Anglian Water Group Limited
Annual report and consolidated financial statements
for the year ended 31 March 2008

(Registered under the Companies (Jersey) Law 1991)

Directors' Report

for the year ended 31 March 2008

The Directors present their report and the audited financial statements of Anglian Water Group Limited for the year ended 31 March 2008.

The comparative period is from incorporation on 14 September 2006 to 31 March 2007, however prior to 23 November 2006, the group did not trade. As such, this comparative period is presented from 23 November 2006, being the date of acquisition of the AWG Plc group and the first day of trading, to 31 March 2007.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together "the group") during the year were water supply and distribution, wastewater collection and treatment; building and maintaining infrastructure in the utility, social housing, highways and property markets. The information that fulfils the requirement of the business review, including the company's financial risk management objectives, is in pages 5 to 27.

Group results and returns to shareholders

The profit and loss account on page 28 shows the group's results for the year. Dividends of £77.2 million (2007: £nil) have been declared and paid in the year. In addition a first interim dividend of £45.8 million in respect of the year ended 31 March 2009 was approved by the board on 22 May 2008 and was paid on 5 June 2008. This dividend has not been included as a liability at 31 March 2008.

Subsequent events

On 8 May 2008 the group completed the sale of its Morrison Utility Services business to Cognetas and Englefield Capital, the independent mid-market, European private equity firms for total all cash consideration of £140 million. The Directors anticipate that a small profit on disposal will be recorded in the 2008/9 accounts.

Research and development

The group has a continuing policy of undertaking research and development on process plant, infrastructure management, biosolids treatment and other water and wastewater related matters.

Directors
The Directors who held office during the year and to the date of this report are set out below:

Peter Hickson	Independent Non-Executive Chairman	
Jonson Cox	Chief Executive	
Scott Longhurst	Group Finance Director	
Non-Executive Directors:		
Graeme Bevans	CPP	
Christian Seymour	IFM	
Roger Witcomb	CPP	
Cressida Hogg	3i	
Andrew Liau	CBA	(appointed 24 May 2007)
Daniel Fetter	CPP	(appointed 24 May 2007)
Christine O'Reilly	CBA	(appointed 17 September 2007)
Manoj Mehta	IFM	(appointed 21 September 2007)
Philip White	3i	(appointed 13 November 2007)
Daniel Latham	CBA	(appointed 7 February 2008)
Damian Rigney	CBA	(resigned 24 May 2007)
Christopher Koski	CPP	(resigned 24 May 2007)
Duncan Taylor	CBA	(resigned 17 September 2007)
Damian Moloney	IFM	(resigned 19 September 2007)
Michael Queen	3i	(resigned 12 October 2007)
Stephen Vineburg	CBA	(resigned 24 January 2008)

CPP - CPP Investment Board
CBA - Commonwealth Bank of Australia (Colonial First State Managed Property)
IFM - Industry Funds Management

Subsequent to the year end, Patrick Firth resigned as Company Secretary on 3 May 2008. Claire Russell was appointed Company Secretary in his place on 22 May 2008.

Directors' indemnities
The company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its Directors.

Shareholders
The shareholders of the company and their respective shareholdings as at 31 March 2008 are as follows:

			Number of shares held
Name	**Class A ordinary shares of £0.00001 each**	**Class B ordinary shares of £0.00001 each**	**No par preference shares**
CPP Investment Board	4,500,000	500,000	35,364,996,063
Commonwealth Bank of Australia (Colonial First State Managed Property)	5,000,000	-	35,364,996,063
Industry Funds Management (IFM)	3,000,000	-	21,218,997,637
3i	2,500,000	-	17,682,498,031
	15,000,000	500,000	109,631,487,794

Policy on the payment of creditors
It is the group's policy to provide suppliers of goods and services with standard terms and conditions of contract. This document is available from each of the company's principal subsidiaries and, in the case of Anglian Water, can be downloaded from its website at www.anglianwater.co.uk. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The group abides by the terms of payment. At 31 March 2008, the group had 37 days purchases outstanding (2007: 43 days). At 31 March 2008, the company had no trade creditors (2007: nil).

Employees
Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is done through a systematic approach to employee communication through regular briefings, presentations, electronic mailings and the wide circulation of employee magazines. The group's intranet is also widely used as a source of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them.

The group has a series of policies that both inform and guide all employees on the group's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour.

The group also has a series of family friendly policies including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

Prior to the takeover of AWG Plc, a Sharesave Scheme and a Sharebuy Plan were in place. To replace these schemes the AWG loyalty savings scheme has been introduced to encourage participation in Anglian Water Group's performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training is given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

Statement of disclosure of information to auditors
In the case of each of the persons who are Directors at the time when the report is approved: So far as each Director is aware there is no relevant audit information of which the company's auditors are unaware; and they have taken all the steps that they ought to have taken as individual Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Appointment of auditors and Annual General Meeting
Pursuant to Article 87(4) of the Companies (Jersey) Law 1991, Anglian Water Group Limited has dispensed with the obligation to hold an Annual General Meeting and the company has dispensed with the requirement to lay the annual report and accounts before the company in general meeting. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to stay in office and a resolution that they be reappointed will be proposed to the Board.

Going concern

After making enquiries, the Directors have a reasonable expectation that the group and company have 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 accounts.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

In preparing those 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business , in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the 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 the group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Claire Russell
Company Secretary
10 June 2008

Registered Office: Whiteley Chambers,
Don Street, St Helier, Jersey JE4 9WG
Registered in Jersey No. 94523

Group financial performance
The group's principal business is Anglian Water, the group's regulated water and wastewater company, which serves in excess of five million customers in the east of England and Hartlepool. The group also includes Morrison, a support services business, and AWG Property, a specialist property development company.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water, Morrison and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 27.

The results for the group for the year to 31 March 2008 show a pre-tax loss of £20.9 million (period ended 31 March 2007: £1.1 million) and sales of £1,811.4 million (period ended 31 March 2007: £635.3 million). The group has net debt of £5,405.1 million (2007: £5,180.8 million) at 31 March 2008. Net cash inflow from operating activities for the year was £589.2 million (period ended 31 March 2007: £242.4 million).

Dividends
Dividends of £77.2 million (2007: £nil) have been declared and paid in the year. In addition a first interim dividend of £45.8 million in respect of the year ended 31 March 2009 was approved by the board on 22 May 2008 and was paid on 5 June 2008. This dividend has not been included as a liability at 31 March 2008.

Divisional results
This business review has been prepared in respect of the year ended 31 March 2008. The comparative period is from incorporation on 14 September 2006 to 31 March 2007, however prior to 23 November 2006, the group did not trade. As such, this comparative period is presented from 23 November 2006, being the date of acquisition of the AWG Plc group and the first day of trading, to 31 March 2007. However, to supplement and further enhance this information, and particularly to enable comparability, the group has also presented results for the AWG Plc group for the year ended 31 March 2007 where appropriate.

Anglian Water
Key performance indicators
Anglian Water's key performance indicators for the year to 31 March 2008 are provided below. These indicators are not shown for the comparative period from acquisition by the Anglian Water Group Limited group as they are either only measurable for a 12 month period, in some cases a calendar year, or regulatory benchmarks to compare against are not available.

	Measure	How we define it	How it relates to our strategy	Our performance	Comment
Operational	Drinking water quality (1)	Our performance in the calendar year against the required standards.	One of our fundamental public service goals.	2007: 99.96% 2006: 99.95% 2005: 99.96%	High standards maintained.
	Leakage (2)	Cubic metres of water lost per kilometre of main per day.	Minimising leaks is vital in a dry region and improves efficiency.	2006/7: 5.5m³/km/day 2005/6: 5.8m³/km/day Industry average 2006/7: 10.1m³/km/day	Almost half UK average.
	Overall Performance Assessment (OPA) results (2)	Ofwat's mix of customer-related measures.	Measures our operational performance against the rest of the industry.	2007/8: 420 points (provisional) 2006/7: 413 points 2005/6: 388 points	No.1 in Ofwat's rankings.
	Capital expenditure £m (4)	Total spend from 1 April 2005 to 31 March 2008, increased by construction-related inflation.	How much investment we have delivered in this five-year asset management period.	3 years to March 2008: £1,196m determination 3 years to March 2008: £1,178m actual	Capital investment plan is on track.
Financial	Operating expenditure £m (3)	Operating costs (excluding depreciation) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives. A key measure against the rest of the industry.	2007/8: 331.2 2006/7: 324.7 2005/6: 314.4	Up 2.0% on prior year.
Employee	Accident frequency rate	Number of accidents per 100,000 hours worked.	Indicates how safely we work.	2007/8: 0.37 2006/7: 0.39 2005/6: 0.39 (target = 0.34)	Some improvement towards target of 0.34.
	CHaSPI (5)	The Health and Safety Executive (HSE) corporate performance index. Scored out of 10.	Aims to help assess how well an organisation manages its risks and responsibilities towards its workers, the public and other stakeholders.	2007/8: 7.4 2006/7: 7.3 2005/6: 7.1	Exceeds the CHaSPI average of 6.7 for 86 companies.
Environmental	Carbon footprint	CO2 emissions equivalent in tonnes	Measuring our impact on the climate.	2007/8: 439,000 2006/7: 459,000	A 4.4% reduction.

(1) Drinking water results published in 2007 for the 2006 calendar year measured as a percentage of tests that comply with quality standards.
(2) 2007/8 result subject to formal confirmation from Ofwat in autumn 2008
(3) For the appointed and non-appointed businesses.
(4) Cumulative spend from 1 April 2005 to 31 March 2008, inflated by Construction Outputs Price Index (COPI)
(5) For more information, see www.hse.gov.uk or www.chaspi.info-exchange.com

Introduction

Anglian Water provides water and wastewater services to more than five million domestic and commercial customers in the east of England and Hartlepool. The Anglian Water region is the largest geographical territory of any water company in England and Wales, stretches from the Humber to the Thames estuary and from Buckinghamshire to the east coast.

Anglian Water's fundamental goal is to deliver a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price.

Our long term vision
This annual report covers a year in which we have been dealing with significant challenges across three very different timescales.

We have remained focused on the immediate task of delivering a reliable, high-quality service to our customers. I am very pleased to say that this has been a successful year. Operationally we are leading the industry in terms of Ofwat's overall performance assessment (OPA)

At the same time, we have continued to make good progress on delivering our commitments within the current five year Asset Management Plan period (AMP).

Looking further ahead we have, for the first time, published our strategy for the next 25 years. The strategy, contained in our Strategic Direction Statement (SDS), explains how we will overcome the challenges we expect to face in order to continue delivering a reliable supply of safe, clean drinking water and effective wastewater services.

The SDS involved an unprecedented amount of work with all interested parties in the region. As a result, it is an invaluable roadmap for us and provides an excellent framework for our AMP5 (2010-2015) submission.

Our key challenges and strategic priorities
In the SDS we identified seven key challenges for the next 25 years that are reflected in our strategic priorities and the business activities by which we will achieve them (see table below).

The two most important challenges influence all aspects of our business: meeting the additional demand from growth in our region and the impact of climate change.

Ours is the fastest growing region in the country. More than 24,000 new connections were made this year, with a million more homes predicted to be built in the next 25 years. As a result, our customer base is set to increase by around 30 per cent.

Accommodating this growth has significant implications for every area of our business, particularly our water resource management. Our region is the driest in the country. Water efficiency in all its forms has been the key to our success in managing droughts to date, and we will continue to work with our customers to become the most water efficient region.

Our other main challenge is climate change. The region in which we operate is particularly vulnerable to the effect of climate change due to its extensive coastline and low-lying land. This makes many of our assets vulnerable, too.

We are also seeing extreme storms more regularly. In June, North Norfolk experienced a severe storm that overwhelmed our network, causing localised flooding and compromising water quality.

The following month the country experienced some of its worst flooding, particularly in Gloucestershire. Anglian Water provided assistance to Severn Trent in the form of bowsers (portable water containers) and support for its communications team during the height of the emergency.

These events highlighted the importance of further investment from 2010-2015 and beyond to improve network resilience.

Another key challenge in the short term is to address the rise in customer debt, which is having an increasingly significant impact on our operating costs. This year marked the beginning of a new, more direct approach to customers who can pay but choose not to.

Market operations

Drinking water

Every day Anglian Water supplies 1.2 billion litres of high quality drinking water to 4.2 million domestic and commercial water customers via 140 water treatment works and more than 37,000 kilometres of water mains.

Two-thirds of the annual supply is used by households, of which around 62 per cent, and rising, are metered.

Wastewater

Anglian Water collects and treats the water that customers have used, returning it to the environment via rivers and coastal outlets. The water is sampled regularly and tested against strict Environment Agency standards.

Approximately 960 million litres of wastewater are collected each day from 5.5 million customers, including customers who receive their water from other companies. Anglian Water's sewerage network includes approximately 43,750 kilometres of pipes connected to 1,106 wastewater treatment works.

The Anglian Water region

Anglian Water serves an area of 27,500 square kilometres, the largest region served by any water company in England and Wales. Employing approximately 4,000 people at 31 March 2008, Anglian Water is one of the region's biggest employers.

Management

Structure

Anglian Water has its own board of Directors which, as at April 2008, consisted of five Executive Directors and three independent Non-Executive Directors. Two of the Executive Directors, the Group Chief Executive and Group Finance Director, are also Directors of the ultimate parent company of Anglian Water, Anglian Water Group Limited (AWG).

The Anglian Water board is responsible for the strategy and overall management of the water company. Day-to-day operations are led by the Operating Executive of Anglian Water.

People

Attracting and retaining skilled people is key to ensuring an effective workforce. Anglian Water has a wide range of policies to meet both its statutory obligations and those that arise from its commitment to provide a high-quality working environment. Examples include flexible working, discretionary leave and the recognition of the importance of work-life balance.

Competitive environment

The competitive environment of the water supply and wastewater services market is changing rapidly in England and Wales. Historically, water companies have been able to offer water and sewerage services to large industrial or commercial customers and developers of 'greenfield' sites outside their regional boundaries through the creation of what is known as 'inset appointments'.

During the year, Anglian Water won the right to supply water to a new business park on the edge of the Hartlepool region. Because Northumbrian Water did not have sufficient capacity, the most effective, efficient and sustainable solution for all parties was for Anglian Water to supply the site through an inset appointment.

Also during the year, a number of new companies have entered the market offering to serve large new developments with water and wastewater services via inset appointments. The supply of these services on two developments, both in Northamptonshire, has been awarded to another company in the Anglian Water region this year.

From December 2005, business customers using at least 50 megalitres of water per year were able to choose from a number of different licensed companies, one of which is Anglian Water's non-regulated sister company, Osprey Water. In 2007 Ofwat launched a public consultation on the future of competition in the water and wastewater industry in England and Wales.

Anglian Water supports the introduction of competition as long as it is introduced in a fair and even way and can be proven to benefit customers. This approach may provide developers with a choice of which water company to use. However, the ultimate domestic customers do not benefit from any choice under the current inset regime.

Regulatory environment
The water industry is highly regulated. The quality of our customer service and the prices we are able to charge our customers are regulated by a Government office called the Water Services Regulation Authority (WRSA) or Ofwat as it is more commonly known.

The industry operates on five-year Asset Management Periods. The current Asset Management Period, known as AMP4, began in April 2005 and ends in March 2010.

Between 2005 and 2010, Ofwat assumed investment for Anglian Water of a further £1.5 billion (at 2002/3 prices) in its services, in addition to the £4.6 billion that it has invested since privatisation in 1989.

Efficiency challenge
Ofwat's Final Determination for the current Asset Management Period, established the lowest price increases of any water and wastewater company in England and Wales for Anglian Water. It also set a number of challenging efficiency targets.

In response to the efficiency targets and known additional cost pressures from increases in energy costs, infrastructure renewals and pensions, the management team has put in place the framework and detailed plans to address these challenges.

As a first step, the company carried out a restructuring programme in the 2004/5 financial year, saving approximately £10 million per annum in operating costs, beginning in the financial year 2005/6. During 2007/8 further efficiency savings came from a range of initiatives.

Financial performance

	Year ended 31 March 2008 £m	Period from 23 November 2006 to 31 March 2007 £m	Year ended 31 March 2007 £m
Turnover	969.2	318.6	919.0
Operating profit before goodwill amortisation	421.0	139.9	404.8

Turnover for the year was £969.2 million, an increase of 5.5 per cent over the previous year. This reflects the year on year price increase offset by a slight reduction in demand as the summer of 2007 was wet in contrast with the hot, dry summer of 2006. This net increase in revenue of £50.2 million, together with the realisation of cost efficiencies, was offset by an increased depreciation charge as result of an increase in infrastructure renewals charge (IRC). Overall operating profit before goodwill amortisation increased by £16.2 million (4.0 per cent).

Gross capital expenditure for the year was £420.2 million, £166.0 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water. The total capital investment in the first three years of the Asset Management Period was approximately £1,176 million (at 2007/8 prices), which is on track for meeting our Final Determination for AMP4 by 2010.

Operational performance

In November 2007 Ofwat announced that Anglian Water was the industry's leading water and sewerage company in terms of its Overall Performance Assessment (OPA) for the financial year 2006/7.

The OPA includes a range of measures from across water companies' operations, including water and wastewater operations, customer services and the environment.

Anglian Water scored 413 points out of a maximum of 438 points, despite operational challenges from drought conditions and localised flooding. The most significant improvements in the OPA score came from our wastewater performance, namely:

- We maintained an excellent record of compliance in our wastewater effluent throughout the year, recording zero test fails in some months.
- No wastewater treatment works tracked by Ofwat as part of the OPA assessment were classed as 'failing' during the year.
- The lowest number of significant pollution incidents ever recorded.

Hartlepool Water, part of Anglian Water's licence, scored maximum points in the OPA in all areas that relate to water-only companies, including leakage levels, drinking water quality and customer service levels.

As a result of continued operational improvements across the business, we anticipate another good OPA performance for 2007/8 when it is confirmed during 2008/9.

Drinking water quality

The health of Anglian Water's customers, and visitors to our region, depends on the quality of the drinking water we provide. Drinking water quality is therefore the foremost measure of our performance. The quality of our drinking water is tested throughout the treatment process and at other key sites to complement the extensive laboratory sampling and analysis, which includes water from customers' taps (see below).

Drinking water quality remained high throughout the year, with an overall mean zonal compliance of 99.96 per cent for the calendar year 2007 (2006: 99.95 per cent). Hartlepool achieved 100 per cent.

Water resources and leakage
The Anglian Water region receives only two-thirds of the long-term average rainfall of England and Wales, making it the driest region in the UK. It is also classified as an area of 'water stress' by the Environment Agency, which gives the Agency powers to introduce restrictions.

The latest results are for 2006/7. This was a drought year in which we invested an additional £2.6 million in leakage detection and control. As a result of this investment, our leakage rate fell by 7 per cent from 215 megalitres per day (ml/d) to 200 ml/d.

This equates to 5.5 cubic metres of water per kilometre of main per day (2005/6: 5.8m^3 per km/d), which is almost half the industry average of 10.1m^3 per km/d (2006/7 data).

Bathing water quality
During the 2007 bathing season, Anglian Water once again achieved 100 per cent compliance with the mandatory bathing water standards. This is the ninth time in 11 years this has been achieved.

The tighter guideline standards were met at 68.1 per cent of the beaches (2006: 72.3 per cent). This reduction was due to wetter weather conditions making the coastlines more vulnerable to pollution.

River water quality
High quality effluent also protects and helps sustain the region's waterways; an important but delicate ecosystem.

The Environment Agency tests the water quality of the rivers in our region and publishes the results every year. In its latest report, published in August 2007 for the 2006 calendar year, it classed the biological quality of 98.1 per cent of rivers as 'very good' to 'fair' (2005: 98.7 per cent). In 89.4 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2005: 89.4 per cent).

Customer service
Anglian Water's focus on customer service has led to a significant improvement in performance in 2007/8, compared to the previous year. We carry out regular surveys of our customers, asking questions relating to 14 aspects of the service we provide. The average satisfaction score for overall service in the year was unchanged at 86 per cent, but with 92 per cent, the highest score to date, achieved in the third quarter of the year.

Four key measures of customer service are incorporated into an index that is tracked on a monthly basis. The index includes levels of service, backlogs of work, service delivery failures and the number of chase calls from customers. Compared to the end of 2006/7, three out of the four measures in the index have improved markedly, with levels of service improving by 6.5 per cent, backlogs down by 94 per cent and chase calls down by 26 per cent.

Service delivery failures, where we have not met customers' expectations, increased by 16 per cent. This deterioration was principally due to the new billing system that was introduced last year and is on course to return to pre-installation levels during 2008.

Occupational health and safety

Anglian Water's most fundamental responsibility is to the health and safety of its employees, contractors and the public. The phrase we use most often in relation to health and safety is that 'nothing is so important that we cannot take the time to do it safely.' Anglian Water believes fundamentally that all accidents are preventable.

Anglian Water is committed to continuous improvement in its Occupational Health and Safety (OH&S) performance. OH&S is the first item on the agenda for all meetings and performance updates are reported to the Anglian Water board on a monthly basis.

We are very pleased that this year, for the second consecutive year, Anglian Water was awarded the prestigious Royal Society for the Prevention of Accidents (RoSPA) Gold Award.

Health and safety performance

All accidents and incidents, no matter how minor, are reported to the Health and Safety team. Reporting a near miss, which could have resulted in an accident, is actively encouraged to identify and prevent potential accidents. More serious occurrences are included in the Accident Frequency Rate (AFR), which is the number of accidents per 100,000 hours worked. Anglian Water's improving trend continued in 2007, with the AFR falling to 0.37.

Managing our key relationships

Our working relationships with customers, suppliers and regulators are critical to the nature and quality of service we provide.

Anglian Water aims to have a regular, open dialogue with all of those that we serve, through which both sides can express their views, needs and expectations. This can be useful in raising standards as well as finding acceptable solutions in difficult situations.

These relationships are managed through daily contact as well as a planned programme of discussions, focus groups and surveys.

Relationships with residential customers

For the majority of customers, our relationship is limited to information contained in bills and our marketing and communications activities.

The majority of our customers wish to rely on our service without having to think about it unless there is a quality issue, interruption to supply or it is a particularly dry – or wet - year in which water issues are discussed in the media.

Anglian Water is working hard to build a more understanding, productive relationship with its customers, both directly through surveys and indirectly via the Consumer Council for Water, the customers' representative body

Understanding our customers

The results of our quarterly customer opinion survey in November/December 2007 showed the highest level of overall customer satisfaction since the survey began in 1992.

The results show that 92 per cent of customers said they were 'very' or 'fairly' satisfied with Anglian Water's overall service. We believe that this result was due to an improved perception that Anglian Water 'does the job right first time'. Due to the wet winter we have seen a slight dip in the level of satisfaction to 84 per cent in the last quarter to March 2008.

In addition we carry out weekly customer experience surveys of around 500 customers to measure satisfaction levels and to improve customer service.

Working together to be Waterwise

The combination of low rainfall in our region and the challenges of growth and climate change means that we need to use water supplies as efficiently as possible.

In 2006/7 we were very pleased by the response from our customers to our advertising campaign encouraging them to be Waterwise.

Our combined efforts helped maintain our unbroken record of no water restrictions, which we have held continuously since 1991, despite being the driest region in the country.

Our aim is to build on this partnership to make the Anglian Water region the most water efficient in the country.

Working with schoolchildren

Last year we launched our new education programme, opening an Education Centre on the site of our Chelmsford Wastewater Treatment Works in Essex.

In May of this year, Chelmsford was joined by another Education Centre in Leighton Buzzard, Bedfordshire and in September we launched our Mobile Education Centre.

All three facilities, in addition to school visits by our qualified teachers, are extremely popular with local schools. The lessons, which are linked to the National Curriculum, are designed to foster responsible attitudes to water usage, waste disposal, hydration issues and the environment. 24,628 pupils and 4,628 adults took part in education sessions in 2007. Of these, 13,000 pupils visited our centres. The target for next year is 14,000.

Addressing climate change and our environment

We take responsibility for ensuring we operate in a sustainable way, ensuring the long-term viability of our business decisions and the impacts on our people, our communities and the environment for years to come.

Climate change is a key issue for our business. In the past few years, we have seen increasing evidence of increasing erratic weather i.e. one of the driest summers in 2006 followed by the wettest summer on record in 2007. These effects, combined with increased demand as a result of fast housing growth in the region, are putting even more pressure on water resources and threaten the region's biodiversity.

We have been working hard to manage our resources. At 62 per cent, we have the highest number of metered domestic customers in England and Wales (on average, metered customers use between ten and 12 per cent less water than non-metered customers). Our leakage rate is currently one of the lowest in the UK.

Climate change			Sustaining our environment
Carbon Management	**Flood risk**	**Growth**	
22.5% Amount of energy sourced from renewable sources **Energy accounts for about 15 per cent of our total operating costs** Treating and transporting water and wastewater to and from our customers across our large and flat region uses a lot of energy. Reducing the amount of energy we use is therefore a priority to make us a more efficient company and to reduce our impact on the climate. We are planning to reduce our carbon emissions by 20 per cent (92,000 tonnes CO_2 equivalent) by 2010 (from 2006/7 baseline). This consists of 28,000 tonnes reduction from reducing energy use and 64,000 tonnes from generating our own renewable power.	**60** Major assets vulnerable to 0.4 metre rise in sea level. A further 1,000 pumping stations at risk. **Our region is vulnerable to flooding** Flooding from rivers and surface water runoff during heavy rain is a threat in our region due to the flat and low lying landscape and our long coastline is susceptible to the effects of storm surges and rises in sea level. In 2007 we experienced heavy rain causing flooding in Lincolnshire and an autumn storm surge threatened much of our coastline. We know that as the climate changes, it will be key for us to make our assets sufficiently resilient. We are revising our Business Continuity Plans to ensure that we can continue to provide the services our customers expect even if water, sewerage or office assets are affected by flooding.	**30%** Growth in our customer base expected by 2035. **Our region is also the fastest-growing in the country** More than 24,000 new connections were made this year, with a million more homes predicted to be built in the next 25 years. Water efficiency in all its forms has been the key to our success in managing droughts to date, and we will continue to work with our customers to become the most water-efficient region, while accommodating the additional growth.	**99%** Proportion of biosolids diverted from landfill **The environment is central to our business** We have a responsibility to protect and enhance the natural environment and biodiversity in our region. This involves ensuring ecologically sensitive watercourses are protected and that the quality of wastewater effluent discharges complies with the required standards. We seek to reduce the amount of waste we generate, to re-use or recycle as much as possible and send the minimum amount of waste to landfill. In 2007, 99 per cent of biosolids was diverted from landfill against a target of 95 per cent. We have one of the lowest leakage records in the industry, but we know there is still work to be done. Two-thirds of the water lost due to leaks is within our network; the remainder is lost from customers' pipes.

Principal risks and uncertainties

Anglian Water is exposed to a number of commercial risks and uncertainties that could have a material impact on our operations, financial condition or reputation. Where possible, we look at measures to mitigate these risks. However, some of these factors are beyond our direct control.

Growth

Coping with the forecast demand in housing growth and population in the Anglian Water region is one of our most significant long-term risks. Our region contains a large part of three of the four growth areas defined by Government and a number of growth points. In 2007/8 alone, more than 24,000 new connections were made to our network.

Ways in which we need to respond to this challenge, and the investment required to do so, is included in our draft business plan submission for AMP5 (2010-2015), which will be submitted to Ofwat in 2008/9. The plan includes options for increasing water resources, transferring water between rivers within our region and the adoption of a sustainable urban drainage systems (SuDS), a more natural approach to drainage.

Climate change

Climate change is the biggest risk Anglian Water faces over the next 25 years. The risk from climate change takes a number of forms. Hotter, drier summers will reduce rainfall and therefore reservoir levels. It will also reduce river levels, upon which we rely to help maintain reservoir levels. At the same time, the weather and regional growth will significantly increase demand.

These combined supply and demand issues represent a risk to one of our customers' most important priorities - to ensure an unrestricted supply.

Climate change is also leading to more frequent, extreme storms. These can, and have, caused localised flooding that overwhelms our sewer network, floods customers' homes and has the potential to disable treatment works. More than 85 per cent of the incidents managed by our wastewater team in 2007/8 were weather-related, far more than in previous years.

On the coast, our low-lying region is particularly vulnerable to rises in sea level. This means that a number of our assets, for example water and wastewater treatment works are also vulnerable and must be protected or moved.

Meanwhile, we will also be responsible for mitigating the impact of climate change on the many ecologically sensitive areas we own and manage.

Like growth, climate change has been an area that has required considerable research before action can be taken. It also features heavily in our SDS and is being incorporated into our draft business plan. During the year we have continued to work with the Corporate Leaders Group on Climate Change to help influence the country's response to the challenge at Government level.

We have also been identifying and ranking our most vulnerable and strategically important coastal assets with a view to assess the investment required to protect or move them in subsequent Asset Management Plans.

Bad debts

The level of bad debt costs has continued to rise this year, despite significant and continued efforts to ensure customers pay their bills. The cost of bad debt to the average household water bill in the Anglian Water region is currently approximately £9 per year, which is in line with the average across other water companies in England and Wales.

Unlike other utilities, Anglian Water is not legally permitted to withdraw its services from domestic customers, even if they choose not to pay their bills. In addition, the current economic environment is expected to adversely affect some customers' ability to pay. This lost income has a negative impact on our operating expenditure and relative efficiency.

For customers that find it difficult to pay their bills, Anglian Water has created a range of specially-designed tariffs. It also funds an independently run Trust Fund, which helps support customers who are having genuine difficulty paying their utility and other household bills. During the year the company made a payment of £1.0 million (2007: £1.0 million) to the fund.

For customers who are able to pay their water bills, but choose not to, Anglian Water is adopting a two-pronged approach. Firstly, improved customer profiling helps identify the approach most likely to motivate a customer to pay their bill. For some this may mean a final reminder, while others may wait for County Court applications.

Anglian Water is also taking a tougher stance on customers who fail to respond to the usual debt recovery processes. This year, for the first time, Anglian Water has exercised its legal charges on customers' property to secure payment. This has included cars and, in one case, a customer's unoccupied property. While such actions are currently rare, they are a clear message that persistent non-payment of water bills by those who can afford to pay will not be tolerated.

Competition

Since privatisation in 1989, the water industry in England and Wales has operated as regional monopolies. Competition to date has been limited to business customers that are near enough to another water company's boundary to be offered a service and large enough for it to be economic for another water company to do so.

Following changes to the regulatory regime, this year we have seen new companies entering the market to supply some of our region's large new housing developments with water and wastewater services. The companies will buy water from Anglian Water at a wholesale price and sell it to their domestic customers.

Anglian Water supports competition that is of overall benefit to our customers and which avoids discriminating between existing suppliers and new entrants. In anticipation of further changes, we have briefed all employees about competition and the importance of acting correctly in order to avoid breaching any rules and regulations. We continue to watch developments, while focusing on improving our business and service to domestic and commercial customers alike.

Financial risk

The ability to raise new funds to finance our capital expenditure programme is critical for Anglian Water's continued success. The ongoing credit crisis has made this an even more critical area to manage.

Anglian Water will continue to work with its efficient debt-based financial structure. By careful management of Anglian Water's credit rating and standing with its investors, it has been possible to raise new funds at acceptable rates.

Energy management

Anglian Water is one of the largest users of electricity in the East of England, due to the power required to treat water and wastewater and pump it around such a geographically flat region. Power represents around a sixth of our total operating costs. The recent volatility and significant price increases in the wholesale power markets will impact significantly on Anglian Water's cost base in 2008/9.

Anglian Water continues to focus on three key areas to manage this risk:

An ongoing energy efficiency programme continues to drive reductions in power consumption, with the aim of reducing energy costs by 20 per cent by 2010 (from the 2006/7 baseline). This is equivalent to an annual saving of approximately £10m per year by 2010.

In parallel with this, Anglian Water continues to the increase the amount of renewable power generated through Combined Heat and Power (CHP) processes, as well as developing a wind generation programme.

We continue to purchase power in the wholesale markets through a dedicated energy purchasing team, using an appropriate hedging strategy to help mitigate short term price fluctuations.

Pensions
Anglian Water closed the defined benefit (final salary) pension scheme to new employees in 2002. However, the defined benefit (final salary) scheme remains a financial risk, with significant continued exposure on an actuarial basis, particularly in relation to the effect of improved longevity.

We are working closely with the Trustees, the in-house Treasury Team and our advisers to develop solutions for managing investment risk and to manage the expected improvements in longevity. In 2007/8 we have assumed further improvements in longevity and this has contributed to the increase in the Pension Scheme deficit compared with last year.

Traffic Management Act
The new Traffic Management Act came into force on 1 April 2008 and applies to anyone who carries out excavations in the highway. We anticipate significant additional costs in 2008/9 due to the need to purchase additional permits, as well as potential fines. In preparation for its introduction, Anglian Water has refined its processes and raised awareness of the requirements with employees and contractors.

Cost increases above inflation
Risks of increasing costs in delivering our capital programmes are considerable in our region. Scarcity of construction labour caused by projects such as Crossrail, the 2012 Olympics and the general construction demands associated with housing growth will affect construction costs. Competing global demands for commodities such as metals, chemicals, fuels and plastics also continue to drive up operating costs.

Outlook
Looking ahead to 2008/9, we remain focused on improving customer service, maintaining our improving efficiency trend and delivering the remainder of our capital investment programme for this asset management period.

We look forward to hearing the feedback from the independent expert panels that were set up as part of the SDS process and to further developing these working relationships. We will be submitting our draft business plan, as part of the price review process, to Ofwat on 11 August 2008.

Morrison
Introduction
Morrison began and ended the year as primarily a Support Services business. After the year end the disposal of the Morrison Utility Services business was completed on 8 May 2008 and this business has been shown as a discontinued operation within these accounts.

Following the acquisition of AWG by Osprey in 2006/07, the group has been reviewing the position of Morrison within its structure. As a result of this review it has been decided to sell the Utility Services business, close down the Morrison Plc central activity, and retain the Facilities Services business.

During the year Morrison continued to focus on improving its commercial and financial discipline by concentrating on four key objectives:

- To raise operating margins.
- To ensure a healthy conversion of profit to cash.
- To ensure that the order book is strong.
- To sustain and grow the business profitably.

The business was self-financed through its own cash generation following initial loans to acquire the business. It has a requirement from its parent to focus on cash generation and to pass funds each year through to its parent group. Some £25 million of loans were repaid to its parent or other group companies from cash generated by the business in recent years and increased responsibility was passed to Morrison to manage its treasury operations and to drive for further cash generation.

It is anticipated that it will repay the remaining initial loans with the proceeds of the disposal of its Utility Services division. The group has also paid a dividend of £22 million following the disposal of the Utility Services business in May 2008. Revenues are used to finance business development and to pass funds through interest and repayment of loans as a dividend contribution to AWG. Going forward one of the major requirements of the business will be to fund the AWG shareholders' required dividends.

Facilities Services – continuing operations

Key Performance Indicators

	Year ended 31 March 2008	Period from 23 November 2006 to 31 March 2007	Year ended 31 March 2007
Accident frequency rate[1]	0.36	-	0.45
Operating profit margin[2]	3.8%	2.3%	3.0%
Operating profit[2]	£12.3m	£2.6m	£8.1m
Operating profit	£6.9m	£1.3m	£5.1m
Operating cash flow	£8.0m	£8.3m	£6.8m
Order book at 31 March	£827m	£929m	£929m

[1] Number of accidents per 100,000 hours worked, only calculated on an annual basis

[2] Operating profit and operating profit margin stated before goodwill amortisation and exceptional items

Market operations

Facilities Services principally provides outsourced property repair and maintenance and capital investment services to the public sector, typically through three to 10-year contracts.

It is one of the largest providers of social housing repair and maintenance services to local authorities in the UK, managing more than 300,000 homes and other local authority buildings. It also provides facilities services to a number of schools and the National Probation Service. As well as offering repair and maintenance services and related services, such as call centre management and tenant liaison, Facilities Services also manages local authorities' capital spending programmes, such as kitchen and bathroom replacement programmes. The market for these services is considerable (see page 24 under Growth Drivers).

Facilities Services currently has 18 major clients. During 2007/08 the Company has won some further contracts with Housing Associations Midland Heart and Riverside. These contracts will not be mobilised until the next financial year. The current year saw the further development of the contract with Manchester City Council and the results for 2007/08 include a full year of this contract. The award of contracts by local government is governed by strict procurement criteria to ensure that best value is obtained. Two contracts that the business re-tendered during the year will terminate at the end of their current contractual terms. There will be minimal additional cost as a result, as the majority of the staff will transfer to the new contractors.

Financial performance

	Year ended 31 March 2008 £m	Period from 23 November 2006 to 31 March 2007 £m	Year ended 31 March 2007 £m
Turnover	323.0	114.9	271.6
Operating profit before goodwill amortisation and exceptional operating costs	12.3	2.6	8.1
Goodwill amortisation	(3.4)	(1.3)	(3.0)
Operating exceptional items	(2.0)	-	-
Operating profit	6.9	1.3	5.1

Facilities Services' turnover increased 18.9 per cent to £323.0 million (2007: £271.6 million), while operating profit before goodwill amortisation and exceptional operating costs grew by £4.2 million to £12.3 million (2007: £8.1 million). Operating exceptional items of £2.0 million relate to aborted disposal costs incurred during the year.

Facilities Services has won a number of significant contracts in the last 18 months, including social housing maintenance and 'Decent Homes' (capital investment) work in Manchester, the full-year impact of which was seen in the current year. There has been further implementation of the company's hand held technology which improved operational efficiency. The introduction of this technology at Maintenance and Property Care, one of the company's subsidiaries resulted in redundancy and reorganisation costs during the year of £1.5 million, but is expected to improve service levels going forward.

Facilities Services now has an established presence in Scotland, the North East, the North West, Midlands, Norfolk, London and Essex.

Utility Services – discontinued operations

Key Performance Indicators

	Year ended 31 March 2008	Period from 23 November 2006 to 31 March 2007	Year ended 31 March 2007
Accident frequency rate[1]	0.18	-	0.15
Operating profit margin[2]	2.7%	3.0%	2.8%
Operating profit[2]	£14.0m	£5.6m	£13.7m
Operating profit	£4.9m	£4.2m	£10.2m
Operating cash flow	£14.6m	£25.4m	£10.6m
Order book at 31 March	£1,030m	£722m	£722m

[1] Number of accidents per 100,000 hours worked, only calculated on an annual basis

[2] Operating profit and operating profit margin is stated before goodwill amortisation and exceptional items

Market operations

Utility Services provides support services to 12 key blue-chip clients in the gas, water, electricity and telecommunications sectors. Its services range from implementing planned capital investment schemes to reactive repair and maintenance.

The water and gas markets are considered to be relatively mature. The electricity and telecommunications sectors still provide good opportunities for expansion and increased market penetration.

During 2007/8 there was considerable bidding activity as a number of contracts came up for renewal. As part of this process Utility Services has successfully rebid and won contracts for Nova Scotia Gas and Wales and West Utilities. As a result the US division ended the year with an increase order book at £1,030 million (2007: £722 million).

The sale of the business was completed on 8 May 2008 and the profit on this disposal will be shown in the March 2009 accounts. The majority of the costs of the disposal have been included in the March 2008 accounts as these were committed at the time of the announcement of the disposal in March 2008. As a result of the disposal of the Utility Services division the small Morrison central team are to be disbanded and the costs of this have been included in the loss on disposal.

Financial performance

	Year ended 31 March 2008 £m	Period from 23 November 2006 to 31 March 2007 £m	Year ended 31 March 2007 £m
Turnover	515.0	188.9	497.6
Operating profit before goodwill amortisation and exceptional operating costs	14.0	5.6	13.7
Goodwill amortisation	(4.0)	(1.4)	(3.5)
Operating exceptional items	(5.1)	-	-
Operating profit	4.9	4.2	10.2

Turnover in the discontinued Utility Services business increased marginally to £515.0 million (2007: £497.6 million). This was a result of retaining and increasing work from existing clients. Operating profit before goodwill amortisation and exceptional operating costs was in line with the prior year at £14.0 million (2007: £13.7 million).

Morrison Management

Structure

Morrison operated as a standalone group within Anglian Water Group. As such it complies with Anglian Water Group policies and controls and pays interest on intergroup loans to Anglian Water Group. Morrison agrees performance objectives and reports against these to Anglian Water Group. Morrison had its own operating management board of ten Directors (including the HR Director who is not a Director of Morrison Plc), supported by a small head office team. The operating board of Morrison Plc includes the Group Chief Executive and Group Finance Director of AWG acting as Non-Executive Directors, together with two other independent non executives who were appointed during the year. As a consequence of the disposal of Utility Services four Directors resigned and an appropriate management structure is being determined for the Morrison Facilities Services business going forward.

Responsibility and control

A Managing Director has responsibility for the performance of each of the operating divisions, which are in turn supported by a small number of head office employees including finance, human resources and legal.

Morrison has reinforced the commercial discipline and financial control processes for new business tendering and project development and management. The selection criteria for tendering projects have been tightened, focusing on core skills in geographic areas where Morrison has appropriate capability, experience or supply chain availability.

All new contracts must contribute to Morrison's strategic and financial targets, which are measured in terms of cash generation and sustainable profit margin. In addition, the risk profile of contracts must be acceptable.

Key drivers of shareholder value are reported on a monthly basis at a contract level. All tenders are rigorously reviewed and are assessed against the criteria of delivering a sustainable improvement in profit margin for the business to ensure that management can be confident that the order book will deliver improving results in the future.

People

People are at the core of our business and are key to the profitable delivery of Morrison's services. Operating in an economic climate with significant skill shortages, it is vital that Morrison's people strategy focuses upon attraction and retention of talent, enabling employees to fulfil their potential through ensuring they are properly skilled and motivated to deliver the business strategy.

To help retain its existing workforce, Morrison invests in the development of its employees and works very closely with the Learning and Skills Council, the Energy and Utility Sector Skills Council and regional colleges in relation to the ongoing training and development of employees. Both Utility Services and Facilities Services have accreditations for Investors In People. During the year the Facilities Services business recognised the contribution of its apprentices and the mentors who work with them at the annual Morrison Facilities Apprentice of the Year Award.

Competitive environment

Morrison operates in the highly competitive support service sector in which there are a large number of companies offering a wide range of different services.

Morrison has performed strongly by concentrating on its core skills in markets in which it has experience, competitive advantage and an established supply chain. In doing so, risk and start-up costs have been significantly reduced, leading to faster, more efficient operations. Both Utility Services and Facilities Services have an excellent safety record, which is essential for long-term success in these competitive sectors. Morrison has maintained an excellent safety performance over many years and has won a series of awards in recognition of its achievements in this area.

Availability of skilled workers is an issue faced by all companies in this sector. To help retain its existing workforce, Morrison invests in the development of its employees. Both Utility Services and Facilities Services are accredited Investors In People. In order to help tackle ongoing skills shortages, both divisions have been actively involved in apprentice schemes and training the long-term unemployed. In conjunction with a key client, Utility Services is also continuing to offer training to selected young offenders. In Facilities Services, a client's Direct Labour Organisation (DLO), involving a workforce of hundreds of employees, is often transferred en masse to Morrison. The sensitive management of this process is critical to the smooth handover of work, subsequent efficiency and individuals' job satisfaction. This is an area in which Morrison has considerable experience.

The market for local government contracts is becoming increasingly competitive, as local government are required to deliver services within strict criteria. During the year, for example, Birmingham put out to tender the contract for its repairs and maintenance contract as two separate smaller contracts with a greater transfer of risk to the contractor. This increased the pressure on margins for the business and Morrison will exit this contract from the end of March 2008. Because of the nature of such contracts it is envisaged that most of the staff will transfer under Transfer of Undertakings, Protection of Employment (TUPE) and therefore this will not involve significant redundancy costs to the business.

Commercial relationships
The support service businesses operate under framework contracts of typically three to 10-years duration. Within Utility Services most contracts operate on a schedule of rates basis with increases each year to allow for inflation. Each contract has it own unique set of key performance indicators (KPIs) agreed with the client. These KPIs can influence the profit on the contracts.

Facilities Services' contracts tend to be on a measured term basis with a schedule of rates. However, in recent years there has been a move to partnership arrangements, where the price is based on output specifications.

Risks
Economic trends
Much of Morrison's activities are operated within framework agreements with government agencies, local authorities and utility operators. These are relatively insulated from general economic trends.

Contractual risk
The majority of Morrison's contracts are with public authorities and major blue-chip clients. Both the funding of programmes and the political support for private involvement may be subject to change.

Local Government procurement is driven by the requirement to achieve best value for the tax payer. This puts increasing pressure on margins within the business and on assessing the level of risk transfer to the contractor. It also means that in a competitive environment there is a risk that contracts are only held for one contractual period as the process is primarily price driven.

The regulatory risks for Morrison's utility clients are cyclical. For example, in the water industry prices are set every five years. 2007/8 is the third year of the latest Asset Management Period. The risks relate to the operating cost targets set by the Regulator, Ofwat. However, once the final determination is announced, the industry has considerable visibility of its targets and costs for the next five years. Framework contracts tend to be awarded by Utility companies to match these regulatory cycles.

As well as increasing the proportion of its work in framework contracts, Morrison spreads its contractual risk by carrying out a larger number of small, low-risk contracts. When assessing potential contracts, emphasis is placed on whether it fits with Morrison's core skills and how close it is to Morrison's established supply chain.

Pensions
The Facilities Services business, working on local authorities' social housing, often involves a transfer of employees under TUPE arrangements to Morrison. The pension provision for these employees must therefore be equivalent to that received when employed by the local authority.

Morrison achieves this either by allowing employees to remain in the Local Government Pension Scheme (LGPS) by agreement with the local authority, or providing employees with an equivalent pension scheme through the company. Morrison has a policy for managing such pension obligations and has specialised in developing pensions solutions with its clients.

Skills shortages
Morrison operates in an economic climate where skill shortages prevail and consequently invests heavily in training and developing employees to their maximum potential. Morrison has been very

successful in recruiting from local communities in which it works and in developing and retraining staff.

In order to help tackle ongoing skills shortages, both divisions have been actively involved in apprentice schemes and training the long-term unemployed. Morrison continues to run it's Young Offenders Rehabilitation Scheme. Morrison employs people from this scheme as well as working with its clients to place young people back into work. In conjunction with a key client, Utility Services is also continuing to offer training to selected young offenders.

Reliance on suppliers

The business has preferred supplier relationships, which are generally not exclusive and always seek to ensure that a balanced and stable supply chain is maintained, which helps to deliver best value to clients.

Health and safety

Health and safety considerations form a key part of Morrison's operational practices. Morrison operates safe and reliable working practices through a policy of honesty, trust and sharing best practices across all business operations.

The Accident Frequency Rate (AFR) within Morrison Utility Services during the year was 0.18 against a target of 0.18. The AFR within Morrison Facilities Services was 0.36 against a target of 0.45.

AWG's Safety First – Second Nature approach is highlighted in campaigns throughout Morrison, requiring that employees and sub-contractors participate in safety improvement. In 2007, Morrison Utility Services was awarded the British Safety Council – International Safety award for the forth year in recognition of its safety performance.

Utility Services has become the first utility service business in the UK to devise and implement a bespoke Institution of Occupational Safety and Health (IOSH) accredited training course for the utility sector.

The Utility Services division also won Royal Society for the Prevention of Accidents (RoSPA) gold medal in April 2008 for safety. This is awarded when companies have won the equivalent of five consecutive gold awards. Morrison Utility Services has also been nominated for the IGEM-SBGI Safety Award 2008.

Facilities Services is undertaking significant work in raising standards within its local authority-derived businesses. The health and safety management systems within Facilities Services have been accredited by the Contractors Health and Safety Assessment Scheme (CHAS). CHAS is used by local authorities to assess the health and safety capability of potential suppliers.

Growth drivers

The social housing sector represents a significant growth opportunity for Morrison. Of the five million social houses in the UK, two million have so far been outsourced to the private sector. In addition to local authorities' own current spending, the Government has committed funding of £19 billion in order to bring all social houses up to its 'Decent Homes' standard by 2010.

Morrison is working in partnership with its clients to unlock this funding and the sizeable market opportunity it represents. Additionally, the market is highly fragmented and Morrison Facilities Services uses its scale and experience to grow market share where possible.

Utility Services is a leading company in the mature utility sectors of water and gas. In addition, the electricity sector and telecommunications markets represent good opportunities for expansion and increased market penetration.

Outlook
Morrison will focus on the continued profitable growth and performance improvement of its Facilities Services business, with the key objective of realising optimal shareholder value and generating cash.

Property
Key Performance Indicators

	Year ended 31 March 2008 £m	Period from 23 November 2006 to 31 March 2007 £m	Year ended 31 March 2007 £m
Capital employed at 31 March	28.8	50.4	50.4
Operating loss before exceptional items	(5.8)	(1.4)	(1.1)
Operating cash flow	(8.5)	13.6	6.8

Introduction
During 2007/8, notwithstanding AWG Property's reputation as one of the leading Scottish development and investment companies, given its intention to focus on its core water activities, Anglian Water Group Limited decided that it would be most appropriate to initiate a value realisation of its property investments.

As a result of this a focused management team is in place to target the achievement of this objective.

Financial performance

	Year ended 31 March 2008 £m	Period from 23 November 2006 to 31 March 2007 £m	Year ended 31 March 2007 £m
Turnover	32.0	16.4	50.2
Operating loss before exceptional items	(5.8)	(1.4)	(1.1)
Cost of a fundamental restructuring	(22.8)	-	-

Operating loss before exceptional items for AWG Property for the year was £5.8 million (2006/7: loss of £1.1 million) on a reduced turnover of £32.0 million (2006/7: £50.2 million) as a result of the change in strategy for the business. Following the decision to realise value from the individual assets the group has undertaken an impairment review of the individual assets and made impairments where required. Accordingly AWG Property has incurred an exceptional charge relating to asset write downs and closure costs of £22.8 million.

Management
AWG Property has its own board, which consists of two Anglian Water Group Limited Directors (the Group Chief Executive and the Group Finance Director), the Managing Director of AWG Property and six further Executive Directors. The Managing Director oversees the day-to-day operations.

Risks
AWG Property faces a variety of business risks. The principal risk is the economic cycle, which property developments tend to follow. AWG Property minimises the risk of these cycles adversely affecting its business in a number of ways.

The principal approach is to ensure that AWG Property has a balanced property portfolio to spread the exposure to individual market sectors. All projects are subject to extensive due diligence before proceeding and are within core market sectors and geographical areas in which it has experience. Developments range from low-risk projects work with local authorities and occupiers to larger multi-let schemes and office developments with established commercial partners.

Pensions
The majority of employees participate in the group defined contribution scheme or in the recently created career average earning scheme.

Outlook
AWG Property will focus on the controlled realisation of value from its asset base.

Other business activities
The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Alpheus Environmental, a wastewater treatment works in the Republic of Ireland and a few residual international interests.

Pensions
At 31 March 2008 the gross deficit for the group (before deferred tax) was £82.1 million (2007: £26.4 million). Future additional contributions will continue to be made in line with actuarial advice.

Treasury management
Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central treasury team reporting to the Group Finance Director. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The central treasury function actively:
- Secures funds and invests temporary surplus cash to best advantage at minimal risk;
- Protects the group's foreign exchange and interest rate exposures;
- Maintains an excellent reputation with providers of finance and rating agencies;
- Monitors compliance with the group's financial covenants (both on an actual and forecast basis);
- Promotes improvement of cash management techniques, systems and controls throughout the group.

The group's board, through the Treasury Advisory Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 19 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2008 the group held cash, deposits and current asset investments of £866.9 million (2007: £773.6 million) and had undrawn committed multi-currency facilities of £580 million (2007: £578 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 19 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance. At 31 March 2008 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 81.4 per cent (2007: 81.6 per cent).

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by Osprey Holdco Limited, Osprey Holdco Limited, AWG Plc, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2008, Anglian Water was compliant with all covenants.

Interest rates

The group's policy, as agreed by the board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

Group profit and loss account

for the year ended 31 March 2008

Notes		2008 Continuing operations £m	2008 Discontinued operations £m	2008 Total £m	Period ended 31 March 2007 Continuing operations £m	Period ended 31 March 2007 Discontinued operations £m	Period ended 31 March 2007 Total £m
2	**Turnover**						
	Turnover (including share of joint ventures)	1,345.1	515.0	**1,860.1**	457.4	188.9	646.3
	Less: Share of turnover of joint ventures	(48.7)	-	**(48.7)**	(11.0)	-	(11.0)
	Group turnover	1,296.4	515.0	**1,811.4**	446.4	188.9	635.3
	Operating costs:						
	Operating costs before exceptional operating costs and goodwill amortisation	(902.4)	(501.0)	**(1,403.4)**	(317.5)	(183.3)	(500.8)
4	Exceptional operating costs	(2.0)	(5.1)	**(7.1)**	-	-	-
	Goodwill amortisation	(72.1)	(4.0)	**(76.1)**	(25.2)	(1.4)	(26.6)
3	**Group operating costs**	(976.5)	(510.1)	**(1,486.6)**	(342.7)	(184.7)	(527.4)
	Group operating profit	319.9	4.9	**324.8**	103.7	4.2	107.9
	Share of operating profit in joint ventures	5.3	-	**5.3**	1.6	-	1.6
	Total operating profit before exceptional operating costs and goodwill amortisation	399.3	14.0	**413.3**	130.5	5.6	136.1
	Exceptional operating costs	(2.0)	(5.1)	**(7.1)**	-	-	-
	Goodwill amortisation	(72.1)	(4.0)	**(76.1)**	(25.2)	(1.4)	(26.6)
2	**Total operating profit**	325.2	4.9	**330.1**	105.3	4.2	109.5
4	Costs of a fundamental restructuring	(22.8)	-	**(22.8)**	-	-	-
	Profit on ordinary activities before finance charges	**302.4**	**4.9**	**307.3**	105.3	4.2	109.5
5	Net interest payable and similar charges			**(340.3)**			(114.6)
6	Other finance income (net)			**12.1**			4.0
7	**Loss on ordinary activities before taxation**			**(20.9)**			(1.1)
8	Tax on loss on ordinary activities			**20.8**			24.3
	(Loss)/profit on ordinary activities after taxation			**(0.1)**			23.2
	Equity minority interest			**(1.1)**			(0.1)
	(Loss)/profit for the financial year/period			**(1.2)**			23.1

Notes 1 to 31 are an integral part of these financial statements.

There was no difference between both the loss on ordinary activities before taxation and the (loss)/profit for the financial year/period stated above, and their historical cost equivalents.

Comparative information for the period ended 31 March 2007 comprises the period from incorporation on 14 September 2006 and includes the results of the AWG Plc group from 23 November 2006, being the date of its acquisition by Osprey Holdco Limited.

Group statement of total recognised gains and losses

for the year ended 31 March 2008

Notes		2008 £m	Period ended 31 March 2007 £m
	(Loss)/profit for the financial year/period		
	Group	**(1.8)**	22.7
	Joint ventures	**0.6**	0.4
		(1.2)	23.1
	Currency translation differences on foreign currency net investments	**0.2**	0.1
	Actuarial (loss)/gain recognised on the pension schemes:		
22(d)	- Group	**(92.4)**	32.0
	- Less: minority interest	**(2.5)**	(2.9)
	- Joint ventures	**1.2**	5.6
	Current tax relating to the actuarial loss/(gain) on the pension schemes:		
	- Group	**11.1**	-
	Deferred tax relating to the actuarial loss/(gain) on the pension schemes:		
	- Group	**16.2**	(9.6)
	- Less: minority interest	**0.3**	0.9
	- Joint ventures	**(0.2)**	(1.7)
	Total recognised gains and losses relating to the year/period	**(67.3)**	47.5

Group statement of movement in shareholder's funds

for the year ended 31 March 2008

Notes		2008 £m	Period ended 31 March 2007 £m
	Total recognised gains and losses relating to the year/period	**(67.3)**	47.5
23	Issue of shares	**-**	1,096.3
11	Dividends	**(77.2)**	-
	Movement in shareholder's funds	**(144.5)**	1,143.8
	Shareholder's funds at 1 April (2007: at incorporation on 14 September 2006)	**1,143.8**	-
	Shareholder's funds at 31 March	**999.3**	1,143.8

Anglian Water Group Limited

Group and company balance sheets

at 31 March 2008

Notes		Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
	Fixed assets				
12	Intangible assets	**1,419.0**	1,495.1	**-**	-
13	Tangible fixed assets	**5,370.9**	5,204.5	**-**	-
14	Investments			**-**	-
	Joint ventures				
	– Share of gross assets	**104.0**	86.0	**-**	-
	– Share of gross liabilities	**(106.1)**	(88.9)	**-**	-
	– Amounts included in provisions	**3.0**	4.8	**-**	-
		0.9	1.9	**-**	-
	Other investments	**-**	0.1	**1,096.2**	1,096.2
	Total investments	**0.9**	2.0	**1,096.2**	1,096.2
		6,790.8	6,701.6	**1,096.2**	1,096.2
	Current assets				
15	Stocks	**45.7**	41.7	**-**	-
16	Debtors	**450.8**	447.0	**-**	-
	Investments	**170.0**	313.9	**-**	-
	Cash at bank and in hand (including short-term deposits)	**696.9**	459.7	**0.6**	0.1
		1,363.4	1,262.3	**0.6**	0.1
	Creditors: amounts falling due within one year				
17	Short-term borrowings	**(330.4)**	(188.5)	**-**	-
17	Other creditors	**(581.6)**	(599.1)	**-**	(3.3)
		(912.0)	(787.6)	**-**	(3.3)
	Net current assets/(liabilities)	**451.4**	474.7	**0.6**	(3.2)
	Total assets less current liabilities	**7,242.2**	7,176.3	**1,096.8**	1,093.0
	Creditors: amounts falling due after more than one year				
18	Loans and other borrowings	**(5,941.6)**	(5,765.9)	**-**	-
18	Other creditors	**(126.3)**	(113.7)	**-**	-
		(6,067.9)	(5,879.6)	**-**	-
20	**Provisions for liabilities and charges**	**(112.6)**	(132.9)	**-**	-
	Net assets excluding pension assets and liabilities	**1,061.7**	1,163.8	**1,096.8**	1,093.0
22	Pension schemes with net assets	**4.7**	21.8	**-**	-
22	Pension schemes with net liabilities	**(63.8)**	(40.2)	**-**	-
	Net assets including pension assets and liabilities	**1,002.6**	1,145.4	**1,096.8**	1,093.0
	Capital and reserves				
23	Called up share capital	**-**	-	**-**	-
23	Share premium account	**1,096.3**	1,096.3	**1,096.3**	1,096.3
24	Profit and loss reserve	**(97.0)**	47.5	**0.5**	(3.3)
	Total shareholder's funds	**999.3**	1,143.8	**1,096.8**	1,093.0
	Minority interest	**3.3**	1.6	**-**	-
	Capital employed	**1,002.6**	1,145.4	**1,096.8**	1,093.0

Notes 1 to 31 are an integral part of these financial statements.

The financial statements were approved by the board of Directors on 10 June 2008 and signed on its behalf by:

Peter Hickson
Chairman

Scott Longhurst
Group Finance Director

Anglian Water Group Limited

Group cash flow statement

for the year ended 31 March 2008

Notes		2008 £m	Period ended 31 March 2007 £m
(a)	**Net cash inflow from operating activities**	**589.2**	242.4
	Returns on investments and servicing of finance		
	Interest received	**51.7**	18.6
	Interest paid	**(301.4)**	(87.0)
	Issue costs capitalised	**(3.5)**	(14.0)
	Interest element of finance lease payments	**(4.9)**	(2.2)
	Dividends paid to minority interests	**(1.8)**	-
	Net cash outflow for returns on investments and servicing of finance	**(259.9)**	(84.6)
	Taxation	**6.1**	(0.4)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(453.5)**	(206.5)
	Grants and contributions received	**33.5**	10.4
	Disposal of tangible fixed assets	**3.8**	4.5
	Investment in joint ventures	**(1.0)**	-
	Disposal of other investments	**0.1**	-
	Net cash outflow for capital expenditure and financial investment	**(417.1)**	(191.6)
	Acquisitions and disposals		
(d)	Purchase of subsidiary undertakings	**(0.2)**	(1,555.6)
	Receipts from sale of assets held for disposal	**-**	32.1
	Cash paid in respect of disposals made in previous years	**-**	(3.4)
	Net cash outflow for acquisitions and disposals	**(0.2)**	(1,526.9)
	Equity dividends paid	**(77.2)**	-
	Net cash outflow before management of liquid resources and financing	**(159.1)**	(1,561.1)
(c)	**Management of liquid resources**		
	Decrease/(increase) in short-term deposits and investments	**31.8**	(466.4)
	Financing		
	Issue of ordinary share capital	**-**	1,096.3
	Increase in loans	**753.1**	1,595.6
	Repayment of amounts borrowed	**(472.8)**	(548.2)
	Capital element of finance lease rental payments	**(28.4)**	(3.1)
	Net cash inflow from financing	**251.9**	2,140.6
(e)	**Increase in cash**	**124.6**	113.1

The notes (a) to (e) form part of this cash flow statement.

Notes to the group cash flow statement

for the year ended 31 March 2008

(a) **Reconciliation of operating profit to net cash inflow from operating activities**

	2008			2007
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Total £m
Group operating profit	319.9	4.9	**324.8**	107.9
Depreciation (net of amortisation of deferred grants and contributions)	232.3	3.5	**235.8**	77.8
Goodwill amortisation	72.1	4.0	**76.1**	26.6
Profit on sale of fixed assets	(1.6)	(0.4)	**(2.0)**	(4.5)
Net movement in provisions	(26.1)	-	**(26.1)**	(11.9)
Working capital:				
(Increase)/decrease in stocks	(6.2)	0.2	**(6.0)**	9.9
(Increase)/decrease in debtors	(11.2)	1.1	**(10.1)**	79.0
(Decrease)/increase in creditors	(2.7)	1.3	**(1.4)**	(42.4)
	(20.1)	2.6	**(17.5)**	46.5
Cash impact of fundamental restructuring	(1.9)	-	**(1.9)**	-
Net cash inflow from operating activities	**574.6**	**14.6**	**589.2**	242.4

(b) **Analysis of net debt**

	At 1 April 2007 £m	**Cash flows £m**	**Non-cash movements £m**	**Exchange £m**	**At 31 March 2008 £m**
Cash at bank and in hand	113.1	124.6	-	0.5	**238.2**
Deposits and investments	660.5	(31.8)	-	-	**628.7**
Debt due within one year	(188.5)	474.2	(616.1)	-	**(330.4)**
Debt due after one year	(5,765.9)	(722.6)	546.9	-	**(5,941.6)**
	(5,180.8)	**(155.6)**	**(69.2)**	**0.5**	**(5,405.1)**

Non-cash movements comprise indexation of index linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of fair value adjustments.

Included within deposits and investments above are £458.7 million (2007: £346.6 million) of short-term deposits maturing within three months, which are included in the heading 'cash at bank and in hand' in the balance sheet.

At 31 March 2008, £108.6 million (2007: £69.0 million) of the group's cash at bank and in hand and £583.7 million (2007: £484.9 million) of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following the group's financial restructuring, prior to declaring dividends. A further £37.8 million (2007: £72.8 million) of the group's cash at bank and in hand is held as collateral for outstanding loan notes. In addition, £13.8 million (2007: £18.6 million) of the group's cash at bank and in hand is held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

(c) **Management of liquid resources**
This comprises movements in short-term deposits which have maturity dates of up to one year.

(d) **Acquisition of subsidiary undertakings**

	2008 £m	2007 £m
Total consideration including costs	-	(2,311.8)
Less: acquisition costs deferred	(0.2)	0.2
Less: loan notes issued	-	68.2
Less: cash at bank and in hand in acquired subsidiary undertakings	-	687.8
Net cash outflow for purchase of subsidiary undertakings	**(0.2)**	(1,555.6)

(e) **Reconciliation of net cash flow to movement in net debt**

	2008 £m	2007 £m
Net increase in cash	**124.6**	113.1
Debt acquired with subsidiary undertakings	-	(4,645.1)
(Decrease)/increase in short-term bank deposits and investments	(31.8)	466.4
Increase in loans	(753.1)	(1,595.6)
Repayment of amounts borrowed	472.8	548.2
Capital element of finance leases rental payments	28.4	3.1
Issue costs capitalised under FRS 4	3.5	14.0
Loan notes issued	-	(68.2)
Amortisation of discount and expenses relating to debt issues	(9.9)	(5.9)
Amortisation of fair value adjustments	36.6	15.4
Indexation of loan stock and RPI swaps	(95.9)	(26.2)
Exchange differences	0.5	-
Movement in net debt	**(224.3)**	(5,180.8)
Net debt at 1 April (2007: at incorporation on 14 September 2006)	(5,180.8)	-
Net debt at 31 March	**(5,405.1)**	(5,180.8)

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and preceding period which comprised the period from incorporation on 14 September 2006 to 31 March 2007.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards and with the Companies (Jersey) Law 1991.

b) Basis of consolidation

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Intra-group sales and profit are eliminated fully on consolidation.

i. *Joint ventures*

Joint ventures are those entities over whose activities the group exercises joint control, established by contractual agreement. The group's interests in jointly controlled enterprises are accounted for by the gross equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised gains and losses of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

Jointly controlled operations and assets, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets, liabilities and cash flows measured according to the terms of the agreement.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and offset firstly against loans and trading balances with the joint venture, with any excess transferred to provisions.

ii. *Associates*

Associates are entities over which the group exercises significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

c) Turnover

Turnover represents the income receivable (excluding Value Added Tax) in the ordinary course of business for goods and services provided and, in respect of unbilled charges, includes an accrual for measured income.

Turnover from sale of development properties which are not held for the long-term is recorded when a sale is completed in accordance with the profit recognition criteria in 1(d) below. Turnover includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £2.6 million).

1. Accounting policies (continued)

d) Profit recognition policy

i. *Property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses. Other profits arising from developments are included in the financial statements only when legal completion of the sale of development has been effected.

ii. *Claims*

In establishing turnover and profit, credit is taken for claims only when negotiations are at an advanced stage and the outcome is substantially agreed by the client. Having released such claims in the profit and loss account, provision is made whenever ultimate payment seems doubtful.

iii. *Insurance claims and other recoveries*

Where some of the forecast expenditure on a contract is expected to be reimbursed by another party (such as an insurance company) the reimbursement is recognised only when receipt of the amount is virtually certain.

e) Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

f) Pensions

i. *Defined Benefit Schemes*

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance charges. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet, net of the related deferred tax.

ii. *Defined Contribution Schemes*

The cost of defined contribution schemes is charged to the profit and loss account in the year in which the contributions become payable.

1. Accounting policies (continued)

g) Taxation

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

Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at the rates at which it is estimated that taxation will arise. The deferred taxation balances are discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred taxation assets and liabilities. For assets with a life in excess of 30 years, an average rate based on bonds with a life up to 49 years has been used as no other quoted rates are available.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recoverable in future years.

Calculation of deferred tax on infrastructure assets:
Infrastructure assets effectively have an unlimited life and a notional depreciation charge, the infrastructure renewal charge (IRC), is offset against the gross network asset value (see note 1(j)). For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based IRC to an appropriate deemed historic cost based depreciation charge.

h) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. 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.

i) Goodwill

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 ‘Fair values in acquisition accounting’. On disposal of a subsidiary undertaking, any goodwill that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

Goodwill is generally amortised over 20 years, being the Directors' best estimate of the useful economic life, or the life of the contract if less than 20 years.

Goodwill is tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. In performing these tests assumptions are made in respect of the discount rate applied to the future cash flows of income-generating units. This discount rate is selected on the basis of the inherent risk associated with the income-generating unit.

1. Accounting policies (continued)

j) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

i. *Infrastructure assets*

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost along with related capital grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on Anglian Water Services Limited's Asset Management Plan, which is independently certified by the Reporter. The approach to the calculation has changed during the year to better reflect the future level of expected expenditure, and this has given rise to an increase of £17.5 million in the charge (in real terms).

ii. *Other assets*

Other assets comprise land and non-operational buildings, operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classified as infrastructure) and vehicles, plant and equipment, and are included at cost less accumulated depreciation. Cost includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Interest costs are not capitalised.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows:

Operational assets	30-80 years
Buildings	30-60 years
Fixed plant	12-40 years
Vehicles, mobile plant and equipment	3-10 years

Fixed assets are assessed for impairment, in accordance with FRS 11 'Impairment of fixed assets and goodwill', if events or changes in circumstances indicate that the carrying value may not be recoverable.

k) Grants and contributions

Grants and contributions for capital expenditure include government grants, infrastructure charges, connection charges, sewer adoption fees and other contributions from third parties.

Grants and contributions to capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset.

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets.

Revenue grants and contributions are credited to the profit and loss account in the year to which they apply. In particular, commuted lump sums received in advance for water and sewer requisitions are credited to a deferral account within creditors and are released to the profit and loss account in proportion to the year to which they apply.

1. Accounting policies (continued)

l) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs; the capital element reducing the obligation to the lessor and the finance costs being written off to the profit and loss account over the primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

m) Investments

Investments held as fixed assets are stated at cost less any provision for impairment. For investments in subsidiary undertakings, cost includes long-term loans that are not expected to be repaid in the foreseeable future.

n) Stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

o) Long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits less provision for any known or anticipated losses and the amount by which turnover exceeds payments on account is included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

p) Bad debts

In Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary companies, specific provisions are made for those debts on which recovery is regarded as doubtful.

q) Foreign currencies

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the profit and loss account.

On consolidation, the profit and loss accounts of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating profit and loss accounts at average rates and restating opening net assets at closing rates are taken to reserves. Exchange differences on foreign currency borrowings are taken to reserves to the extent that they provide an effective hedge of the exchange differences arising on net investments in foreign subsidiaries.

Goodwill arising on the acquisition of an overseas subsidiary, associate or joint venture is calculated using exchange rates applicable at the date of acquisition and is subsequently re-translated at each balance sheet date.

1. Accounting policies (continued)

r) Financial instruments

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates.

Interest rate swaps are used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits.

Costs that are incurred directly in connection with the issue of a capital instrument are capitalised and amortised at a constant rate over the life of the underlying instrument.

The group has not adopted FRS 26 'Financial instruments: recognition and measurement' and therefore the disclosure requirements of FRS 29 'Financial instruments: disclosures' are not applicable. Therefore, the disclosure requirements of FRS 13 'Derivatives and other financial instruments: disclosures' have been applied.

s) Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The group's policy on specific areas is as follows:

i. *Onerous lease costs*
Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub-leases.

ii. *Closure costs*
Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

iii. *Redundancy costs*
Redundancy costs are charged to the income statement in the year in which the group both becomes irrevocably committed to incurring the costs and has raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives.

iv. *Self insurance*
Some subsidiary companies self insure the risks where it is commercially prudent to do so. Provision is made in respect of notified claims to the extent that it is probable that a cash settlement will arise. Provision is made in the group's captive insurance company, Rutland Insurance Limited, for the expected cost of claims incurred but not reported. The provision is determined from an actuarial assessment based on past experience.

1. Accounting policies (continued)

t) Exceptional items

Where the Directors consider that particular items of income or expenditure are significant in terms of their size or nature, these items are separately identified on the profit and loss account. Such items are typically those items which are not related to the Group's normal trading activities, for example, costs of a fundamental restructuring, impairment of fixed assets and profit or loss on sale of businesses and related costs.

u) Current asset investments

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet. Cash deposits with a maturity of greater than one day but less than three months are classified as cash at bank and in hand within the balance sheet but are classified within liquid resources for the purposes of the cash flow statement.

v) Capitalisation of issue costs

Costs that are incurred directly in connection with the issue of a capital instrument are capitalised and amortised at a constant rate over the life of the underlying instrument.

w) Bid and pre-contract costs

Bid and pre-contract costs are written off as an expense until such time as the award of a contract becomes virtually certain.

x) Key assumptions and significant judgments

The group use estimates and make judgments in the preparation of its financial statements. The areas where the most judgment is required are highlighted below.

i. *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £2.6 million).

ii. *Pensions*

The group operates a number of defined benefit schemes (most of which are closed to new members) as well as defined contribution schemes. Under FRS 17 'Retirement benefits' the group has recognised a pension deficit of £82.1 million (2007: £26.4 million). The main assumptions are set out in note 22 of the financial statements.

iii. *Tangible fixed assets*

The tangible fixed assets used in the group are primarily the infrastructure and operational assets of the regulated water business. These have estimated services lives of between 30 and 160 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

iv. *Taxation*

The group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities.

2. Segmental analysis

By class of business for the year ended 31 March 2008

At 31 March 2008 the group is organised into three main businesses:

- Anglian Water; regulated water, wastewater and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- Facilities Services; provides repair and maintenance and capital investment services to local authority clients.
- AWG Property; commercial and residential property developer.

Following the completion of the disposal of Utility Services on 8 May 2008; Utility Services (see below) has been classified as a discontinued operation in accordance with FRS 3 'Reporting financial performance' and Morrison centre has been included within 'Other'. Comparative figures have been restated accordingly.

- Utility Services; manages infrastructure maintenance, renewals, installation and specialist services to blue-chip utility clients in the gas, water, electricity and telecommunications sector.

	Turnover	Total operating profit before exceptional operating costs and goodwill amortisation	Exceptional operating costs	Goodwill amortisation	Non-operating exceptional items	Profit/(loss) before finance charges	Net operating assets/ (liabilities)[2]
	£m	£m	£m	£m	£m	£m	£m
Continuing operations							
Anglian Water	969.2	421.0	-	(68.7)	-	352.3	**6,360.8**
Facilities Services	323.0	12.3	(2.0)	(3.4)	-	6.9	**78.1**
AWG Property	32.0	(5.8)	-	-	(22.8)	(28.6)	**28.8**
Other [1]	38.8	(27.3)	-	-	-	(27.3)	**(93.6)**
Less: Intersegmental trading	(17.9)	(0.9)	-	-	-	(0.9)	**-**
	1,345.1	**399.3**	**(2.0)**	**(72.1)**	**(22.8)**	**302.4**	**6,374.1**
Discontinued operations							
Utility Services	515.0	14.0	(5.1)	(4.0)	-	4.9	**104.8**
Total	**1,860.1**	**413.3**	**(7.1)**	**(76.1)**	**(22.8)**	**307.3**	**6,478.9**
Net debt							**(5,405.1)**
Current tax							**4.2**
Deferred tax							**(75.4)**
							1,002.6
Total							
– Group	1,811.4	408.0	(7.1)	(76.1)	(22.8)	302.0	
– Joint ventures	48.7	5.3	-	-	-	5.3	

[1] The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Morrison centre, Alpheus Environmental, a wastewater treatment works in the Republic of Ireland and a few residual international interests.

[2] Net operating assets/(liabilities) are shown before the deduction of net debt, corporation tax and deferred tax.

2. Segmental analysis (continued)

By class of business for the period ended 31 March 2007

	Turnover (restated)	Total operating profit before goodwill amortisation (restated)	Goodwill amortisation (restated)	Profit/(loss) before finance charges (restated)	Net operating assets/ (liabilities)[3] (restated)
	£m	£m	£m	£m	£m
Continuing operations					
Anglian Water	318.6	139.9	(23.9)	116.0	6,257.2
Facilities Services [1]	114.9	2.6	(1.3)	1.3	72.1
AWG Property	16.4	(1.4)	-	(1.4)	50.4
Other [2]	13.9	(10.6)	-	(10.6)	(62.5)
Less: Intersegmental trading	(6.4)	-	-	-	-
	457.4	130.5	(25.2)	105.3	6,317.2
Discontinued operations					
Utility Services [1]	188.9	5.6	(1.4)	4.2	107.9
Total	646.3	136.1	(26.6)	109.5	6,425.1
Net debt					(5,180.8)
Current tax					5.0
Deferred tax					(103.9)
					1,145.4
Total					
– Group	635.3	134.5	(26.6)	107.9	
– Joint ventures	11.0	1.6	-	1.6	

[1] The net operating assets for the Morrison businesses have been reanalysed to provide a more appropriate allocation of the underlying net assets. There has been no change to the overall net operating assets of Morrison.

[2] The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Morrison centre, Alpheus Environmental, a wastewater treatment works in the Republic of Ireland and a few residual international interests.

[3] Net operating assets/(liabilities) are shown before the deduction of net debt, corporation tax and deferred tax.

2. Segmental analysis (continued)

By geographical origin

	Turnover		Profit/(loss) before finance charges		Net operating assets/(liabilities)[1]	
	2008	2007	**2008**	2007	**2008**	2007
	£m	£m	**£m**	£m	**£m**	£m
Continuing operations						
United Kingdom	**1,316.8**	446.8	**300.7**	105.8	**6,376.5**	6,312.1
Europe	**24.0**	5.0	**1.7**	(0.4)	**1.3**	6.3
Rest of world	**4.3**	5.6	**-**	(0.1)	**(3.7)**	(1.2)
	1,345.1	457.4	**302.4**	105.3	**6,374.1**	6,317.2
Discontinued operations						
United Kingdom	**493.3**	180.6	**4.4**	4.0	**105.5**	108.1
Europe	**21.7**	8.3	**0.5**	0.2	**(0.7)**	(0.2)
	515.0	188.9	**4.9**	4.2	**104.8**	107.9
Total	**1,860.1**	646.3	**307.3**	109.5	**6,478.9**	6,425.1

[1] Net operating assets/(liabilities) are shown before the deduction of net debt, corporation tax and deferred tax.

By geographical destination

	Turnover	
	2008	2007
	£m	£m
Continuing operations		
United Kingdom	**1,316.8**	446.8
Europe	**24.0**	5.0
Rest of world	**4.3**	5.6
	1,345.1	457.4
Discontinued operations		
United Kingdom	**493.3**	180.6
Europe	**21.7**	8.3
	515.0	188.9
Total	**1,860.1**	646.3

All internal sales were within the United Kingdom.

3. Group operating costs

	2008			2007		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**	Continuing operations £m	Discontinued operations £m	Total £m
Raw materials and consumables	35.1	46.2	**81.3**	18.0	16.3	34.3
Other operating costs	424.1	341.8	**765.9**	165.3	126.6	291.9
Staff costs (see note 9)	279.6	109.4	**389.0**	98.3	38.4	136.7
Change in stocks of finished goods and work in progress	(8.6)	0.5	**(8.1)**	(12.0)	0.9	(11.1)
Own work capitalised	(58.5)	-	**(58.5)**	(24.3)	-	(24.3)
Profit on sale of fixed assets	(1.6)	(0.4)	**(2.0)**	(4.2)	(0.3)	(4.5)
Operating costs before depreciation, exceptional costs and amortisation	670.1	497.5	**1,167.6**	241.1	181.9	423.0
Depreciation of tangible fixed assets	242.7	3.5	**246.2**	80.3	1.4	81.7
Amortisation of deferred grants and contributions	(10.4)	-	**(10.4)**	(3.9)	-	(3.9)
Depreciation net of amortisation of deferred grants and contributions	232.3	3.5	**235.8**	76.4	1.4	77.8
Total before exceptional operating costs and goodwill amortisation	902.4	501.0	**1,403.4**	317.5	183.3	500.8
Exceptional operating costs	2.0	5.1	**7.1**	-	-	-
Amortisation of intangible assets	72.1	4.0	**76.1**	25.2	1.4	26.6
Group operating costs	**976.5**	**510.1**	**1,486.6**	342.7	184.7	527.4

The profit on sale of fixed assets relates to various sales of surplus land and assets.

4. Exceptional items

	2008 £m	2007 £m
Exceptional operating costs		
Costs incurred in relation to the aborted sale of Facilities Services – continuing operations	**(2.0)**	-
Costs incurred in relation to the sale of Utility Services – discontinued operations	**(5.1)**	-
	(7.1)	-
Costs of a fundamental restructuring		
Costs incurred in the restructuring of the Property business	**(22.8)**	-

Following a strategic review of the Morrison businesses, a formal disposal process was undertaken during the year culminating in the disposal of Morrison Utility Services, on 8 May 2008, for gross consideration of £140 million. The group also received a number of offers for Facilities Services which did not fully value its performance and growth prospects hence the sale process was aborted. Costs associated with the disposal processes have been highlighted as an exceptional operating cost and allocated between continuing and discontinued operations.

Costs of a fundamental restructuring of the Property business include assets write down provisions £20.1 million, closure costs £1.3 million and aborted disposal process costs £1.4 million. During the year the group sought to dispose of its Property business as a going concern. Whilst a number of offers were received, the Directors believe that better value can be derived from disposing of the individual assets on an accelerated basis. Following the strategic decision to realise the assets on an accelerated basis the group has reviewed the carrying value of the individual assets and made provision for impairment where required to achieve the new strategy. A tax credit of £6.4 million has been included in respect of this item.

5. Net interest payable and similar charges

	2008 £m	2007 £m
Interest payable on bank loans and overdrafts	**(0.1)**	(0.2)
Interest payable on other loans including financing expenses	**(383.6)**	(129.7)
Interest payable on finance leases	**(4.3)**	(1.8)
Group interest and similar charges payable	**(388.0)**	(131.7)
Share of joint venture interest payable	**(4.0)**	(1.1)
Total interest and similar charges payable	**(392.0)**	(132.8)
Group interest receivable	**51.7**	18.2
Net interest payable and similar charges	**(340.3)**	(114.6)

6. Other finance income (net)

	2008 £m	2007 £m
Unwinding of discount on onerous lease obligation provision (see note 20)	**(0.2)**	(0.1)
Defined benefit pension scheme interest credit (see note 22(c))	**12.3**	4.1
	12.1	4.0

7. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2008 £m	2007 (restated) £m
Profit on disposal of tangible fixed assets	**(2.0)**	(4.5)
Operating lease rentals		
– Plant and machinery	**14.8**	8.0
– Property	**11.5**	2.2
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
– Owned assets	**228.2**	74.9 [2]
– Under finance lease	**7.6**	2.9 [2]
Amortisation of goodwill - subsidiaries	**76.1**	26.6
Research and development expenditure	**0.5**	0.2
Fees paid to the auditors:		
– Auditing the company's financial statements	**-**	-
– Auditing of accounts of associates of the company pursuant to legislation (including that of countries outside Great Britain)	**0.8**	0.8
– For other services supplied pursuant to legislation	**0.2**	0.3
– For services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or any of its associates	**1.2**	-
Total fees paid to the auditors	**2.2**	1.1
Fees paid to other accounting firms for other work [1]	**1.5**	0.5

(1) Fees paid to other accounting firms for other work is in respect of internal audit work, taxation advice and legal and professional fees.

(2) The prior period split of depreciation, between owned assets and assets under finance leases, has been reclassified. There has been no change to the overall depreciation charge.

8. Taxation

	2008	2007
	£m	£m
Analysis of charge/(credit) in the year/period		
Current tax:		
UK corporation tax - current year/period	**11.4**	(10.1)
Adjustments in respect of previous periods	**(5.6)**	-
Share of joint ventures	**0.7**	0.1
Total current tax charge/(credit)	**6.5**	(10.0)
Deferred tax:		
Charge for timing differences arising in year/period	**10.7**	18.1
Impact of discounting on deferred tax liability	**(11.8)**	(16.6)
Impact of increase in discount rates	**(1.2)**	(15.8)
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	**(17.8)**	-
Adjustments in respect of previous periods	**(7.2)**	-
Total deferred tax credit	**(27.3)**	(14.3)
Total tax credit on loss on ordinary activities	**(20.8)**	(24.3)

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £1.2 million (2007: £15.8 million) in the year/period. If all UK gilt rates moved by 0.25 per cent, a change in the tax charge of between £10.0 million to £15.0 million would occur.

Factors affecting tax charge/(credit) for the year/period
The tax assessed for the year is higher (2007: lower) than the standard rate of Corporation Tax in the UK (30 per cent). The differences are explained below:

	2008	2007
	£m	£m
Loss on ordinary activities before taxation	**(20.9)**	(1.1)
Loss on ordinary activities at the standard UK rate of corporation tax (30 per cent)	**(6.3)**	(0.3)
Effects of:		
Items not deductible for tax purposes	**28.3**	20.2
Capital allowances for the year/period less than (2007: in excess of) depreciation	**2.0**	(8.5)
Short-term timing differences	**(12.7)**	(9.1)
Difference in overseas tax rates	**(0.2)**	-
Losses in joint venture companies	**1.0**	-
Adjustments in respect of previous periods	**(5.6)**	-
Items not taxable	**-**	(5.8)
Tax relief on employee exercise of share options	**-**	(6.5)
Current tax charge/(credit) for the year/period	**6.5**	(10.0)

The company is not subject to Jersey income tax and withholding tax, having elected for Jersey exempt company status and paying the appropriate annual fee.

Factors that may affect future tax charges
The UK Finance Act 2007 has reduced the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008. This has been taken into account within the calculation of the deferred tax asset.

9. Employee information

	2008 £m	2007 £m
Staff costs		
Wages and salaries	**329.9**	115.9
Social security costs	**29.8**	10.4
Pension costs – defined contribution (see note 22)	**7.6**	2.9
Pension costs – defined benefit (see note 22)	**22.8**	7.5
	390.1	136.7

Staff costs for the year ended 31 March 2008 include £58.5 million (2007: £24.3 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs charged to operating profit of £3.6 million (2007: £1.1 million), comprising £3.1 million of wages and salaries and £0.5 million of pension costs, (2007: £0.4 million and £0.7 million respectively). In addition, £1.1m (2007: £nil) of non-operating redundancy costs have been included within wages and salaries in the above table.

Average monthly number of full-time equivalent persons (including Executive Directors) employed:

	2008	2007
Continuing operations		
Anglian Water	**3,833**	3,611
Facilities Services	**3,215**	3,304
AWG Property	**45**	51
Other	**339**	292
	7,432	7,258
Discontinued operations		
Utility Services	**3,415**	3,574
	10,847	10,832

The 'Other' business segment mainly comprises head office, Morrison centre, Alpheus Environmental, a wastewater treatment works in the Republic of Ireland and a few residual international interests.

The company
The company had no employees.

10. Profit of holding company

The company has not presented its own profit and loss account as permitted by FRS 2 'Accounting for subsidiary undertakings'. The profit for the year/period, dealt with in the financial statements of the company, is £81.0 million (2007: loss of £3.3 million).

11. Dividends

Interim dividends declared and paid during the year/period.

	2008	2007
	£m	£m
On 29 June 2007	**35.0**	-
On 10 December 2007	**42.2**	-
	77.2	-

In addition a first interim dividend of £45.8 million in respect of the year ended 31 March 2009 was approved by the board on 22 May 2008 and was paid on 5 June 2008. This dividend has not been included as a liability at 31 March 2008.

12. Intangible assets

	Goodwill
	£m
The group	
Cost	
At 1 April 2007 and at 31 March 2008	**1,521.7**
Amortisation	
At 1 April 2007	**(26.6)**
Charge for the year	**(76.1)**
At 31 March 2008	**(102.7)**
Net book amount	
At 31 March 2008	**1,419.0**
At 31 March 2007	1,495.1

The company

The company has no intangible assets.

13. Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2007	34.8	2,631.7	2,092.1	224.7	294.8	**5,278.1**
Additions	0.6	-	-	4.7	420.7	**426.0**
Transfers on commissioning	0.8	149.8	197.9	50.4	(398.9)	**-**
Disposals	(1.1)	-	(4.9)	(0.6)	-	**(6.6)**
Exchange adjustments	-	-	-	0.2	-	**0.2**
At 31 March 2008	**35.1**	**2,781.5**	**2,285.1**	**279.4**	**316.6**	**5,697.7**
Grants and contributions						
At 1 April 2007	-	(10.5)	-	-	9.2	**(1.3)**
Additions	-	(2.3)	-	-	(9.3)	**(11.6)**
At 31 March 2008	**-**	**(12.8)**	**-**	**-**	**(0.1)**	**(12.9)**
Depreciation						
At 1 April 2007	(0.4)	(18.1)	(36.0)	(17.8)	-	**(72.3)**
Charge for the year	(0.8)	(79.0)	(112.2)	(54.2)	-	**(246.2)**
Disposals	-	-	4.7	-	-	**4.7**
Exchange adjustments	-	-	-	(0.1)	-	**(0.1)**
At 31 March 2008	**(1.2)**	**(97.1)**	**(143.5)**	**(72.1)**	**-**	**(313.9)**
Net book amount						
At 31 March 2008	**33.9**	**2,671.6**	**2,141.6**	**207.3**	**316.5**	**5,370.9**
At 31 March 2007	34.4	2,603.1	2,056.1	206.9	304.0	5,204.5

Tangible fixed assets at 31 March 2008 include land of £18.4 million (2007: £18.4 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Assets held under finance leases

Included within the amounts shown above for vehicles, plant and equipment are the following amounts in relation to tangible fixed assets held under finance leases:

	2008 £m	2007 (restated) £m
Cost	**110.5**	110.9
Aggregate depreciation	**(10.5)**	(2.9)
Net book amount at 31 March	**100.0**	108.0
Depreciation charged in year/period	**(7.6)**	(2.9)

The prior year analysis of assets held under finance leases has been reclassified. There has been no change to the net book amount at 31 March 2007.

The company

The company has no tangible fixed assets.

14. Investments

	Joint ventures £m	Other £m	Total £m
The group			
Cost or amount under equity method of accounting			
At 1 April 2007	1.9	0.1	**2.0**
Profit for the year	0.6	-	**0.6**
Actuarial gain on pension schemes	1.0	-	**1.0**
Additions	1.0	-	**1.0**
Amounts offset against trade balances	(1.8)	-	**(1.8)**
Transfer from provisions (see note 20)	(1.8)	-	**(1.8)**
Disposals	-	(0.1)	**(0.1)**
At 31 March 2008	**0.9**	**-**	**0.9**

Joint ventures
The profit for the year of joint ventures is stated after operating profits of £5.3 million (2007: £1.6 million) less interest payable of £4.0 million (2007: £1.1 million) and a tax charge of £0.7 million (2007: £0.1 million). The transfer from provisions of £1.8 million represents the movement in the year for those joint ventures with net liabilities (note 1(b)i).

Set out below is an analysis of the group's principal joint ventures at 31 March 2008.

Undertaking	Country of incorporation	Activity	Proportion of shares held
AWG Property			
AWG Outlets (Rathdowney) Limited (i)	Ireland	Development of land and buildings	50%
Shawlands Retail Limited	Scotland	Development of land and buildings	50%
Exchange House Property Unit Trust	Jersey	Unit Trust	50%
Facilities Services			
Morrison Veolia Limited (formerly Morrison Cleanaway Limited)	England	Maintenance and repair services	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Anglian Water Group Limited.

The accounting year end for all the above undertakings is 31 March and, unless otherwise stated, the class of shares held are ordinary shares of £1 each.

(i) The class of shares held is one Euro each.

Other investments
Other investments include a 4.25 per cent investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina. This investment is held at its fair value of £nil (2007: £nil). The net book value at 31 March 2008 included £nil (2007: £0.1 million) of shares.

14. Investments (continued)

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Total £m
The company			
Cost			
At 1 April 2007 and at 31 March 2008	**548.0**	**548.2**	**1,096.2**

The principal subsidiary undertakings of the group are listed in note 30.

15. Stocks

	Group		Company	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Raw materials and consumables	**22.3**	13.0	**-**	-
Work in progress	**23.3**	26.8	**-**	-
Finished goods	**0.1**	1.9	**-**	-
	45.7	41.7	**-**	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

16. Debtors

	Group		Company	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Amounts falling due within one year				
Trade debtors	**197.3**	210.0	**-**	-
Amounts due from customers for contract work	**62.6**	56.8	**-**	-
Retention on contracts	**6.4**	1.6	**-**	-
Amounts owed by joint ventures				
– Trade balances	**3.5**	25.4	**-**	-
– Loans	**19.7**	2.0	**-**	-
Corporation tax recoverable	**4.2**	5.0	**-**	-
Other debtors	**16.3**	24.7	**-**	-
Prepayments and accrued income	**140.8**	121.5	**-**	-
	450.8	447.0	**-**	-

Prepayments and accrued income as at 31 March 2008 includes water and wastewater income not yet billed of £98.6 million (2007: £83.6 million).

17. Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Current portion of loans and other borrowings	**327.2**	160.3	**-**	-
Obligations under finance leases	**3.2**	28.2	**-**	-
Short-term borrowings (see note 19)	**330.4**	188.5	**-**	-
Trade creditors	**180.1**	214.3	**-**	-
Receipts in advance	**132.1**	123.1	**-**	-
Amounts owed to joint ventures	**1.2**	2.3	**-**	-
Other creditors	**28.4**	29.0	**-**	-
Corporation tax	**-**	-	**-**	3.2
Other taxation and social security	**20.4**	26.8	**-**	-
Accruals and deferred income	**210.2**	194.3	**-**	0.1
Deferred grants and contributions	**9.2**	9.3	**-**	-
Other creditors	**581.6**	599.1	**-**	3.3

Receipts in advance includes £84.5 million (2007: £90.8 million) relating to amounts received from customers for water and wastewater charges in respect of the following year.

18. Creditors: amounts falling due after more than year

	Group		Company	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Non-current portion of long-term loans	**5,876.8**	5,697.5	**-**	-
Obligations under finance leases	**64.8**	68.4	**-**	-
Loans and other borrowings (see note 19)	**5,941.6**	5,765.9	**-**	-
Other creditors	**2.4**	1.4	**-**	-
Deferred grants and contributions	**123.9**	112.3	**-**	-
Other creditors	**126.3**	113.7	**-**	-

19. Loans, other borrowings and financial instruments

	Group		Company	
	2008	2007	**2008**	2007
	£m	£m	**£m**	£m
Loans and other borrowings				
£100 million 5.5% index linked 2008 (c), (d), (g)	**176.2**	172.3	**-**	-
£100 million 12.375% fixed rate 2014 (d), (g)	**125.3**	129.7	**-**	-
£250 million 5.837% fixed rate 2022 (d), (g)	**267.1**	268.3	**-**	-
£200 million 6.875% fixed rate 2023 (d), (g)	**232.4**	234.5	**-**	-
£200 million 6.625% fixed rate 2029 (d), (g)	**227.5**	228.8	**-**	-
£246 million 6.293% fixed rate 2030 (d), (g)	**279.6**	281.1	**-**	-
£275 million 7.882% fixed rate 2012/2037 (d), (f), (g)	**297.2**	297.7	**-**	-
£250 million 5.25% fixed rate 2015 (b), (d), (g)	**252.5**	252.8	**-**	-
£150 million 5.5% fixed rate 2017/2040 (b), (d), (f), (g)	**150.8**	150.9	**-**	-
£150 million 4.125% index linked 2020 (c), (d), (g)	**226.2**	221.5	**-**	-
£75 million 3.666% index linked 2024 (c), (d), (g)	**109.8**	107.3	**-**	-
£200 million 3.07% index linked 2032 (c), (d), (g)	**307.4**	300.4	**-**	-
£60 million 3.07% index linked 2032 (c), (d), (g)	**92.2**	90.1	**-**	-
Finance leases (b), (d), (g)	**68.0**	96.6	**-**	-
£150 million index linked swap 2024 (e), (g)	**61.4**	56.2	**-**	-
£175 million index linked swap 2030 (e), (g)	**81.6**	75.4	**-**	-
£258 million index linked swap 2013 (e), (g)	**38.2**	26.4	**-**	-
Euro 350 million 5.375% fixed rate 2009 (a), (d), (g)	**229.4**	229.6	**-**	-
Euro 650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	**466.4**	468.9	**-**	-
US$100 million 7.01% private placements 2008 (a), (d), (g)	**71.4**	72.6	**-**	-
US$25 million 7.07% private placements 2009 (a), (d), (g)	**5.4**	8.1	**-**	-
US$23 million 7.13% private placements 2009 (a), (d), (g)	**16.7**	17.0	**-**	-
US$195 million 7.23% private placements 2011 (a), (d), (g)	**145.8**	148.0	**-**	-
£402 million 2.4% index-linked 2035 (c), (d), (g)	**463.6**	446.0	**-**	-
£50 million 1.7% index-linked 2046 (Deutsche) (c), (d), (g)	**63.3**	61.3	**-**	-
£50 million 1.7% index-linked 2046 (RBS) (c), (d), (g)	**63.6**	61.7	**-**	-
£40 million 1.7146% indexation bond 2056 (Barclays) (c), (d), (g)	**53.4**	51.8	**-**	-
£50 million 1.6777% indexation bond 2056 (Barclays) (c), (d), (g)	**66.1**	64.1	**-**	-
£60 million 1.7903% indexation bond 2049 (Barclays) (c), (d), (g)	**79.4**	77.1	**-**	-
£60 million RPI swap 2008 (e), (g)	**(4.4)**	(1.8)	**-**	-
£90 million RPI swap 2008 (e), (g)	**(6.7)**	(2.8)	**-**	-
£100 million 1.3784% indexation bond 2057 (Barclays) (c), (d), (g)	**104.7**	101.0	**-**	-
£50 million 1.3825% indexation bond 2056 (HSBC) (c), (d), (g)	**52.3**	50.5	**-**	-
£50 million RBS Class B authorised loan facility (g)	**50.0**	50.0	**-**	-
£100 million Class A wrapped floating rate bonds (d), (g)	**99.9**	100.0	**-**	-
£100 million RPI swap 2057 (RBOS) (e), (g)	**5.8**	0.1	**-**	-
£75 million 1.449% indexation bond 2062 (HSBC) (c), (d), (g)	**75.7**	-	**-**	-
£50 million 1.52% indexation bond 2055 (Lloyds) (c), (d), (g)	**50.3**	-	**-**	-
JPY 15 billion 2.925% bond due 2018/2037 (a), (b), (d), (g)	**65.9**	-	**-**	-
£65.9 million RPI swap 2030 (e), (g)	**0.7**	-	**-**	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	**110.0**	-	**-**	-
£50 million RPI swap 2043 (e), (g)	**0.1**	-	**-**	-
£450 million RBS term facility (b), (d), (h)	**447.1**	-	**-**	-
£435 million LIBOR plus 2.5% 2011 (b), (d), (i)	**-**	427.1	**-**	-
Loan notes LIBOR minus 0.50% 2012	**37.8**	68.2	**-**	-
£462 million 10% 2017 (d)	**460.6**	460.6	**-**	-
Other loan notes	**-**	4.6	**-**	-
Other loans	**4.3**	0.7	**-**	-
Total loans and other borrowings	**6,272.0**	5,954.4	**-**	-
Less amounts included in creditors falling due within one year	**(330.4)**	(188.5)	**-**	-
Loans and other borrowings due after more than one year	**5,941.6**	5,765.9	**-**	-

LIBOR is the London Inter Bank Offer Rate.

19. Loans, other borrowings and financial instruments (continued)

(a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen loans. The adjustment to the US dollar loans is £66.7 million (2007: £65.9 million) the adjustment to the Euro loans is £(112.8) million (2007: £3.7 million) and the adjustment to the Japanese Yen loan is £(9.8) million (2007: £nil).

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index linked debt in accordance with the group's hedging policy.

(c) The value of the capital and interest elements of the index linked loans are linked to movements in the Retail Price Index. The total increase in the capital value of index linked loans during the year of £68.9 million £(2007: £19.5 million) has been taken to the profit and loss account as part of interest payable.

(d) These loans are shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments.

(e) The group has entered into eight (2007: six) index linked/RPI interest rate swap agreements. The values of the notional capital on these swaps are linked to movements in the Retail Price Index (RPI). The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £27.0 million (2007: £6.8 million) has been taken to the profit and loss account as part of interest payable.

(f) Legal maturity of these instruments is the second of the years quoted. Coupon ‘step-up’ is in the first of the years quoted.

(g) A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2008 this charge applies to £5,322.0 million (2007: £4,991.8 million) of the debt listed above.

(h) A debenture dated 10 October 2007 between Osprey Acquisitions Limited and The Royal Bank of Scotland Plc as Trustee creates a fixed and floating charge over all of the assets of Osprey Acquisitions Limited. At 31 March 2008, this charge applies to £447.1 million (2007: £nil) of the debt listed above.

(i) At 31 March 2007, a debenture dated 1 October 2006 between Osprey Acquisitions Limited and Deutsche Bank AG, London Branch as Trustee had created a fixed and floating charge over all of the assets of Osprey Acquisitions Limited. At 31 March 2007, this charge applied to £427.1 million of the debt listed above.

19. Loans, other borrowings and financial instruments (continued)
Maturity analysis of financial liabilities

The maturity profile of the carrying amount of the group's liabilities, at 31 March was as follows:

	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
At 31 March 2008				
Less than one year	327.2	3.2	12.2	**342.6**
Between one and two years	253.0	2.2	10.5	**265.7**
Between two and five years	592.8	8.6	5.3	**606.7**
After five years	5,031.0	54.0	8.6	**5,093.6**
	6,204.0	**68.0**	**36.6**	**6,308.6**
At 31 March 2007				
Less than one year	160.3	28.2	4.1	192.6
Between one and two years	314.1	3.8	14.0	331.9
Between two and five years	858.0	8.0	1.9	867.9
After five years	4,525.4	56.6	5.6	4,587.6
	5,857.8	96.6	25.6	5,980.0

The group analysis is net of issue costs of £25.7 million (2007: £32.1 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 5).

Other financial liabilities include creditors: amounts falling due after more than one year and provisions totalling £36.6 million (2007: £25.6 million).

For the group the current and long-term borrowings can be analysed as follows:

	2008		2007	
	Creditors: amounts falling due within one year £m	**Creditors: amounts falling due after more than one year £m**	Creditors: amounts falling due within one year £m	Creditors: amounts falling due after more than one year £m
Amounts owed	**327.0**	**5,898.4**	161.9	5,727.9
Debt issue costs	**-**	**(25.7)**	(1.7)	(30.4)
Obligations under finance leases	**3.2**	**64.8**	28.2	68.4
Other loans	**0.2**	**4.1**	0.1	-
	330.4	**5,941.6**	188.5	5,765.9

Borrowing facilities

	2008 £m	2007 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	**330.0**	328.0
Expiring between two and five years	**250.0**	250.0
	580.0	578.0

19. Loans, other borrowings and financial instruments (continued)

Control of treasury
The Treasury team, which reports directly to the group's Finance Director, substantially manages the group's financing, including debt, interest costs and foreign exchange. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to:

- ensure that lenders covenants are met
- secure funds through a balanced approach to financial markets and maturities
- manage interest rates to minimise financial exposures and minimise interest costs
- invest temporary surplus cash to best advantage at minimal financial risk
- maintain an excellent reputation with providers of finance and rating agencies
- promote management techniques and systems and
- enhance control of financial resources.

Management of financial risk
Financial risks faced by the group include funding, interest rate, contractual and currency risks. The group regularly reviews these risks on an ongoing basis and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. Treasury matters are reported to the board each month.

A Treasury Advisory Group (TAG), including the group Finance Director and the group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper and AAA rated money funds.

The group also enters into derivative transactions (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the treasury policy.

To ensure continued effectiveness and relevance, the board carries out a formal annual review of the treasury organisation and reporting.

Borrowing covenants
With the exception of asset-based funding, the group's borrowings are raised by Osprey Holdco Limited, Osprey Acquisitions Limited and Anglian Water Services Financing Plc. The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenanted restrictions.

Foreign currency
The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits.

Financial instruments disclosures
Short-term debtors and creditors have been excluded from this note except for the comments on currency exposures to the financial statements.

Currency exposures
The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation.

19. Loans, other borrowings and financial instruments (continued)

Fair value of financial assets and financial liabilities

	2008		2007	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Cash at bank and in hand (including short-term deposits)	**696.9**	**696.9**	459.7	459.7
Current asset investments	**170.0**	**170.0**	313.9	313.9
Short-term borrowings	**(309.5)**	**(322.3)**	(186.6)	(152.7)
Long-term borrowings	**(5,869.0)**	**(5,830.3)**	(5,698.2)	(5,475.9)
Currency, interest rate swaps and forward contracts	**(93.5)**	**(221.4)**	(69.6)	(211.8)
Net debt	**(5,405.1)**	**(5,507.1)**	(5,180.8)	(5,066.8)
Fixed asset investments	**-**	**-**	0.1	0.1
Provisions excluding deferred tax and joint venture net liabilities (see note 20)	**(34.2)**	**(34.2)**	(24.2)	(24.2)
Other financial liabilities	**(2.4)**	**(2.4)**	(1.4)	(1.4)
	(5,441.7)	**(5,543.7)**	(5,206.3)	(5,092.3)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of private debt, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates. In the fair value table above, the book values assigned to derivative instruments are separately analysed from the book values of the underlying loans.

In accordance with the group's accounting policy, long-term borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency and interest rates.

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2008. The value at that date was determined by market interest rates, which fluctuate over time. The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved.

The fair value of the group's provisions and other financial liabilities has been estimated as not materially different from the book value.

Unrecognised gains and losses on hedges

	2008			2007		
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised at 1 April (2007: at incorporation on 14 September 2006)	27.3	(11.0)	**16.3**	-	-	-
Reversal of items unrecognised at 1 April	(15.1)	9.3	**(5.8)**	-	-	-
Recognised during the year	(9.3)	1.7	**(7.6)**	-	-	-
Arising during the year/period	24.5	(155.4)	**(130.9)**	27.3	(11.0)	16.3
Unrecognised at 31 March	**27.4**	**(155.4)**	**(128.0)**	27.3	(11.0)	16.3

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £128.0 million (2007: gain of £16.3 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2008.

Of the unrecognised gains and losses at 31 March 2008, a net loss of £8.1 million (2007: loss of £4.6 million) is expected to be included in the profit and loss account for the year ended 31 March 2009 and the balance in future years.

19. Loans, other borrowings and financial instruments (continued)

Currency and interest rate analysis of net financial assets/(liabilities)

	Total £m	**Index linked £m**	**Floating rate £m**	**Fixed rate £m**	**Interest free £m**	**Fixed rate weighted average interest rate**	**Fixed rate weighted average years to maturity**
At 31 March 2008							
Total borrowings (all sterling)	**(6,272.0)**	(2,819.4)	(623.0)	(2,829.6)	-	7.5%	12.4
Cash, deposits and current asset investments (all sterling)	**866.9**	-	866.9	-	-		
Net debt	**(5,405.1)**	(2,819.4)	243.9	(2,829.6)	-		
Fixed asset investments	**-**	-	-	-	-		
Provisions	**(34.2)**	-	-	-	(34.2)		
Other financial liabilities	**(2.4)**	-	-	-	(2.4)		
Net financial assets/(liabilities)	**(5,441.7)**	**(2,819.4)**	**243.9**	**(2,829.6)**	**(36.6)**		
At 31 March 2007							
Total borrowings (all sterling)	(5,954.4)	(2,500.3)	(582.3)	(2,871.8)	-	7.0%	13.0
Cash, deposits and current asset investments (all sterling)	773.6	-	773.6	-	-		
Net debt	(5,180.8)	(2,500.3)	191.3	(2,871.8)	-		
Fixed asset investments	0.1	-	-	-	0.1		
Provisions	(24.2)	-	-	-	(24.2)		
Other financial liabilities	(1.4)	-	-	-	(1.4)		
Net financial assets/(liabilities)	(5,206.3)	(2,500.3)	191.3	(2,871.8)	(25.5)		

The above tables reflect the net position after hedging arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at the year-end. Floating rate cash, investments and long-term debtors earn interest based on LIBID (London Inter Bank Bid Rate) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

20. Provisions for liabilities and charges

	Deferred tax £m	Onerous leases £m	Business closures and disposals £m	Contract and other £m	Joint venture net liabilities £m	Total £m
The group						
At 1 April 2007	103.9	6.5	11.0	6.7	4.8	**132.9**
Charge/(credit) for the year	(28.5)	14.1	(0.6)	(1.6)	-	**(16.6)**
Transfer to investments	-	-	-	-	(1.8)	**(1.8)**
Unwinding of discount	-	0.2	-	-	-	**0.2**
Utilised in the year	-	(1.1)	(0.6)	(0.4)	-	**(2.1)**
At 31 March 2008	**75.4**	**19.7**	**9.8**	**4.7**	**3.0**	**112.6**

The deferred tax provision and the effect of discounting is analysed in note 21.

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next 15 years.

Business closure and disposal provisions relate to exit costs, principally the disposal of Morrison Construction Services and the international businesses, which are expected to crystallise over a period of 2 years, and the restructuring of the Property business.

The contract and other provisions comprise potential warranty and certification costs of £1.3 million (2007: £4.5 million), which are expected to crystallise over a period of approximately two years and £3.4 million (2007: £2.2 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately 10 years. This provision has been made following an actuarial assessment of the obligation taking account of past claims experience.

The provision for joint venture liabilities represents the aggregate amount of net liabilities in joint ventures at the balance sheet date. The amounts have been transferred from investments in order to separate the gross amounts of investments with net liabilities from those with net assets as prescribed in the accounting policy note 1(b). Movements in the group's share of joint venture assets and liabilities are disclosed in note 14.

The company
The company has no provisions for liabilities and charges.

21. Deferred tax

The total tax charge or credit in the current year includes provisions for discounted deferred taxation. Consequently, changes in the medium-term and long-term interest rates used to discount deferred taxation assets and liabilities can affect the amount of deferred taxation charged or credited in the profit and loss account.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £59.3 million.

	£m
At 1 April 2007	**103.9**
Deferred tax credited to the profit and loss account	**(27.3)**
Less: deferred tax charged to the profit and loss account on pension liability movements	**(1.2)**
At 31 March 2008	**75.4**

	2008 **£m**	2007 £m
Accelerated capital allowances	**940.0**	1,053.5
Short-term timing differences	**(154.1)**	(180.5)
Surplus ACT asset	**(142.5)**	(130.3)
Undiscounted provision for deferred tax	**643.4**	742.7
Discount	**(568.0)**	(638.8)
Discounted provision for deferred tax	**75.4**	103.9
Deferred tax asset on pension liability (see note 22)	**(23.0)**	(8.0)
Total deferred tax included in the balance sheet	**52.4**	95.9
The following are deferred tax assets that are not recognised in the accounts		
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**1.7**	1.7
	24.5	24.5

The surplus ACT was written off in subsidiary undertakings in prior years and will not be recognised in the balance sheet until its recoverability becomes certain. The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has no deferred tax.

22. Pension commitments

Pension arrangements for the majority of the Group's UK employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS'), the Morrison Pension & Life Assurance Plan ('MPLAP'), the Morrison Facilities Pension Scheme ('MFPS') and various other smaller arrangements. These are all final salary or career average schemes. In addition, pensions in payment to a number of former employees are unfunded. The administration and investment of the pension funds are maintained separately from the finances of the group. The Group's actuary is Aon Consulting.

The majority of the defined benefit arrangements are closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £7.6 million (2007: £2.9 million).

(a) financial assumptions

The formal valuation as at 31 March 2008 is as yet unavailable from the group's actuaries and hence the valuation used for FRS 17 disclosures has been based on the most recent formal or informal actuarial valuations, updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 March 2008. For MPLAP this was 31 March 2005 and for AWGPS and MFPS this was 31 March 2007.

The group contributed 15.3 per cent (2007: 14.9 per cent) of pensionable pay plus £10.7 million (2007: £10.7 million) per annum to AWGPS during the year. The group's contributions to MPLAP were £15.1m (2007: £19.7 million) during the year and to MFPS were 20.3 per cent (2007: 20.3 per cent) of pensionable salaries plus £117,000 per month.

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

	2008	2007
	% pa	% pa
Discount rate	**6.3**	5.3
Inflation rate	**3.5**	3.1
Increase to deferred benefits during deferment	**3.5**	3.1
Increases to inflation related pensions in payment	**3.5**(1)	3.1
General salary increases	**4.5**(2)	4.1

	2008	2007
	years	years
Longevity at age 65 for current pensioners		
– Men	**23.4**	18.7
– Women	**25.8**	21.6
Longevity at age 65 for future pensioners (3)		
– Men	**24.7**	20.5
– Women	**26.9**	23.4

(1) For MFPS, the assumption for inflationary pension increases capped at 5 per cent is 3.2 per cent (2007: 2.9 per cent). Additionally, heavier mortality is assumed for this scheme, with life expectancy at age 65 for current pensioners being 18.5 years (2007: 18.4 years) for males and 20.6 years (2007: 20.5 years) for females. For members reaching 65 in 2030, the life expectancy at age 65 is 19.5 years (2007: 19.5 years) for males and 21.5 years (2007: 21.5 years) for females.
(2) For AWGPS, the salary increase will be restricted to RPI for 2 years (2007: 3 years).
(3) The life expectancy shown for future pensioners is for those reaching 65 in 2030.

22. Pension commitments (continued)

(b) market value of assets and expected rates of returns

The long-term expected rate of return and the assets in the scheme relating to the group at 31 March are:

		Fair value of scheme assets			
	Expected rate of return %pa	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
At 31 March 2008					
Equities	7.6	301.0	133.4	N/A	**434.4**
Corporate bonds	6.6	37.1	36.4	N/A	**73.5**
Gilts	4.6	323.6	43.7	N/A	**367.3**
Property	6.6	19.8	5.8	N/A	**25.6**
Alternatives	6.6	10.6	11.6	N/A	**22.2**
Other	5.0	98.5	12.7	N/A	**111.2**
Total assets		790.6	243.6	N/A	**1,034.2**
Fair value of scheme liabilities		(824.2)	(246.8)	(44.9)	**(1,115.9)**
Amounts not recognised[(1)]		-	(0.4)	-	**(0.4)**
Deficit in the scheme		(33.6)	(3.6)	(44.9)	**(82.1)**
Related deferred tax asset		9.4	1.0	12.6	**23.0**
Net pension liability		**(24.2)**	**(2.6)**	**(32.3)**	**(59.1)**
At 31 March 2007					
Equities	7.7	409.9	155.1	N/A	565.0
Corporate bonds	5.1	198.1	17.4	N/A	215.5
Gilts	4.7	92.6	32.2	N/A	124.8
Property	6.7	22.6	4.3	N/A	26.9
Other	5.0	65.2	1.9	N/A	67.1
Total assets		788.4	210.9	N/A	999.3
Fair value of scheme liabilities		(757.3)	(223.0)	(42.0)	(1,022.3)
Amounts not recognised[(1)]		-	(3.4)	-	(3.4)
Surplus/(deficit) in the scheme		31.1	(15.5)	(42.0)	(26.4)
Related deferred tax asset		(9.3)	4.7	12.6	8.0
Net pension asset/(liability)		21.8	(10.8)	(29.4)	(18.4)

[(1)] Amounts not recognised relate to surpluses that cannot be recovered through refunds or a reduction in future contributions, and deficits in excess of agreed liability caps.

22. Pension commitments (continued)

(c) analysis of amounts charged against profits

	AWGPS £m	**Total other funded schemes £m**	**Unfunded pensions £m**	**Total £m**
2008				
Analysis of amount charged to operating profit				
Current service cost	13.1	7.6	0.2	**20.9**
Past service cost	0.6	1.3	-	**1.9**
Total operating charge	13.7	8.9	0.2	**22.8**
Analysis of amount (credited)/charged to finance income				
Expected return on pension scheme assets	(51.0)	(15.8)	-	**(66.8)**
Interest on pension scheme liabilities	39.8	12.5	2.2	**54.5**
Net return	(11.2)	(3.3)	2.2	**(12.3)**
Total charge to loss on ordinary activities before taxation	**2.5**	**5.6**	**2.4**	**10.5**
2007				
Analysis of amount charged to operating profit				
Current service cost	4.3	2.5	-	6.8
Past service cost	0.7	-	-	0.7
Total operating charge	5.0	2.5	-	7.5
Analysis of amount (credited)/charged to finance income				
Expected return on pension scheme assets	(16.6)	(4.8)	-	(21.4)
Interest on pension scheme liabilities	12.7	3.9	0.7	17.3
Net return	(3.9)	(0.9)	0.7	(4.1)
Total charge to loss on ordinary activities before taxation	1.1	1.6	0.7	3.4

22. Pension commitments (continued)

(d) analysis of amount recognised in the statement of total recognised gains and losses

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2008				
Statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	(46.1)	(14.5)	-	**(60.6)**
Experience gains and losses arising on the scheme liabilities	(39.7)	(4.2)	-	**(43.9)**
Changes in assumptions underlying the present value of the scheme liabilities	2.6	9.4	(2.4)	**9.6**
Increase on unrecognised asset	-	2.5	-	**2.5**
Total loss recognised	**(83.2)**	**(6.8)**	**(2.4)**	**(92.4)**
2007				
Statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	(10.8)	0.2	-	(10.6)
Experience gains and losses arising on the scheme liabilities	(2.7)	(0.4)	(0.2)	(3.3)
Changes in assumptions underlying the present value of the scheme liabilities	28.1	18.8	0.1	47.0
Increase on unrecognised asset	-	(1.1)	-	(1.1)
Total gain/(loss) recognised	14.6	17.5	(0.1)	32.0

(e) movement in liability during the year/period

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2008				
Movement in scheme deficit (before related deferred tax asset)				
Deficit at 31 March 2007	31.1	(15.5)	(42.0)	**(26.4)**
Current service costs	(13.1)	(7.6)	(0.2)	**(20.9)**
Past service costs	(0.6)	(1.3)	-	**(1.9)**
Contributions	21.0	24.3	1.9	**47.2**
Net interest	11.2	3.3	(2.2)	**12.3**
Actuarial loss	(83.2)	(6.8)	(2.4)	**(92.4)**
Deficit at 31 March 2008	**(33.6)**	**(3.6)**	**(44.9)**	**(82.1)**
2007				
Movement in scheme deficit (before related deferred tax asset)				
Deficit at incorporation on 14 September 2006	-	-	-	-
Acquired with subsidiary undertakings	13.8	(42.2)	(42.0)	(70.4)
Current service costs	(4.3)	(2.5)	-	(6.8)
Past service costs	(0.7)	-	-	(0.7)
Contributions	3.8	10.8	0.8	15.4
Net interest	3.9	0.9	(0.7)	4.1
Actuarial gain/(loss)	14.6	17.5	(0.1)	32.0
Deficit at 31 March 2007	31.1	(15.5)	(42.0)	(26.4)

22. Pension commitments (continued)

(f) history of experience gains and losses

	AWGPS	**Total other funded schemes**	**Unfunded pensions**	**Total**
2008				
Details of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount (£ million)	(46.1)	(14.5)	-	**(60.6)**
Percentage of scheme assets	(5.8)%	(6.0)%	N/A	**(5.9)%**
Experience gains and losses on scheme liabilities:				
Amount (£ million)	(39.7)	(4.2)	-	**(43.9)**
Percentage of present value of scheme liabilities	(4.8)%	(1.7)%	N/A	**(3.9)%**
Amount in statement of total recognised gains and losses:				
Amount (£ million)	(83.2)	(6.8)	(2.4)	**(92.4)**
Percentage of present value of scheme liabilities	(10.1)%	(2.8)%	(5.3)%	**(8.3)%**
2007				
Details of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount (£ million)	(10.8)	0.2	-	(10.6)
Percentage of scheme assets	(1.4)%	0.1%	N/A	(1.1)%
Experience gains and losses on scheme liabilities:				
Amount (£ million)	(2.7)	(0.4)	(0.2)	(3.3)
Percentage of present value of scheme liabilities	(0.4)%	(0.2)%	(0.5)%	(0.3)%
Amount in statement of total recognised gains and losses:				
Amount (£ million)	14.6	17.5	(0.1)	32.0
Percentage of present value of scheme liabilities	1.9%	7.8%	(0.2)%	3.1%

23. Share capital

	Group and Company		
	Share capital £m	**Share premium account £m**	**Total £m**
Allotted, issued and fully paid			
15,000,000 Class A ordinary shares of £0.00001 each	-	-	**-**
500,000 Class B ordinary shares of £0.00001 each	-	-	**-**
109,631,487,794 no par, preference shares of £0.01 each	-	1,096.3	**1,096.3**
At 1 April 2007 and at 31 March 2008	**-**	**1,096.3**	**1,096.3**

The B ordinary shares rank pari passu in all respects with the A ordinary shares except that the holders of B ordinary shares shall not have a right to speak or vote at any general meetings or by written resolution in respect of their holdings of B ordinary shares in relation to the appointment or removal of Directors.

24. Movement in shareholder's funds

The group

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2007	-	1,096.3	47.5	**1,143.8**
Loss for the financial year	-	-	(1.2)	**(1.2)**
Currency translation differences on foreign currency net investments	-	-	0.2	**0.2**
Actuarial loss recognised on the pension schemes	-	-	(93.7)	**(93.7)**
Current tax relating to actuarial loss on the pension schemes	-	-	11.1	**11.1**
Deferred tax relating to actuarial loss on the pension schemes	-	-	16.3	**16.3**
Total recognised gains and losses relating to the year	-	-	(67.3)	**(67.3)**
Dividends paid	-	-	(77.2)	**(77.2)**
At 31 March 2008	**-**	**1,096.3**	**(97.0)**	**999.3**

The profit and loss reserve includes £60.7 million (2007: £20.0 million), stated net after deferred taxation of £23.6 million (2007: £8.6 million), in respect of pension scheme liabilities.

The company

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2007	-	1,096.3	(3.3)	**1,093.0**
Profit for the financial year	-	-	81.0	**81.0**
Dividends paid	-	-	(77.2)	**(77.2)**
At 31 March 2008	**-**	**1,096.3**	**0.5**	**1,096.8**

25. Capital commitments

The group

The group has a substantial long-term investment programme in Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2008.

	2008 £m	2007 £m
Contracted for but not provided in the financial statements	**140.1**	139.8

There were no capital commitments relating to the group's share of joint ventures.

The company

The company has no such commitments.

26. Commitment under operating leases

At 31 March 2008 the group had annual commitments under non-cancellable operating leases expiring:

	2008		2007	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
The group				
Within one year	**1.0**	**2.3**	0.5	2.9
Within two and five years	**1.4**	**5.9**	1.1	11.8
After five years	**7.4**	**-**	8.1	-
	9.8	**8.2**	9.7	14.7

The company

The company has no such commitments.

27. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also guaranteed obligations of joint ventures totalling £19.2 million (2007: £22.0 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low no provisions for tax liabilities are considered to be necessary.

At 31 March 2008, the group had £142.5 million (2007: £130.3 million) of recoverable ACT, subject to this contingency, recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

28. Ultimate parent undertaking and controlling party

Anglian Water Group Limited is owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Commonwealth Bank of Australia (Colonial First State Managed Property), Industry Funds Management (IFM), and 3i.

29. Related party transactions

Transactions with shareholders

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating parties of both the company and the group.

During the period to 31 March 2007 the group issued £462 million of 10 per cent unsecured loan notes dated 2017 to the four members of the consortium of investors owning Anglian Water Group Limited. At 31 March 2008 the amount outstanding was £462 million (2007: £462 million). Interest of £15.6 million (2007: £15.3 million) has been accrued but not paid on these loan notes

During the year to 31 March 2008 there were no other transactions with the shareholders of the ultimate parent undertaking.

In addition, during the period to 31 March 2007, the PFI concessions held by the group were sold to I^2, which was 33 per cent owned by 3i Group Plc one of the consortium of investors owning Anglian Water Group Limited, for £19 million. The sale was conducted on an arms length basis at normal commercial terms.

The group's other related party transactions were all with joint ventures of the group and are summarised below:

	2008 £m	2007 £m
Sale of goods/services	**1.6**	6.9
Purchase of goods/services	**(0.3)**	-

Sales to, and purchases from, joint ventures were carried out on commercial terms and conditions and at market prices.

Year end balances arising from sales of goods/services

	2008		2007	
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m
Morrison Veolia Limited	**1.9**	**-**	0.9	-
Joint ventures with AWG Property	**2.1**	**(1.2)**	24.5	(2.3)
Amounts provided	**(0.5)**	**-**	-	-
	3.5	**(1.2)**	25.4	(2.3)

Loans to related parties

	At 1 April or incorporation £m	**Acquisition £m**	**Increase during the year/period £m**	**At 31 March £m**
Year ended 31 March 2008				
Joint ventures with AWG Property	2.0	-	24.5	**26.5**
Amounts provided	-	-	(6.8)	**(6.8)**
	2.0	**-**	**17.7**	**19.7**
Period ended 31 March 2007				
Joint ventures with AWG Property	-	1.9	0.1	2.0

30. Principal group companies

The principal subsidiary undertakings at 31 March 2008 are shown below.

	Country of incorporation	Activities
Group and Other		
Osprey Holdco Limited [(1)]	England	Holding company
Osprey Acquisitions Limited	England	Financing company
AWG Plc	England	Holding company
AWG Group Limited	England	Holding company
AWG Central Services Limited	England	Provision of administration services to group companies
AWG Holdings Limited	Jersey	Holding company
AWG UK Holdings Limited	England	Holding company
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies
Anglian Water		
Anglian Water Services Limited [(2)]	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Services Financing Plc	England	Financing company
Anglian Water Services Holdings Limited	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Morrison		
Morrison Utility Services Limited [(3)]	England	Utility contracting
Morrison Facilities Services Limited	Scotland	Property maintenance and repair work
Maintenance and Property Care Limited	Scotland	Property maintenance and repair work
Manchester Working Limited	England	Property maintenance and repair work
Property Services		
AWG Property Limited	Scotland	Development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

(1) This company is owned directly by Anglian Water Group Limited.
(2) Including Anglian Water Services trading as Hartlepool Water.
(3) Disposed subsequent to year-end on 8 May 2008.

The group also owns a number of smaller and non-trading companies. All of the subsidiaries listed above are 100 per cent owned by the group or the company with the exception of Maintenance and Property Care Limited which is 66.7 per cent owned, Manchester Working Limited which is 80 per cent owned and Celtic Anglian Water Limited which is 50 per cent owned. Celtic Anglian Water Limited has been consolidated as a subsidiary undertaking as in the opinion of the Directors the group exercises control over the company.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation.

All subsidiaries have a year end of 31 March.

All subsidiary undertakings disclosed above are included within the consolidated financial statements.

31. Events after balance sheet date

On 8 May 2008 the group completed the sale of its Morrison Utility Services business to Cognetas and Englefield Capital, the independent mid-market, European private equity firms for total all cash consideration of £140 million. The Directors anticipate that a small profit on disposal will be recorded in the 2008/9 accounts. During the year to 31 March 2008 the group incurred costs related to the disposal of £5.1 million which have been expensed as exceptional operating costs (see note 4).

Independent auditors' report to the member of Anglian Water Group Limited

for the year ended 31 March 2008

We have audited the group and parent company financial statements (the 'financial statements') of Anglian Water Group Limited for the year ended 31 March 2008 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Statement of Movement in Shareholders' Funds, the Group and Company Balance Sheets, the Group Cash Flow Statement 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 Annual Report and 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 Article 110 of the Companies (Jersey) Law 1991 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 (Jersey) Law 1991. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

16 June 2008