

SOUTHERN UTILITIES (HOLDINGS) LIMITED

(formerly SAUR Water Services plc)

a report on our activities

Report and financial statements
for the 15 month period ended 31 March 2004

Registered no. 2049449



Contents

Page

2	Directors and secretary
3	Directors' report
5	Statement of directors' responsibilities
6	Independent auditors' report
7	Profit and loss account
8	Balance sheet
9	Notes to the financial statements

Directors and secretary

Directors

J S Craig (Chairman)

M P Devlin (Managing Director)

P Antolik

S J Box

P Dyer

A Hunter

A A Knight

Baroness O'Cathain OBE

J Stent

Company Secretary

N Burns

Registered Office

3 Church Road
Haywards Heath
West Sussex RH16 3NY

Registered No. 2049449

Directors' report

The directors of Southern Utilities (Holdings) Limited have pleasure in submitting their report and the audited financial statements for the 15 month period ended 31 March 2004.

Principal activities

The company acts as a holding company. Its principal subsidiaries are South East Water Limited and Dymeco Limited, both incorporated in England and Wales. The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future.

Business review

On 30 September 2003, the company was acquired by Macquarie Water (UK) Limited, a company incorporated in the United Kingdom. The company changed its accounting reference date from 31 December to 31 March in order to reflect that of its new parent.

On 7 April 2004 the company re-registered as a private company and changed its name from SAUR Water Services plc to Southern Utilities (Holdings) Limited.

Profit on ordinary activities after taxation for the 15 month period was £18.8 million (2002: 12 months £14.3 million). The financial position at 31 March 2004 is shown in the balance sheet on page 8.

Post balance sheet events

Details of post balance sheet events are given in note 16 to these financial statements.

Dividends

The directors recommend a final dividend of £6.1 million (2002: £4.3 million) which, together with the interim dividend of £9 million (2002: £10.0 million), a first special interim dividend of £1.2 million (2002: £nil) and a second special interim dividend of £2.1 million (2002: £nil), makes a total of £18.4 million (2002: £14.3 million).

Directors and their interests

The directors who served at the date of this report are set out on page 2.

The appointment and resignation of directors during the period and up to the date of signing these accounts are as follows:

	Date of Appointment	Date of Resignation
P Grange		27 February 2003
P Marien	27 February 2003	30 September 2003
P Agostini		30 September 2003
G M Hoskins		30 September 2003
D Scherrer		30 September 2003
E A Snaith		30 September 2003
J F Talbot		30 September 2003
S J Baron	1 October 2003	1 April 2004
J S Craig	1 October 2003	
A Hunter	1 October 2003	
P Malan	1 October 2003	12 December 2003
J Stent	30 October 2003	
S J Box	26 November 2003	
H LeBouc		17 December 2003
P R Goulder		31 December 2003
P Dyer	5 February 2004	
P Antolik	1 April 2004	

Directors' report (continued)

The directors retiring by rotation are P Antolik, S Box, J C Craig, P Dyer, A Hunter and J Stent who, being eligible, offer themselves for re-election.

No director held any shares in the company or other companies required to be disclosed under the Companies Act 1985 at the end of the financial period. J-F Talbot held one ordinary share of £1 as nominee in the company as at 1 January 2003 which was sold to Macquarie Leasing (UK) Limited, an intermediate parent company, on 1 October 2003.

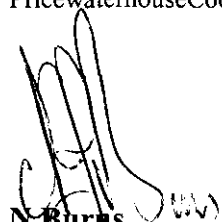
Donations

During the period the company made no charitable or political donations (2002: nil).

Auditors

During the period Mazars resigned as auditors of the company and PricewaterhouseCoopers LLP were appointed as auditors on 30 September 2003.

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the Annual General Meeting.



N Burns
Company Secretary

Date: 24 June 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which 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.



M P Devlin
Managing Director

Date: 24 June 2004

Independent auditors' report

To the members of Southern Utilities (Holdings) Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

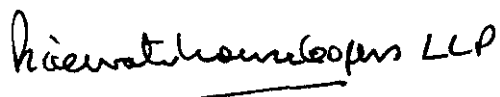
Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2004 and of its profit for the 15 month period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Gatwick

Date: 24 June 2004

Profit and loss account

for the 15 month period ended 31 March 2004

	Note	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Turnover	2	2,193	2,932
Administrative expenses		(1,452)	(2,942)
Operating profit / (loss)		741	(10)
Income from shares in group undertakings		18,030	14,067
Interest receivable and similar income	3	406	364
Profit on ordinary activities before taxation	4	19,177	14,421
Tax on profit on ordinary activities	6	(340)	(106)
Profit for the financial period		18,837	14,315
Equity dividends	7	(18,430)	(14,323)
Retained profit / (loss) for the financial period	12	407	(8)

The income and expenditure all relate to continuing operations, none of which were acquired in the year.

The company has no recognised gains or losses in either periods other than the profits shown above and therefore no separate statement of total recognised gains and losses has been presented.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial period stated above and their historical cost equivalents.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

as at 31 March 2004

	Note	31 March 2004 £000	31 March 2004 £000	31 December 2002 £000	31 December 2002 £000
Fixed assets					
Investments	8	20,800		17,635	
			20,800		17,635
Current assets					
Debtors due within one year	9	6,289		5,696	
Debtors due after more than one year	9	8,140		8,140	
Cash at bank and in hand		1,276		338	
			15,705		14,174
Creditors: amounts falling due within one year	10	(9,807)		(5,518)	
Net current assets			5,898		8,656
Net assets			26,698		26,291
Capital and reserves					
Called up share capital	11		26,000		26,000
Profit and loss account	12		698		291
Equity shareholders' funds	13		26,698		26,291

The accompanying notes are an integral part of this balance sheet.

The financial statements on pages 7 to 14 were approved by the board of directors on
signed on its behalf by:

and were



M P Devlin
Managing Director

Date: 24 June 2004

Notes to the financial statements

for the 15 month period ended 31 March 2004

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding year.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with FRS 2 "Accounting for Subsidiary Undertakings" group accounts have not been prepared since the company is a wholly owned subsidiary of Macquarie Water (UK) Limited, which is registered in England and Wales and which has prepared financial statements that consolidate the results of the company.

Turnover

Turnover, which excludes VAT, arises solely in the United Kingdom and represents income from the management of subsidiary companies.

Taxation

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation

Deferred tax is provided in respect of the material tax effect of all timing differences between the treatment of certain items for taxation and accounting purposes, at the rates of tax expected to apply when the timing differences reverse.

Related party disclosures

As a wholly owned member of Macquarie Bank Limited, the ultimate parent company as at the balance sheet date, the company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" not to provide information on related party transactions with other companies within the Macquarie Bank Limited group. Note 14 gives details of how to obtain a copy of the published financial statements of Macquarie Bank Limited.

Cash flow statement

As a wholly owned member of Macquarie Water (UK) Limited, the company has taken advantage of the exemption under FRS 1 (Revised) "Cash Flow Statements" not to provide a cash flow statement because the financial statements of Macquarie Water (UK) Limited include a consolidated cash flow statement, and are publicly available.

Investments

Investments are recorded at historical cost. Where the directors are of the opinion that there has been a permanent diminution in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

Notes to the financial statements (continued)

2. Turnover

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Management fees from subsidiary undertakings	2,193	2,932

All turnover originated within the United Kingdom.

3. Interest receivable and similar income

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Loans to group undertakings	406	364

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is arrived at after charging £5,000 (2002: £3,000) in relation to auditors' remuneration for audit services.

5. Directors and employees

The company had no employees during the financial periods. Directors' fees are allocated to the company from a subsidiary undertaking.

The aggregate payroll costs of these persons were as follows:

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Wages and salaries	54	56
Social security costs	2	2
	56	58

Remuneration of Directors

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Aggregate emoluments	56	58

Notes to the financial statements (continued)

6. Taxation

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
a) Analysis of tax charge in period		
Current tax		
UK Corporation tax on profits at 30%	340	106
Total current tax	340	106
	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
b) Factors affecting tax for the period		
Profit on ordinary activities before tax	19,177	14,421
Profit on ordinary activities multiplied by standard rate of tax of 30%	5,753	4,326
Effects of: Profits not chargeable to Corporation tax	(5,413)	(4,220)
Current tax charge for period	340	106

Profits not chargeable to Corporation tax relate to income from shares in group undertakings.

7. Dividends

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
On ordinary shares:		
Interim dividend paid 34.615p (2002: 38.563p) per share	9,000	10,026
First special interim dividend paid 4.615p (2002: nil) per ordinary share	1,200	-
Second special interim dividend paid 8.077p (2002: £nil) per ordinary share	2,100	-
Final dividend proposed 23.577p (2002: 16.527p) per ordinary share	6,130	4,297
	18,430	14,323

Notes to the financial statements (continued)

8. Investments

	Subsidiary companies' shares £000
At 31 December 2002	17,635
Additions	3,165
At 31 March 2004	20,800

On 17 July 2003, the company acquired the entire issued share capital of Optimum Information Systems Limited from a fellow group undertaking for £55,346 and on 25 March 2004, the company acquired the entire issued share capital of Mid Sussex Water Limited from its subsidiary undertaking for £3,110,000.

Principal subsidiary companies

	Type of shares	Proportion of shares and voting rights	Nature of business
Held by Southern Utilities (Holdings) Limited			
South East Water Limited	Ordinary voting	100%	Supply and distribution of water
Dynamco Limited	Ordinary voting	100%	Engineering consultancy
Optimum Information Systems Limited	Ordinary voting	100%	Information technology services
Mid Sussex Water Limited	Ordinary voting	100%	Dormant
Held by Mid Sussex Water Limited			
Mid Southern Water plc	Ordinary voting	100%	Dormant
	Ordinary non-voting	100%	
West Kent Water plc	Ordinary voting	100%	Dormant
	Ordinary non-voting	100%	
Eastbourne Water plc	Ordinary voting	100%	Dormant
	Ordinary non-voting	100%	

All subsidiary companies are incorporated in Great Britain and are registered in England and Wales.

Notes to the financial statements (continued)

9. Debtors

	31 March 2004 £000	31 December 2002 £000
Trade debtors	277	68
Other debtors	71	212
Amounts owed from group undertakings due within one year	5,941	5,416
Total due within one year	6,289	5,696
Amounts owed from group undertakings due after one year	8,140	8,140
	14,429	13,836

10. Creditors: amounts falling due within one year

	31 March 2004 £000	31 December 2002 £000
Trade creditors	6	28
Corporation tax	446	106
Accruals and deferred income	-	18
Amounts owed to group undertakings	3,225	1,064
Dividends payable	6,130	4,302
	9,807	5,518

11. Share capital

	31 March 2004 £000	31 December 2002 £000
<i>Authorised, called up, allotted and fully paid</i>		
26,000,000 ordinary shares of £1 each (2002: 26,000,000)	26,000	26,000

12. Profit and loss account

	15 months to 31 March 2004 £000
At 31 December 2002	291
Retained profit for the financial period	407
At 31 March 2004	698

Notes to the financial statements (continued)

13. Reconciliation of movements in equity shareholders' funds

	15 months to 31 March 2004 £000	12 months to 31 December 2002 £000
Opening shareholders' funds	26,291	26,299
Profit for the financial period	18,837	14,315
Dividends	(18,430)	(14,323)
Net additions / (reductions) to shareholders' funds	407	(8)
Closing shareholders' funds	26,698	26,291

14. Related party transactions

As a wholly owned member of Macquarie Bank Limited as at the balance sheet date, the company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" not to provide information on related party transactions with other companies within the Macquarie Bank Limited group. A copy of the Macquarie Bank Limited financial statements can be obtained from the Company Secretary, Level 15, No. 1 Martin Place, Sydney, New South Wales, Australia, 2000.

The company was sold by SAUR (UK) Limited, a member of the Bouygues group, to Macquarie Water (UK) Limited on 30 September 2003. As such disclosure of transactions and balances with the former Bouygues group companies is required. During the period ended 31 March 2004, the company supplied services amounting to £1,000 to the former Bouygues group companies on normal commercial terms and received services from this group amounting to £1,426,000. At 31 March 2004 there were no amounts owed by or to the former Bouygues group.

15. Parent company and ultimate controlling parties

The smallest group of companies into which results of the company are consolidated is that headed by Macquarie Water (UK) Limited, a company registered in England and Wales. The largest group of companies into which the results of the company are consolidated is that headed by Macquarie Bank Limited, a company incorporated in Australia, which is also the company's ultimate parent company. The financial statements of Macquarie Water (UK) Limited may be obtained from the Company Secretary, Level 30, CityPoint, 1 Ropemaker Street, London, EC2Y 9HD. The financial statements of Macquarie Bank Limited may be obtained from the Company Secretary, Level 15, No. 1 Martin Place, Sydney, New South Wales, Australia, 2000.

On 30 April 2004, 50.1% of Macquarie Water (UK) Limited was sold to the Macquarie European Infrastructure Fund Limited Partnership and as such this is now the company's ultimate parent company.

16. Post balance sheet events

On 17 June 2004, the company sold the entire issued share capital of South East Water Limited for £313 million, to South East Water (Holdings) Limited, a fellow subsidiary undertaking.