.

Southern Water Capital Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2008

RESULTS AND DIVIDENDS

The profit after taxation for the year was £23.4m (2007: £14.9m).

Dividends charged in the accounts are as follows:

| | 2008 £m | 2007 £m |
|---|-------------|------------|
| Interim dividend relating to current year | <u>18.1</u> | <u>-</u> |

In May 2008 the directors declared and paid a final dividend for the year of £0.53, totalling £21.2m, for further detail on dividends see note 7. No final dividend was paid.

DIRECTORS

The directors who held office during the year and up to the date of signing the accounts were as follows:

R Thian (resigned 23 January 2008)
D Workman (resigned 15 October 2008)
J Zibarras (appointed 15 October 2007)
P Peters (appointed 22 October 2007)
K Hall – company secretary (appointed 27 February 2008)

DIRECTORS' INDEMNITIES

The company maintains liability insurance for its directors and officers. Following shareholder approval in December 2007, the company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

STATEMENT OF PROVISION OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

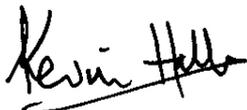
- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the board of directors and signed by order of the board.



Kevin Hall
Secretary

12 December 2008

Southern Water Capital Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2008

| | Notes | 2008 £m | 2007 £m |
|---|-------|--------------|--------------|
| Administrative expenses | | (2.0) | (0.6) |
| Operating loss | | (2.0) | (0.6) |
| Income from shares in group undertakings | | 30.4 | 22.0 |
| Profit on ordinary activities before interest and taxation | | 28.4 | 21.4 |
| Interest receivable and similar income | 3 | 47.2 | 45.9 |
| Interest payable and similar charges | 4 | (62.4) | (52.4) |
| Profit on ordinary activities before taxation | 5 | 13.2 | 14.9 |
| Tax on profit on ordinary activities | 6 | 10.2 | - |
| Profit for the financial year | | 23.4 | 14.9 |
| Dividends | 7 | (18.1) | - |
| Retained profit for the financial year | 13 | 5.3 | 14.9 |

The above results relate to continuing operations.

The company has no recognised gains and losses other than those included in the result for the year and therefore no separate statement of total recognised gains and losses has been presented.

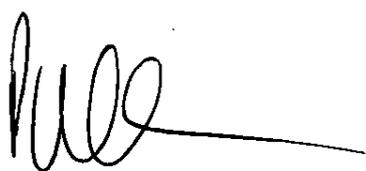
There is no difference between the profit on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

Southern Water Capital Limited

BALANCE SHEET AS AT 31 MARCH 2008

| | Notes | 2008 £m | 2007 £m |
|---|-------|--------------|--------------|
| Fixed assets | | | |
| Investments | 8 | 321.8 | 321.2 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 9 | 7.9 | 1.4 |
| Debtors: amounts falling due after one year | 9 | 233.2 | 233.2 |
| Cash at bank and in hand | | 0.4 | 36.4 |
| | | <u>241.5</u> | <u>271.0</u> |
| Creditors: amounts falling due within one year | 10 | (1.1) | (5.7) |
| Net current assets | | <u>240.4</u> | <u>265.3</u> |
| Total assets less current liabilities | | <u>562.2</u> | <u>586.5</u> |
| Creditors: amounts falling due after one year | 11 | (500.8) | (530.4) |
| Net assets | | <u>61.4</u> | <u>56.1</u> |
| Capital and reserves | | | |
| Called up share capital | 12 | 40.1 | 40.1 |
| Profit and loss account | 13 | 21.3 | 16.0 |
| Total shareholders' funds | 14 | <u>61.4</u> | <u>56.1</u> |

The accounts on pages 4 to 11 were approved by the board and authorised for issue on 12.12.2008 and are signed on its behalf by:



Phillip Peters
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

1 Accounting policies

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Basis of preparation

The accounts contain information about Southern Water Capital Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The Company is exempt under section 228a of the Companies Act 1985 from the requirement to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the publicly available consolidated accounts of the holding company, Greensands Holdings Limited.

Cash flow statement

The company has taken advantage of the exemption in FRS 1 "Cash flow statements (revised 1996)" from the requirement to present a cash flow statement on the grounds that the company is consolidated within the publicly available financial statements of its ultimate parent company, Greensands Holdings Limited, where a consolidated cash flow statement is presented.

Capital instruments

The issue costs of capital instruments have been amortised over the life of the financial instrument to which they relate.

Related party disclosure

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Greensands Holdings Limited, whose accounts are publicly available.

Investments

Investments are carried at cost less provision for any impairment in values. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Interest income is accrued on a daily basis. Dividends and other investment income is accounted for when it becomes receivable.

Dividends received on preference shares with mandatory redemption are accounted for as interest receivable and as such are accrued over the period to which they relate.

Southern Water Capital Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

2 Employee information

The Company has no employees (2007: none).

The services of the directors are deemed to be wholly attributable to their services to Southern Water Services Limited.

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 Southern Water Services Limited.

3 Interest receivable and similar income

| | 2008 | 2007 |
|--|--------------------|-------------|
| | £m | £m |
| Interest receivable on inter-company loans | 32.5 | 32.2 |
| Preference share dividends receivable | 13.7 | 13.7 |
| Other interest receivable | 1.0 | - |
| | <u>47.2</u> | <u>45.9</u> |

4 Interest payable and similar charges

| | 2008 | 2007 |
|---------------------------------|--------------------|-------------|
| | £m | £m |
| Interest payable on other loans | <u>62.4</u> | <u>52.4</u> |

5 Profit before taxation on ordinary activities

Audit fees for 2008 were £5,000 (2007: £24,250).

Southern Water Capital Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

6 Tax on profit on ordinary activities

| | 2008 £m | 2007 £m |
|---|-------------|------------|
| Current tax: | | |
| UK corporation tax on profits for the year | 7.6 | - |
| Adjustments in respect of previous years | 2.7 | - |
| Total tax on profit on ordinary activities | <u>10.2</u> | <u>-</u> |

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

| | 2008 £m | 2007 £m |
|--|---------------|-------------|
| Current tax | | |
| Profit on ordinary activities before tax | <u>13.2</u> | <u>14.9</u> |
| Current tax | | |
| UK corporation tax at 30% on profit for the year (2007: 30%) | 4.0 | 4.5 |
| UK dividends from subsidiary companies | (13.2) | (4.5) |
| Permanent differences | 1.7 | - |
| Adjustments in respect of prior years | (2.7) | - |
| Current tax credit for year | <u>(10.2)</u> | <u>-</u> |

The Finance Act 2008 enacted a number of changes to the UK corporation tax system. The most significant of these effecting Southern Water Capital Limited was the reduction to the main rate of corporation tax from 30% to 28%. This change had not taken effect by the balance sheet date and so its effect is not detailed within these accounts.

7 Dividends per ordinary share

| | 2008 Pence Per ordinary share | 2007 Pence per Ordinary Share | 2008 £m | 2007 £m |
|-----------------------|---|---|-------------|------------|
| Interim dividend | 45.1 | - | 18.1 | - |
| Total dividend | <u>45.1</u> | <u>-</u> | <u>18.1</u> | <u>-</u> |

In May 2008 the directors declared and paid a final dividend for the year of £0.53 per ordinary share, totalling £21.2m

Southern Water Capital Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

8 Investments

| | Shares in subsidiary undertakings £m |
|------------------|---|
| Cost: | |
| At 1 April 2007 | 321.2 |
| Additions | 0.6 |
| At 31 March 2008 | <u>321.8</u> |

As at 31 March 2008 the Company's principal subsidiaries are listed below:-

| Company | Class of share capital | % shares held | Activity | Country of incorporation |
|--|------------------------------|---------------------|--------------------|-----------------------------|
| Southern Water Investments Limited | Ordinary | 100% | Holding company | UK |

The directors believe that the book value of investments is supported by their underlying net assets.

9 Debtors

| | 2008 £m | 2007 £m |
|--|--------------|--------------|
| Amounts falling due within one year: | | |
| Other debtors | 0.5 | 1.4 |
| Amounts owed by other group companies | <u>7.4</u> | <u>-</u> |
| | <u>7.9</u> | <u>1.4</u> |
| Amounts falling due after one year: | | |
| Loans to Southern Water Services Finance Limited | <u>233.2</u> | <u>233.2</u> |

The loan to SWSF is split between a Junior Mezzanine of £106.0m and a Senior Mezzanine of £127.2m. Interest is charged on these loans at 16% and LIBOR + 6.25% respectively. The balances are unsecured and repayable on demand. However the directors have confirmed that these balances will not be called upon for 12 months from the date of these accounts.

10 Creditors: amounts falling due within one year

| | 2008 £m | 2007 £m |
|------------------------------------|------------|------------|
| Accruals | 0.2 | 5.7 |
| Amounts owed to group undertakings | <u>0.9</u> | <u>0.4</u> |
| | <u>1.1</u> | <u>6.1</u> |

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Southern Water Capital Limited

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

11 Creditors: amounts falling due after one year

| | 2008 £m | 2007 £m |
|--|---------------------|---------------------|
| Loans and other borrowings: | | |
| Long term borrowings due to group undertakings | 502.5 | 532.2 |
| Debt issue costs | (1.7) | (1.8) |
| Total loans and other borrowings | <u>500.8</u> | <u>530.4</u> |

All amounts owed to group undertakings are unsecured. Interest on these balances is accrued at 18% and the loan is repayable on demand. It has been confirmed that these balances will not be called upon for 12 months from the date of these accounts.

12 Called up share capital

| | 2008 £m | 2007 £m |
|--|---------------------|---------------------|
| Authorised: | | |
| 5,000,000 ordinary A shares of £1 each | 5.0 | 5.0 |
| 195,000,000 ordinary B shares of £1 each | 195.0 | 195.0 |
| | <u>200.0</u> | <u>200.0</u> |

Allotted, called up and fully paid:

| | | |
|--|--------------------|--------------------|
| 5,000,000 (2007: 5,000,000) ordinary A shares of £1 each | 5.0 | 5.0 |
| 35,050,000 (2007: 35,050,000) ordinary B shares of £1 each | 35.1 | 35.1 |
| | <u>40.1</u> | <u>40.1</u> |

13 Reserves

| | Called up share capital £m | Profit and loss account £m | Total £m |
|-------------------------|-------------------------------------|-------------------------------------|--------------------|
| At 1 April 2007 | 40.1 | 16.0 | 56.1 |
| Retained profit | - | 5.3 | 5.3 |
| At 31 March 2008 | <u>40.1</u> | <u>21.3</u> | <u>61.4</u> |

14 Reconciliation of movement in shareholders funds

| | 2008 £m | 2007 £m |
|---|--------------------|--------------------|
| Profit for the year | 23.4 | 14.9 |
| Dividends | (18.1) | - |
| Retained (loss)/profit for the financial year | <u>5.3</u> | <u>14.9</u> |
| Net addition to shareholders' funds | 5.3 | - |
| Opening shareholders' funds | 56.1 | 41.2 |
| Closing shareholders' funds | <u>61.4</u> | <u>56.1</u> |

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008 (continued)

15 Ultimate parent and controlling party

The immediate parent company is Greensands Investments Limited

Prior to 15 October 2007, the directors considered the shareholders of Southern Water Capital to be the controlling party. The major shareholder in Southern Water Capital as at 15 October 2007 was Royal Bank Investments Limited (RBIL) who held 97.9% of the voting shares, increased from a shareholding of 48.9% following the purchase of the entire shareholding of PPI Investments SP Inc. and DE Shaw on 5 July 2007.

On 15 October 2007, RBIL sold their entire interest to Greensands Investments Limited, a company incorporated in the United Kingdom whose ultimate parent and controlling company is Greensands Holdings Limited, a company incorporated in Jersey.

The major shareholders in Greensands Holdings Limited as at 31 March 2008 are IIF International SW UK Investments Limited (advised by JP Morgan Investments Inc.), Challenger Infrastructure Fund via its ownership of challenger Harbourmaster Holdings Jersey Limited and UBS AG.

Greensands Holdings is the only group company to prepare consolidated accounts, which contains the accounts of Southern Water Capital Limited, copies of which may be obtained from the company secretary of Greensands Holdings Limited at Whiteley Chambers, Don Street, St. Helier, JE4 9WG.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER CAPITAL LIMITED FOR THE YEAR ENDED 31 MARCH 2008

We have audited the financial statements of Southern Water Capital Limited for the year ended 31 March 2008 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

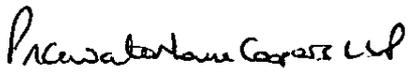
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER
CAPITAL LIMITED FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the directors is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick

22 DECEMBER.....2008