

ANGLIAN WATER SERVICES HOLDINGS LIMITED

DIRECTORS' REPORT AND ACCOUNTS 2007

Anglian Water Services Holdings Limited

Directors' Report and Accounts 2007

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Anglian Water Services Holdings Limited

Directors' Report and Accounts 2007

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 2007.

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 6 shows the company's results. For the financial year ended 31 March 2007 the company made a profit before taxation of £250.0 million (2006: £112.6 million). Dividends of £250.0 million (2006: £65.0 million) were paid during the financial year.

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	- Executive Director
Christopher Garnett	- Independent Non-Executive Director
Robert Napier	- Independent Non-Executive Director
John Watkinson	- Independent Non-Executive Director

All of the Directors served throughout the year except for Christopher Garnett who was appointed on 1 December 2006. The other Director who served during the year was Roger Witcomb who resigned on 26 April 2006.

charitable and political donations

There were no charitable or political donations during the year ended 31 March 2007 (2006: £nil).

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directors' report (continued)

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 or loss 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 in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2007 and that applicable accounting standards have been followed.

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.

The Directors are responsible for ensuring that the Directors' Report and Accounts are published and where they are published on the Internet, for 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.

Provision of information to auditors

As far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and each of the directors have taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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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

11 June 2007

Registered Office:
Anglian House
Ambury Road
Huntingdon
Cambridgeshire,
PE29 3NZ
United Kingdom.

Registered in England and Wales No. 4330144

Anglian Water Services Holdings Limited

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independent auditor's report to the members of Anglian Water Services Holdings Limited

We have audited the financial statements of Anglian Water Services Holdings Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Anglian Water Services Holdings Limited

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Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
11 June 2007*

Anglian Water Services Holdings Limited

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profit and loss account for the year ended 31 March

Note		2007 £m	2006 £m
	Turnover	-	-
	Total operating costs	-	-
	Operating profit	-	-
4	Income from fixed asset investments	443.1	305.7
	Profit on ordinary activities before interest	443.1	305.7
5	Interest payable	(193.1)	(193.1)
	Profit on ordinary activities before taxation	250.0	112.6
6	Tax on profit on ordinary activities	-	2.7
	Profit on ordinary activities after taxation for the financial year	250.0	115.3

The results above arise from continuing operations.

There is no material difference between the current year results and the historical cost profit and losses

Anglian Water Services Holdings Limited

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balance sheet at 31 March 2007

Note		2007 £m	2006 £m
8	Fixed asset investments	1,609.1	1,609.1
9	Current assets		
	Debtors	16.3	15.8
	Current liabilities		
10	Creditors: amounts falling due within one year	(0.5)	-
	Net current assets	15.8	15.8
	Total assets less current liabilities	1,624.9	1,624.9
11	Creditors: amounts falling due after more than one year	(1,609.1)	(1,609.1)
	Net assets	15.8	15.8
	Capital and reserves		
12	Called up share capital	-	-
	Profit and loss reserve	15.8	15.8
13	Total shareholders' funds (all equity)	15.8	15.8

Notes 1 to 15 form part of these financial statements.

The financial statements on pages 6 to 11 were approved by the Board of Directors on 11 June 2007 and were 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 have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

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.

Dividend income from fixed asset investments is recognised in the period in which the dividend is received or when the company has a legal commitment from the subsidiary.

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 Osprey Holdco Limited, the company's ultimate parent undertaking, which is incorporated in England and Wales.

f) Dividends

Dividends are recognised as a liability in the period in which they are approved. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

2. Employee information and Directors' emoluments

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.

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notes to the financial statements (continued)

3. Auditors' remuneration

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

4. Income from fixed asset investments

Income from fixed asset investments includes £0.5 million (2006: £nil) of dividend income which has been committed and will be received in June 2007.

5. Interest payable

	2007 £m	2006 £m
Interest payable on loan from a group undertaking (Anglian Water Services Limited)	193.1	193.1

6. Taxation

	2007 £m	2006 £m
Tax on profit on ordinary activities comprises:		
UK Corporation Tax at 30 per cent (2006: 30 per cent) – tax losses surrendered and paid for by AWG Group Limited	-	(2.7)

Factors affecting tax 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:

	2007 £m	2006 £m
Profit on ordinary activities before taxation	250.0	112.6
Profit on ordinary activities at the standard UK rate of tax (30 per cent)	75.0	33.8
Effects of:		
Dividends receivable not being taxable	(132.9)	(91.7)
Tax losses surrendered to Anglian Water Services Limited not paid for	57.9	55.2
Current tax credit for the year	-	(2.7)

It has been agreed that companies within the Anglian Water Services Financing Group (AWSFG) will not pay each other for tax losses. The AWSFG consists of Anglian Water Services Limited, Anglian Water Services Financing Plc, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited.

Further to a proposed corporation tax rate change announced in the recent Budget, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28 per cent as opposed to the existing rate of 30 per cent. The impact of this is not material to the company.

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notes to the financial statements (continued)

7. Dividends

	2007 £m	2006 £m
Special distribution	215.0	-
Current year interim paid	-	35.0
Previous year final paid	35.0	30.0
	<u>250.0</u>	<u>65.0</u>

The Directors have proposed a final dividend for the year ended 31 March 2007 of 11.67 pence per share that is a total of £35.0 million. This dividend has not been accounted for in the current year financial statements as it has been approved and paid subsequent to the year end.

The special distribution of £215.0 million was paid on 7 March 2007 to increase gearing in the Company.

8. Fixed asset investments

	2007 £m	2006 £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.

9. Debtors

	2007 £m	2006 £m
Amounts owed by other group undertakings	16.3	15.8

Amounts owed by other group undertakings includes £15.8 million of group relief receivable (2006: £15.8 million) in respect of tax losses surrendered to other group companies.

10. Creditors: amounts falling due within one year

	2007 £m	2006 £m
Amounts due to other group undertakings	0.5	-

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

	2007 £m	2006 £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.

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notes to the financial statements (continued)

12. Called up share capital	2007 £m	2006 £m
Authorised: 100 ordinary shares of £1 each	-	-
Allotted, issued and fully paid: 2 ordinary shares of £1 each	-	-

13. Movements in shareholders' funds	Share capital £m	Profit & loss account £m	2007 Total £m	2006 Total £m
At beginning of year	-	15.8	15.8	(34.5)
Profit for the financial year	-	250.0	-	115.3
Dividends	-	(250.0)	-	(65.0)
At end of year	-	15.8	15.8	15.8

14. 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 2007 amounted to £4,327.5 million (2006: £3,948.6 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 2007 amounted to £92.5 million (2006: £116.4 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 2007 or 31 March 2006.

15. Ultimate parent company

The company's immediate parent undertaking is AWG Group Limited, a company registered in England and Wales.

Osprey Holdco Limited is the parent company of the largest group to consolidate the financial statements of the company, copies of which can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

The Directors consider Anglian Water Group Limited (formerly Osprey Jersey Holdco Limited), a company registered in Jersey, to be the ultimate parent company. Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management, and 3i Group Plc.