

ANGLIAN WATER SERVICES HOLDINGS LIMITED

**DIRECTORS' REPORT AND
ACCOUNTS
2005**

Anglian Water Services Holdings Limited

Directors' report and accounts 2005

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Anglian Water Services Holdings Limited

Directors' report and accounts 2005

Directors' report

The Directors present their report and the audited financial statements of Anglian Water Services Holdings Limited (the company) for the year ended 31 March 2005.

principal activity

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

results and dividends

The company's profit and loss account on page 7 shows the company's results, dividends and profit for the year. For the financial year ending 31 March 2005 the company made a profit, before taxation and dividends, of £60 million (2004: £57 million). An interim dividend of £30 million was paid in November 2004 and a final dividend of £30 million is proposed.

Directors

The current Directors of the company are listed below:

Jonson Cox	-	Chief Executive and Chairman
Peter Simpson	-	Executive Director
David Hipple	-	Executive Director
Chris Newsome	-	Executive Director
Jean Spencer	-	Executive Director
Scott Longhurst	-	Non-Executive Director
Robert Napier	-	Independent Non-Executive Director
John Watkinson	-	Independent Non-Executive Director
Roger Witcomb	-	Independent Non-Executive Director

All of the Directors served throughout the year except for Jean Spencer, Chris Newsome, Peter Simpson and Scott Longhurst who were appointed on 20 May 2004, 24 September 2004, 18 November 2004 and 20 January 2005 respectively. Other Directors who served throughout the year were Colin Brown, Peter Hickson, Richard Jewson and Roy Pointer who resigned on 24 September 2004, 20 January 2005, 31 January 2005 and 26 April 2005 respectively.

John Watkinson was appointed as an Independent Non-Executive Director on 12 May 2005.

Directors' emoluments

None of the Directors' of the company received any emoluments during the year (2004: nil) for their services to the company.

Directors' interests in shares and contracts

Directors' interests are the same as those disclosed in the group accounts of Anglian Water Services Limited for the year ended 31 March 2005.

charitable and political donations

There were no charitable or political donations during the year ended 31 March 2005.

Anglian Water Services Holdings Limited

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Directors' report (continued)

auditors

Under section 386 of the Companies Act 1985, the company has an elective resolution in place to dispense with the need to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the company.

Annual General Meeting

Pursuant to Section 366A of the Companies Act 1985, the company has dispensed with the obligation to hold an Annual General Meeting and pursuant to Section 252 the company has dispensed with the requirement to lay accounts and reports before the company in general meeting.

By order of the board

Patrick Firth

Company Secretary

1 June 2005

Registered Office:

Anglian House

Ambury Road

Huntingdon

Cambridgeshire,

PE29 3NZ|

United Kingdom.

Registered in England and Wales No. 4330144

Anglian Water Services Holdings Limited

Directors' report and accounts 2005

statement of Directors' responsibilities

The Directors are required 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 as set out in note 1, 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and that applicable accounting standards have been followed.

The Directors are responsible for ensuring that their report and accounts are published and where they are published on the Internet, 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.

Anglian Water Services Holdings Limited

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independent auditors' report to the member of Anglian Water Services Holdings Limited

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.

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 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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

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 2005 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

1 June 2005

Anglian Water Services Holdings Limited

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profit and loss account for the year ended 31 March 2005

Note

	2005	2004
	£m	£m
Turnover	-	-
Total operating costs	-	-
Operating profit	-	-
Income from fixed asset investments	253.1	250.6
Profit on ordinary activities before interest	253.1	250.6
4. Interest payable	(193.1)	(193.6)
Profit on ordinary activities before taxation	60.0	57.0
5. Tax on profit on ordinary activities	-	(25.8)
Profit on ordinary activities after taxation for the financial year	60.0	31.2
6. Dividends	(60.0)	(57.0)
12. Movement in reserves	-	(25.8)

The results above arise from continuing operations.

No statement of total recognised gains and losses has been presented, as all gains and losses have been included in the profit and loss account.

Anglian Water Services Holdings Limited

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balance sheet at 31 March 2005

Note		2005	2004
		£m	£m
7.	Fixed assets	1,609.1	1,609.1
8.	Current assets	90.7	71.2
9.	Creditors: amounts falling due within one year	(77.6)	(58.1)
	Net current assets	13.1	13.1
	Total assets less current liabilities	1,622.2	1,622.2
10.	Creditors: amounts falling due after more than one year	(1,609.1)	(1,609.1)
	Net assets	13.1	13.1
	Capital and reserves		
11.	Called up share capital	-	-
	Profit and loss account	13.1	13.1
12.	Total shareholders' funds (all equity)	13.1	13.1

The notes on pages 9 to 12 form part of these financial statements.

The financial statements were approved by the Board on 1 June 2005 and signed on its behalf by:

Peter Simpson
Chief Operating Officer

David Hipple
Finance Director

Anglian Water Services Holdings Limited

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

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 profit for the period. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences that have arisen but not reversed at the balance sheet date.

e) Group accounts not prepared

The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and to deliver them to the Registrar of Companies. The financial statements, therefore, present information about the Company as an individual undertaking and not about its group. The company is included within the consolidated financial statements of AWG Plc, the company's ultimate parent undertaking, which is incorporated in England and Wales.

2. Employee information

The company has no employees. Anglian Water Services Limited employees undertake all the activities of the company.

The Directors receive no emoluments from the company or have any contributions made on their behalf to any pension scheme.

3. Auditors' remuneration

The auditors' remuneration for audit services is borne by Anglian Water Services Limited.

Anglian Water Services Holdings Limited

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notes to the financial statements (continued)

4. Interest payable

	2005	2004
	£m	£m
Interest payable on loan from a group undertaking (Anglian Water Services Limited)	193.1	193.6

5. Taxation

	2005	2004
	£m	£m
Tax on profit on ordinary activities comprises:		
UK Corporation Tax at 30 per cent (2004: 30 per cent)	-	(1.0)
Adjustment in respect of prior periods	-	26.8
Tax on profit on ordinary activities	-	25.8

Factors affecting tax charge / (credit) for the year

The tax assessed for the year is lower than the standard rate of Corporation Tax in the UK (30 per cent). The differences are explained below:

	2005	2004
	£m	£m
Profit on ordinary activities before taxation	60.0	57.0
Profit on ordinary activities at the standard UK rate of tax (30 per cent)	18.0	17.1
Effects of:		
Dividends receivable not being taxable	(75.9)	(75.2)
Adjustments to the tax charge in respect of prior periods	-	26.8
Tax losses surrendered to Anglian Water Services Limited not paid for	57.9	57.1
Current tax charge / (credit) for the year	-	25.8

In the prior year the adjustments to prior periods relate to tax losses that will not be paid for. It was agreed last year that companies within the Anglian Water Services Financing Group will not pay each other for tax losses.

6. Dividends

	2005	2004
	£m	£m
Equity – ordinary		
Interim paid	30.0	47.0
Final payable	30.0	10.0
	60.0	57.0

7. Investments

	2005	2004
	£m	£m
Shares in subsidiary	1,609.1	1,609.1

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

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notes to the financial statements (continued)

8. Debtors

	2005	2004
	£m	£m
Amounts owed by other group undertakings (Anglian Water Services Overseas Holdings Limited)	90.7	71.2

'Amounts owed by other group undertakings' includes £13.1 million of group relief receivable (2004 - £13.1 million) in respect of tax losses surrendered to other group companies.

9. Creditors: amounts falling due within one year

	2005	2004
	£m	£m
Proposed dividend	30.0	10.0
Amounts owed to other group undertakings (Anglian Water Services Limited)	47.6	48.1
	77.6	58.1

10. Creditors: amounts falling due after more than one year

	2005	2004
	£m	£m
Loan from group undertaking (Anglian Water Services Limited)	1,609.1	1,609.1

The loan of £1,609.1 million, made to the company by Anglian Water Services Limited, 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 Anglian Water Services Limited). Interest on the loan is calculated at 12 per cent per annum.

11. Called up share capital

	2005	2004
	£m	£m
Authorised: 100 ordinary shares of £1 each	-	-
Allotted, issued and fully paid: 2 ordinary shares of £1 each	-	-

12. Movements in shareholder's funds

	Share capital	Profit and loss account	2005 Total	2004 Total
	£m	£m	£m	£m
At beginning of year	-	13.1	13.1	38.9
Profit for the financial year	-	60.0	60.0	31.2
Dividends	-	(60.0)	(60.0)	(57.0)
At end of year	-	13.1	13.1	13.1

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notes to the financial statements (continued)

13. Contingent liabilities

The company, as part of the Anglian Water Services group of companies, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, which at 31 March 2005 amounted to £4,221.3 million (2004: £3,791.5 million).

The borrowings of Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company which at 31 March 2005 amounted to £136.9 million (2004 - £154.2 million) in finance leases and other fixed rate loans owed by Anglian Water Services Limited to third parties.

The company had no other material contingent liabilities at 31 March 2005 or 31 March 2004.

14. Ultimate parent company

AWG Group Limited, 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 AWG Group Limited accounts and the AWG Plc accounts can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire, PE29 3NZ.