

SOUTHERN WATER (NR) HOLDINGS LIMITED

**DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2005**

Registered No. 04772485



SOUTHERN WATER (NR) HOLDINGS LIMITED

**Directors' Report and Accounts for the year ended
31 March 2005**

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REPORT OF THE DIRECTORS

The directors present their report and audited accounts for the year ended 31 March 2005.

RESULTS AND DIVIDENDS

The Company did not trade during the year. The profit after taxation for the financial year amounted to £0.1m (2004: £0.5m). The directors recommend a final dividend of £0.1m per ordinary share, (2004: £0.5m); no interim dividend was paid.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

Southern Water (NR) Holdings Limited is a holding company and holds 100% of the issued share capital of Southern Water (NR) Limited. It intends to continue to hold these investments in the future.

POST BALANCE SHEET EVENT

At 31 March 2005 Veolia Water Investments Ltd owned 19.9% of the share capital of Southern Water Investments Limited an intermediate holding company of Southern Water (NR) Holdings Limited.

On the 21 November 2005 Veolia Water Investment Limited exercised its option and acquired a further 5.1% of the share capital of Southern Water Investments Limited, increasing their shareholding to 25%. Southern Water Capital Limited holds the remaining 75%.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

Robert Thian (Chairman)
James Bryce
David Giffin
Pierre-Francois Riolacci
Thierry Roche
Howard Goodbourn – appointed 17 March 2005
Donald Workman – appointed 19 October 2004
Rory Cullinan – resigned 19 October 2004
Jean Claude Banon – resigned 29 April 2005
Stuart Derwent – resigned 17 March 2005

D Alexander was appointed a director post year-end on the 29 April 2005.

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the Company.

No directors received any emoluments for their services as directors of the Company.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. In preparing those accounts, 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 accounts;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts 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.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

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



Kevin Hall

Secretary

27 January 2006

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2005

	Notes	2005 £m	2004 £m
Income from shares in group undertakings	3	0.1	0.5
Profit on ordinary activities before taxation	4	<u>0.1</u>	<u>0.5</u>
Tax on profit on ordinary activities	5	-	-
Profit on ordinary activities after taxation		<u>0.1</u>	<u>0.5</u>
Dividends	6	(0.1)	(0.5)
Retained profit for the year		<u>-</u>	<u>-</u>

The above results relate entirely to continuing operations. The Company has no recognised gains and losses other than those included in the result above 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 result for the year stated above and their historical cost equivalents.

The notes on pages 5 to 9 form part of these accounts.

BALANCE SHEET
as at 31 March 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Investments	7	176.0	176.0
Current assets			
Debtors : amounts falling due within one year	8	0.1	0.5
Creditors: amounts falling due within one year	9	(0.1)	(0.5)
Net current liabilities		-	-
Creditors: amounts falling due after one year	10	(176.0)	(176.0)
Net assets		0.0	0.0
Capital and reserves			
Called up share capital	11	0.0	0.0
Profit and Loss Account	12	-	-
Total equity shareholder's funds		0.0	0.0

The accounts on pages 3 to 9 were approved by the Board on 27 January 2006 and signed on its behalf by:



Howard Goodbourn
Director

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and with the requirements of the Companies Act 1985.

Basis of preparation

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

Cash flow statement

A cash flow statement has not been included as the Company has taken advantage of the exemption available to small companies under Financial Reporting Standard 1 'Cash flow statements' ("FRS1")

Related party transactions

FRS 8 'Related party transactions', requires the disclosure of details of material transactions between the reporting entity and related parties. These disclosures have been made where applicable (refer to note 13).

Investments

Fixed asset investments are carried at cost less provision for any impairment in value. 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.

Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with FRS 19 "Deferred Tax". Deferred taxation balances are not discounted.

2 Employee information

The company has no employees (2004: nil).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

3 Income from shares in group undertakings	2005 £m	2004 £m
Dividends receivable from Southern Water (NR) Limited	<u>0.1</u>	<u>0.5</u>

4 Profit on ordinary activities before taxation

Audit fees were paid on behalf of the Company by Southern Water Services Limited.

5 Tax on profit on ordinary activities

No UK tax charge arises in respect of the profit on ordinary activities for the year.

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

	2005 £m	2004 £m
Profit on ordinary activities before taxation	<u>0.1</u>	<u>0.5</u>
UK corporation tax rate at 30% on profit for the year (2004: 30%)	-	0.2
Permanent differences	-	(0.2)
Current tax charge for year	<u>-</u>	<u>-</u>

6 Dividends per ordinary share

	2005 £m per ordinary share	2005 £m	2004 £m per ordinary share	2004 £m
Final Dividend	0.1	0.1	0.5	0.5
Total Dividend	<u>0.1</u>	<u>0.1</u>	<u>0.5</u>	<u>0.5</u>

7 Fixed asset investments

Shares in subsidiary undertakings	2005 £m	2004 £m
At 31 March 2005 and 31 March 2004	<u>176.0</u>	<u>176.0</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

7 Fixed asset investments (continued)

Subsidiary undertakings

Southern Water (NR) Holdings Limited holds the entire issued share capital of Southern Water (NR) Limited, a company incorporated in the UK.

Company	Class of share capital	No of shares issued at £1 each	Proportion of shares held	Activity
Southern Water (NR) Limited	Ordinary	175,000,002	100%	Holding Company

8 Debtors: amounts falling due within one year

2005
£m2004
£m

Amounts owed by other Southern Water group undertakings

0.10.5

9 Creditors: amounts falling due within one year

2005
£m2004
£m

Amounts owed to other Southern Water group undertakings

0.10.5

10 Creditors: amounts falling due after one year

2005
£m2004
£m

Amounts owed to other Southern Water group undertakings

176.0176.0

The amounts owed to other Southern Water group undertakings are loans to Southern Water Investments Limited and Southern Water Limited (refer to note 13). These are unsecured, interest free and repayable on demand.

11 Share capital

2005
£2004
£

Authorised

100 ordinary shares of £1 each

100100

Allotted, called up and fully paid

1 ordinary share of £1 each

11

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

12 Reconciliation of movement in shareholder's funds

	Called up share capital £m	Profit & Loss Account £m	Total £m
At 1 April 2004	0.0	-	0.0
Result retained	-	-	-
At 31 March 2005	0.0	-	0.0
On incorporation	0.0	-	0.0
Profit retained	-	-	-
At 31 March 2004	0.0	-	0.0

13 Related party transactions and ultimate controlling party

The immediate parent undertaking is Southern Water Investments Limited.

The parent and controlling party company is Southern Water Capital Limited, which owns 80.1% of the share capital of the Southern Water Investments Limited. The other 19.9% is owned by Veolia Water Investment Limited. The major shareholders in Southern Water Capital Limited are Royal Bank Investments Limited and PPI Investments SP, Inc.

At 31 March 2005 Southern Water Capital Limited prepared consolidated accounts. Copies of Southern Water Capital Limited's consolidated accounts may be obtained from the Company Secretary of Southern Water Services Limited, at Southern House, Yeoman Road, Worthing, BN13 3NX.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**13 Related party transactions and ultimate controlling party (continued)**

The transactions and balances with the Company's related parties, as defined by Financial Reporting Standard 8, and the extent of the transactions with them are summarised below. This includes other companies in the Southern Water group and the major shareholders.

	2005	2004
	£m	£m
Income from shares in group undertakings		
Southern Water (NR) Limited	0.1	0.5
Dividends payable		
Southern Water Investments Limited	0.1	0.5
Debtors: amounts falling due within one year		
Southern Water (NR) Limited	0.1	0.5
Creditors: amounts falling due within one year		
Dividends payable to Southern Water Investments Limited	0.1	0.5
Creditors: amounts falling due after one year		
Loan from Southern Water Investments Limited	0.5	0.5
Loan from Southern Water Limited	175.5	175.5

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER (NR) HOLDINGS LIMITED

We have audited the accounts which comprise the balance sheet, the profit and loss account and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the accounting policy note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the accounts 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 accounts 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 accounts 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 accounts, 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER
(NR) HOLDINGS LIMITED**

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London,

27 January 2006