

SOUTHERN WATER LIMITED

**ANNUAL REPORT
AND FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2011**

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SOUTHERN WATER LIMITED

Company information

Directors

M Welton (Appointed 26/05/10)

M Wright (Appointed 14/3/11)

H Goodbourn (Resigned 07/3/11)

L Dawson (Resigned 26/05/10)

Secretary

K Hall

Independent Auditors

PricewaterhouseCoopers LLP

First Point

Buckingham Gate

Gatwick

RH6 0PP

Bankers

Natwest

27 South Street

Worthing

West Sussex

BN11 3AR

Registered office

Southern House

Yeoman Road

Worthing

West Sussex

BN13 3NX

Registered number

02366620

SOUTHERN WATER LIMITED
Annual Report and Financial Statements for the year
ended 31 March 2011

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REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2011

The directors of Southern Water Limited (Registered No. 02366620) present their report and the audited accounts for the year ended 31 March 2011

The report has been prepared in accordance with the special provisions applicable to companies subject to the small companies' regime.

PRINCIPAL ACTIVITIES

The principal activity of the Company continued to be that of an intermediate holding company for the subsidiary undertakings disclosed in note 7 to the accounts.

REVIEW OF THE BUSINESS, RESULTS AND DIVIDENDS

The Company acted as a holding company for investments during the year

The Company received dividends of £0.6m (2010 £0.8m) from its trade investment in Veolia Water Southeast Limited. The Company has net assets of £1,143.9m (2010 £1,143.3m) comprising largely of loans to other group companies of £1,178.4m (2010 £1,178.4m) offset by loans from other group companies of £61.3m (2010 £61.3m)

The principal risk to the Company is the occurrence of events that might affect the recoverability of its loan to Southern Water (NR) Limited.

No dividends have been charged in the accounts (2010 £nil)

The directors have not declared a final dividend for the year ended 31 March 2011. The retained profit for the year of £0.6m (2010 £1.0m) has been transferred to the reserves

DIRECTORS

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

M Welton (Appointed 26/05/10)
M Wright (Appointed 14/3/11)
H Goodbourn (Resigned 07/3/11)
L Dawson (Resigned 26/05/10)

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 2006

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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) Under company law the directors must not approve the financial statements unless they are satisfied that they 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,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 DISCLOSURE 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) he has taken all the steps that he ought to have taken as a director in order to make himself 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 Section 418 of the Companies Act 2006

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 MARCH 2011 (continued)

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office

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

A handwritten signature in black ink, appearing to read 'Kevin Hall', written over a circular stamp or seal.

Kevin Hall
Secretary

28 July 2011

Southern Water Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Income from investments	3	0.6	0.8
Profit on ordinary activities before taxation	4	<u>0.6</u>	<u>0.8</u>
Tax on profit on ordinary activities	5	-	0.2
Profit for the financial year		<u>0.6</u>	<u>1.0</u>
Dividends	6	-	-
Retained profit for the financial year	12	<u>0.6</u>	<u>1.0</u>

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 Limited

BALANCE SHEET AS AT 31 MARCH 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	7	23.8	23.8
Current assets			
Debtors amounts falling due within one year	8	0.5	1,178.9
Debtors amounts falling due after one year	9	1,178.4	-
Cash at bank and in hand		2.5	1.9
		<u>1,181.4</u>	<u>1,180.8</u>
Creditors: amounts falling due within one year	10	(61.3)	(61.3)
Net current assets		<u>1,120.1</u>	<u>1,119.5</u>
Net assets		<u>1,143.9</u>	<u>1,143.3</u>
Capital and reserves			
Called up share capital	11	156.6	156.6
Capital redemption reserve	12	16.9	16.9
Share premium account	12	14.4	14.4
Profit and loss account	12	956.0	955.4
Total shareholders' funds	13	<u>1,143.9</u>	<u>1,143.3</u>

The accounts on pages 4 to 11 were approved by the board and authorised for issue on 28 July 2011 and are signed on its behalf by



M Wright
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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. The address is given in note 14.

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 from the address given in note 14.

Basis of preparation

The accounts contain information about Southern Water Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The Company is exempt under section 400 of the Companies Act 2006 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.

Investments

Investments are carried at cost less provision for any impairment in value. The carrying values of fixed asset investments are reviewed by the directors 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.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
(continued)**

2 Employee information

The Company has no employees (2010 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 Income from investments

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Dividends receivable	<u>0.6</u>	<u>0.8</u>
	<u>0.6</u>	<u>0.8</u>

4 Profit on ordinary activities before taxation

In 2011 and 2010 audit fees were borne by Southern Water Services Limited ("SWS")

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
(continued)**

5 Tax on profit on ordinary activities

	2011 £m	2010 £m
Current tax:		
UK corporation tax on profits for the year	-	-
Adjustments in respect of prior years	-	(0.2)
Total taxcharge/(credit) on profit on ordinary activities	<u>-</u>	<u>(0.2)</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

	2011 £m	2010 £m
Current tax		
Profit on ordinary activities before tax	<u>0.6</u>	<u>0.8</u>
Current tax		
UK corporation tax at 28% on profit for the year (2010, 28%)	0.2	0.2
UK dividends from subsidiary companies	(0.2)	(0.2)
Permanent differences	-	(0.2)
Current tax charge/(credit) for year	<u>-</u>	<u>(0.2)</u>

No deferred tax arose during the year to 31 March 2011 (2010: £nil)

Factors affecting future tax charges

On 23 March 2011 the UK Government announced a reduction in the main rate of corporation tax from 28% to 26% effective from 1 April 2011. The rate change was substantively enacted by the balance sheet date, and deferred tax balances are calculated using the new rate of 26%. However, there is no deferred tax affected within these financial statements.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. The future main tax rate reductions are expected to have a similar impact on the financial statements as outlined above albeit at a rate of reduction of 1% rather than 2%, however the actual impact will be dependent on the Company's deferred tax position at that time.

6 Dividends per ordinary share

The directors have not declared a final dividend for the year ended 31 March 2011 (2010: £nil per share)

Southern Water Limited

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
(continued)**

7 Investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
At cost:			
At 1 April 2010 and 31 March 2011	25.8	1.2	27.0
Amounts provided for:			
At 1 April 2010 and 31 March 2011	(3.2)	-	(3.2)
Net book amount:			
At 1 April 2010	22.6	1.2	23.8
At 31 March 2011	22.6	1.2	23.8

The directors are satisfied that the book value of investments is supported by their underlying net assets

As at 31 March 2011 the Company's principal subsidiaries are listed below -

Company	Class of share capital	% shares held	Activity	Country of incorporation
Bowsprit Holdings Limited	Ordinary	100%	Dormant	UK
Ecoclear Limited	Ordinary	100%	Dormant	UK
Southern Water Industries Limited	Ordinary	100%	Dormant	UK
Southern Water Services Finance plc	Ordinary	100%	Dormant	UK

Other investments comprise equity shares in trade investments which are predominantly unlisted and with cost £1.2m (2010: £1.2m)

Southern Water Limited

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
(continued)**

8 Debtors: amounts falling due within one year

	2011 £m	2010 £m
Amounts owed by subsidiary undertakings	0.5	0.5
Borrowings due from group undertakings	-	1,178.4
	0.5	1,178.9

The loans receivable from group undertakings are unsecured, interest free and repayable on demand

9 Debtors: amounts falling due after one year

	2011 £m	2010 £m
Long term borrowings due from group undertakings	1,178.4	-
	1,178.4	-

The loans receivable from group undertakings are unsecured, interest free and repayable on demand. The directors have confirmed that this balance will not be called upon for 12 months from the date of these financial statements

10 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	61.3	61.3
	61.3	61.3

All amounts owed to group undertakings due within one year are unsecured, interest free and repayable on demand.

11 Called up share capital

	2011 £m	2010 £m
Authorised:		
225,000,001 ordinary shares of £1 each	225.0	225.0
1 preference share of £1	-	-
	225.0	225.0
Allotted, called up and fully paid:		
156,642,565 (2010 156,642,565) ordinary shares of £1 each	156.6	156.6
	156.6	156.6

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011
(continued)**

12 Reserves

	Capital redemption reserve £m	Share premium £m	Profit and loss account £m	Total £m
At 1 April 2010	16.9	14.4	955.4	986.7
Profit for the financial year	-	-	0.6	0.6
At 31 March 2011	16.9	14.4	956.0	987.3

13 Reconciliation of movement in shareholders funds

	2011 £m	2010 £m
Profit for the financial year	0.6	1.0
Net additions to shareholders' funds	0.6	1.0
Closing shareholders' funds	1,143.9	1,143.3

14 Ultimate parent and controlling party

The immediate parent company is Southern Water (NR) Limited

The ultimate parent and controlling company is Greensands Holdings Limited, a company incorporated in Jersey. As at 31 March 2011, 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 accounts, which contain the accounts of Southern Water Limited. Copies of Greensands Holdings Limited's consolidated accounts may be obtained from the Company Secretary of Greensands Holdings Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER LIMITED FOR THE YEAR ENDED 31 MARCH 2011

We have audited the financial statements of Southern Water Limited for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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).

Respective responsibilities of 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the 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 of the directors 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 on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

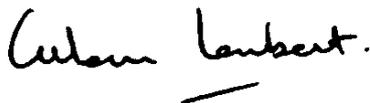
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER LIMITED FOR THE YEAR ENDED 31 MARCH 2011 (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report



Graham Lambert (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

28 July 2011