

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS

For the year ended 31 March 2003

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

CONTENTS

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

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Directors' report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2003.

Principal activity

The principal activity of Anglian Water Services Holding Limited (the company) is to hold the shares of Anglian Water Services Overseas Holdings Limited (AWSOH).

Acquisitions

On 30 July 2002 the company acquired the issued share capital of AWSOH from AWG Group Limited (formerly Anglian Water Limited). The company borrowed £1,609.1 million from Anglian Water Services Limited (AWS) in order to pay the consideration necessary to effect the purchase.

Results and dividends

The profit and loss account on page 7 shows the company's results, dividends and profit for the year.

Directors

During the year ending 31 March 2003 there was one change in the directors of the company. C J Mellor resigned as non-executive chairman on 19 March 2003.

The directors at 31 March 2003 were:

R A Pointer	–	chief executive
C L Brown	–	executive director
D S Hipple	–	executive director
R W Jewson	–	non-executive director
R Napier	–	non-executive director
R Witcomb	–	non-executive director

P C F Hickson was appointed non-executive chairman on 17 April 2003.

Directors' emoluments

None of the directors of the company received any emoluments during the year in respect of their services to the company.

Directors' interests in shares and contracts

Directors' interests are the same as those disclosed in the group accounts of AWS for the year ended 31 March 2003.

Charitable and political donations

There were no charitable or political donations during the year ended 31 March 2003.

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Directors' report (continued)

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 17 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board.

Juana Tinn
Company Secretary

23 May 2003

Registered Office:
Henderson House
Lancaster Way
Huntingdon
Cambridgeshire, PE29 6XQ

Registered in England and Wales No. 4330144

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2003 and that applicable accounting standards have been followed.

The directors are responsible for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

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.

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Independent auditors' report

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

ANGLIAN WATER SERVICES HOLDINGS LTD

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 the relevant legal 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 member 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 the 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants
and Registered Auditors
Birmingham

23 May 2003

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Profit and loss account for the year ended 31 March 2003

Notes	2003 Total £m	2002 Total £m
Turnover	-	-
Total operating costs	-	-
Operating profit	-	-
Dividends receivable from subsidiary undertaking	288.6	-

ANGLIAN WATER SERVICES HOLDINGS LTD

	Profit on ordinary activities before interest	<u>288.6</u>	<u>-</u>
4.	Interest payable	(129.6)	-
	Profit on ordinary activities before taxation	<u>159.0</u>	<u>-</u>
5.	Tax on profit on ordinary activities	38.9	-
	Profit on ordinary activities after taxation for the financial year	<u>197.9</u>	<u>-</u>
	Dividends payable	(159.0)	-
11.	Movement in reserves	<u>38.9</u>	<u>-</u>

The results above arise from continuing operations.

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Balance sheet at 31 March 2003

Notes	2003 £m	2002 £m
	<hr/>	<hr/>
	Fixed assets	
6.	Investments	1,609.1 -
	<hr/>	<hr/>
	Current assets	
7.	Debtors	191.5 -
	Cash and deposits	- -
	<hr/>	<hr/>
	191.5	-
	<hr/>	<hr/>
	Creditors: amounts falling due within one year	
8.	Other creditors	(152.6) -
	<hr/>	<hr/>
	Net current assets	38.9 -
	<hr/>	<hr/>
	Total assets less current liabilities	1,648.0 -
	<hr/>	<hr/>
	Creditors: amounts falling due after more than one year	
9.	Loans from a group undertaking	(1609.1) -
	<hr/>	<hr/>
	38.9	-
	<hr/>	<hr/>
	Capital and reserves	
	Called up equity share capital	- -
	Profit and loss account	38.9 -
11.	Total shareholders' funds (all equity)	38.9 -
	<hr/>	<hr/>

The notes on pages 9 to 11 form part of these financial statements

Approved by the board on 23 May 2003

R A Pointer
Chief Executive

ANGLIAN WATER SERVICES HOLDINGS LTD

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Notes to the financial statements

1. Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with the Companies Act 1985.

The following principal accounting policies and estimation techniques have been consistently applied:

a) investments

Investments held as fixed assets are stated at cost less any provision for impairment.

b) related party transactions

The company has taken advantage of the exemption not to disclose transactions with other members of the group under Financial Reporting Standard (FRS) 8 "Related Party Disclosures" as it is a wholly-owned subsidiary.

c) cash flow statement

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

d) taxation

The charge for taxation is based on the loss for the period. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

2. Employee information

The company has no employees and all activities of the company were carried out by staff of Anglian Water Services Limited (AWS).

3. Auditors' remuneration

The auditors' remuneration for audit services is borne by AWS.

4. Interest payable

Interest payable on loan from a group undertaking (AWS)

	2003	2002
	£m	£m
	<u>129.6</u>	<u>-</u>

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Notes to the financial statements (continued)

ANGLIAN WATER SERVICES HOLDINGS LTD

5. Taxation	2003 £m	2002 £m
Tax on profit on ordinary activities comprises:		
UK Corporation Tax at 30% (2002; 30%)	(38.9)	-
Tax on profit on ordinary activities	(38.9)	-

Factors affecting tax (credit) / charge for the year

The tax assessed for the year is lower than the standard rate of Corporation Tax in the UK (30%).

The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	159.0	-
Profit on ordinary activities at the standard UK rate of tax (30%)	47.7	-
Effects of:		
Dividends receivable not being taxable	(86.6)	-
Current tax (credit) / charge for the year	(38.9)	-

6. Investments	2003 £m
Shares in subsidiary	1,609.1

The fixed asset investment represents the investment in the company's wholly owned subsidiary Anglian Water Services Overseas Holdings Limited (AWSOH) whose principal activity is the holding of shares in AWS. AWSOH is a company incorporated in the Cayman Islands.

7. Debtors	2003 £m	2002 £m
Amounts owed by other group undertakings	152.6	-
Corporation Tax receivable	38.9	-
	191.5	-

8. Creditors: amounts falling due within one year	2003 £m	2002 £m
Dividend due to parent company	105.0	-
Amounts owed to other group undertakings (AWS)	47.6	-
	152.6	-

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 March 2003

Notes to the financial statements (continued)

9. Loans and other borrowing falling due after more than one year	2003 £m	2002 £m
--	------------	------------

ANGLIAN WATER SERVICES HOLDINGS LTD

Loan from group undertaking (AWS)	1,609.1	-
-----------------------------------	---------	---

A loan of £1,609.1 million was made to the company by AWS on 30 July 2002 and is repayable on the later of 30 July 2038 and another date being the next interest payment date following the date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Services Financing Plc (a subsidiary of AWS). Interest on the loan is calculated at 12% per annum.

10. Share capital – equity shares

	2003 £m	2002 £m
Authorised		
100 ordinary shares of £1 each	-	-
Allotted, issued and fully paid		
2 ordinary shares of £1 each	-	-

11.

Movements in shareholder's funds

	Share capital £m	Profit loss account £m	Total £m
At beginning of year	-	-	-
Profit for the financial year	-	197.9	197.9
Dividends	-	(159.0)	(159.0)
At end of year	-	38.9	38.9

12. Contingent Liabilities

The company, as part of the ringfenced group, guarantees all the borrowings of AWSF, which at 31 March 2003 amounted to £3,311.2 million

13. Ultimate parent company

AWG Group Limited (formerly Anglian Water Plc), a company registered in England and Wales, is the immediate parent company of the company and the smallest group to consolidate the accounts of the company.

AWG Plc, a company registered in England and Wales, is the parent company of the largest group to consolidate the accounts of the company. The directors consider AWG Plc to be the ultimate parent company.

Copies of the financial statements of AWG Group Limited and AWG Plc can be obtained from the company secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ.