

**Anglian Water Group Limited**  
**Annual report and consolidated financial statements**  
for the year ended 31 March 2009

(Registered under the Companies (Jersey) Law 1991)

Anglian Water Group Limited  
**Directors' report**  
for the year ended 31 March 2009

The Directors present their report and the audited financial statements of Anglian Water Group Limited for the year ended 31 March 2009.

**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, and maintaining infrastructure in the social housing 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 23.

**Group results and returns to shareholders**

The profit and loss account on page 24 shows the group's results for the year. Dividends of £160.8 million (2008: £77.2 million) have been declared and paid in the year.

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 £140.6 million. A profit on disposal of £13.4 million has been recorded in the profit and loss account.

**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:

Sir Adrian Montague CBE	Independent Non-Executive Chairman	(appointed 26 March 2009)
Peter Hickson	Independent Non-Executive Chairman	(resigned 27 February 2009)
Jonson Cox	Chief Executive	
Scott Longhurst	Group Finance Director	
Non-Executive Directors:		
Graeme Bevans	CPP	
Christian Seymour	IFM	
Roger Witcomb	CPP	
Cressida Hogg	3i	
Daniel Fetter	CPP	
Christine O'Reilly	CBA	
Manoj Mehta	IFM	
Philip White	3i	
Niall Mills	CBA	(appointed 25 September 2008)
Daniel Latham	CBA	(resigned 25 September 2008)
Andrew Liau	CBA	(resigned 12 December 2008)

CPP - CPP Investment Board

CBA - Commonwealth Bank of Australia (Colonial First State Global Asset Management and its affiliates)

IFM - Industry Funds Management

Patrick Firth resigned as Company Secretary on 3 May 2008. Claire Russell was appointed Company Secretary in his place on 22 May 2008 and Derek Walmsley was appointed as an additional Company Secretary on 27 November 2008.

**Directors' indemnities**

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

Anglian Water Group Limited  
**Directors' report (continued)**  
for the year ended 31 March 2009

**Shareholders**

The shareholders of the company and their respective shareholdings as at 31 March 2009 are as follows:

Name	Number of shares held			
	Class A ordinary shares of £0.00001 each	Class B ordinary shares of £0.00001 each	No par preference shares	No par Senior preference shares
CPP Investment Board	4,500,000	500,000	35,364,996,063	37,096,774
Commonwealth Bank of Australia (Colonial First State Global Asset Management and its affiliates)	5,000,000	-	35,364,996,063	37,096,775
Industry Funds Management (IFM)	3,000,000	-	21,218,997,637	22,258,064
3i	2,500,000	-	17,682,498,031	18,548,387
	15,000,000	500,000	109,631,487,794	115,000,000

The 115,000,000 no par, senior preference shares, which do not carry any voting rights, were issued on 27 March 2009 at £1 per share and carry an annual fixed cumulative preference dividend of 25 per cent of the aggregate amount paid up, these dividends are payable on 31 May each year. The senior preference shares are redeemable at £1 per share at the option of the company. On winding up, the senior preference shareholders rank above ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of these shares. In accordance with FRS 25 'Financial Instruments: Presentation' these senior preference shares have been included within creditors: amounts due after more than one year and the dividend treated as interest payable.

**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](http://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 2009, the group had 37 days purchases outstanding (2008: 37 days). At 31 March 2009, the company had no trade creditors (2008: none).

**Charitable donations (community investment)**

During the year the group made a payment of £0.75 million (2008: £1.0 million) to the Anglian Water Trust Fund, which provided further support to those experiencing genuine hardship. From April 2009 the Anglian Water Trust Fund became the Anglian Water Assistance Fund.

The Anglian Water Group Community Investment Scheme, *give me five*, has given more than 17,000 (2008: 16,500) hours of employee time, during the year ended 31 March 2009, supporting local community activities. The scheme offers employees the opportunity to take up to 30 hours of matched work time to support their local communities in such activities as working with schools, being a special constable and working with the Scout and Guiding movements. The company's proviso is that participation also contributes to personal development objectives.

During the year, the group donated £40,000 (2008: £40,000) to WaterAid, its recognised charity. Individual requests for sponsorship were declined on the basis that the group's policy is to encourage community involvement rather than charitable donations. In addition, the group supports employees getting involved in fundraising activities under the give me five programme, and this volunteers' committee has raised a further £162,000 (2008: £247,000) for WaterAid.

**Political donations**

No political donations were made during the year (2008: £nil).

# Anglian Water Group Limited

## Directors' report (continued)

for the year ended 31 March 2009

### **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.

To encourage employee participation in Anglian Water Group's performance, the group operates the AWG loyalty savings scheme.

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**

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and 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 financial statements.

Anglian Water Group Limited  
**Directors' report (continued)**

for the year ended 31 March 2009

**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.

The Directors are responsible for ensuring that the Annual Report and Accounts are published and where they are published on the Internet, for maintenance and integrity of the website. Uncertainty regarding the legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.



Derek Walmsley  
Company Secretary

29 June 2009

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 Facilities Services, 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 Facilities Services 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 23.

The results for the group for the year to 31 March 2009 show a pre-tax profit of £16.0 million (2008: loss of £20.9 million) and sales of £1,426.7 million (2008: £1,811.4 million). The group has net debt of £5,567.2 million (2008: £5,405.1 million) at 31 March 2009. Net cash inflow from operating activities for the year was £604.1 million (2008: £589.2 million).

**Dividends**

Dividends of £160.8 million (2008: £77.2 million) have been declared and paid in the year.

**Divisional results**

The following pages set out a business review for each of the main reporting segments of the group in respect of the year ended 31 March 2009.

## Anglian Water

### Key performance indicators

Anglian Water's key performance indicators for the year to 31 March 2009 are provided below.

Measure	How we define it	How it relates to our strategy	Our performance	Comment
<b>Health and Safety</b>				
Accident frequency rate	Number of accidents per 100,000 hours worked.	Indicates how safely we work.	2008/09: 0.39 2007/08: 0.37 2006/07: 0.39 (target = 0.34)	In addition to continued focus on serious accident prevention, we are working to reduce slips and trips in 2009/10 as they account for the majority of accidents.
Corporate Health and Safety Performance Index (CHaSPI) (1)	The Health and Safety Executive performance measurement. Scored out of 10.	Helps us measure and benchmark management of risks and responsibilities towards employees, the public and other stakeholders.	2008/09: 7.7 2007/08: 7.4 2006/07: 7.3	H&S is led by the Board. Clear upward trend reflects our commitment.
<b>Operational</b>				
Drinking water quality (2)	Our 'mean zonal compliance' performance in the calendar year.	One of our fundamental public service goals.	2008: 99.98% 2007: 99.96% 2006: 99.95%	Our highest level of performance since this measure was introduced in 2004.
Lost water (3)	Cubic metres of water lost per kilometre of main per day.	In our dry region minimising leaks in our network and our customers' pipes improves efficiency.	2008/09: 5.6m <sup>3</sup> /km/day 2007/08: 5.6m <sup>3</sup> /km/day 2006/07: 5.5m <sup>3</sup> /km/day 2005/06: 5.8m <sup>3</sup> /km/day	Almost half the UK average.
Overall Performance Assessment (OPA) results (4)	Ofwat's mix of customer-related measures.	Measures our operational performance against the rest of the industry.	2008/09: 415 points (provisional) 2007/08: 419 points 2006/07: 413 points 2005/06: 388 points	We maintained a strong position in 2008/09.
Capital expenditure £m (5)	Total spend from 1 April 2005 to 31 March 2009, increased by construction-related inflation.	How much investment we have delivered in this five-year asset management period.	4 years to March 2009: determination £1,624m actual £1,649m.	Capital investment plan is on track for current five year period (AMP4).
<b>Financial</b>				
Operating expenditure (6) £m	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.	2008/09: 363.5 2007/08: 331.2 2006/07: 324.7 2005/06: 314.4	Up by 9.8 per cent on previous year due to above RPI increases in power and commodity prices, and Pitsford incident costs.
<b>Environmental</b>				
Carbon footprint (7)	CO <sub>2</sub> emissions equivalent in tonnes	Measuring our impact on the climate.	2008/09: 540,535 2007/08: 527,067 2006/07: 537,363	We have reduced our energy demand and are actively pursuing ways of reducing our carbon impact across all aspects of the business.

(1) For more information, see [www.hse.gov.uk](http://www.hse.gov.uk) or [www.chaspi.info-exchange.com](http://www.chaspi.info-exchange.com).

(2) Drinking water results published in 2009 for the 2008 calendar year, measured as mean zonal compliance with the regulatory quality standards.

(3) Water lost from leaks in our network and our customers' own pipes. 2008/09 result subject to formal confirmation from Ofwat in autumn 2009.

(4) Ofwat is expected to confirm Overall Performance Assessment results later in the year.

(5) Cumulative spend from 1 April 2005 to 31 March 2009, inflated by Construction Outputs Price Index (COPI) to 2008/09 prices.

(6) For the appointed and non-appointed businesses.

(7) The carbon footprint data has been restated to the latest emission factors published by DEFRA with reference to increased factor weightings for 'green' and grid electricity. The majority of the 2008/09 increase is attributable to more robust data collection for fuel and transport use and the construction and commissioning of additional assets through the year, partially offset by reducing our energy consumption.

## **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, extending from the Humber to the Thames estuary and from Buckinghamshire to the seaside resorts of Felixstowe and Gt Yarmouth on the east coast. It also includes Hartlepool in the Northeast.

Anglian Water delivers a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price, providing a service vital to families, businesses, communities and the future of our region.

## **Market operations**

### ***Drinking water***

Every day Anglian Water supplies around 1.2 billion litres of high-quality drinking water to 4.3 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 65 per cent are currently 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.

We collect approximately 954 million litres of wastewater every day from 5.5 million customers, including customers who receive their water from other companies. Anglian Water's wastewater network includes 44,000 kilometres of pipes connected to 1,114 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 2009, Anglian Water is one of the region's biggest employers.

## **Management**

### ***Structure***

Anglian Water has its own board of directors, which consists of five Executive Directors and three independent Non-Executive Directors. Two of the Executive Directors, the 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. Anglian Water supports the introduction of competition, as long as it is introduced in a fair and even way and benefits customers.

Historically, water companies have been able to offer water and wastewater services to large industrial or commercial customers and developers of greenfield sites outside their regional boundaries through the creation of what are known as 'inset appointments'. The company is responsible for customer service, billing and the maintenance of its supply network.



Three separate developments within our region are now served by independent companies, including one in 2008/09 at Great Billing, Northamptonshire.

Since 2005, industrial customers using more than 50 megalitres of water per year have also been able to choose which company supplies their water services; Anglian Water or one of a number of independent water companies.

Under this arrangement, independent companies supply water that they have purchased from Anglian Water at a wholesale price. Alternatively, independent companies can acquire and input water into our water network and we will supply to industrial customers at a wholesale price. Under this framework, wastewater services continue to be supplied by Anglian Water.

One independent company went into administration in June 2008, although it had not yet acquired any customers.

Neither approach provides domestic customers with a choice of which water company they wish to use.

### **The future of competition**

Ofwat is concerned that competition to date has been too limited and has not developed successfully.

It believes that, although the current regulatory framework has served customers well since privatisation, market forces have a "significant role to play in finding the solutions to the industry's future challenges". In 2007, Ofwat launched a consultation on the future of competition in the water and wastewater industry in England and Wales.

#### *The Cave Review of competition and innovation*

In early 2008, as part of its 'Future Water' strategy, the Government launched two independent reviews: the Walker Review of tariffs and metering, led by Anna Walker, and the Cave Review of competition and innovation, led by Professor Martin Cave.

During the course of her research, representatives from Anglian Water met Anna Walker and her team. It is anticipated that the Walker Review will now be published later in 2009.

Representatives from Anglian Water also met Professor Cave and his research team on a number of occasions during 2008. The review, which was published in April 2009, makes a number of recommendations, some of which are detailed below. Anglian Water will respond in due course.

- The Environment Agency (EA) should receive new powers to tackle over-abstraction and facilitate the trading of abstraction and discharge licences.
- An obligation for incumbents to procure the best value combination of water, wastewater and infrastructure supplies, with decisions scrutinised by a new 'Procurement Panel'.
- Increasing the incentives to incumbents to innovate and outperform and addressing the potential bias to capital expenditure.
- The merger regime should be changed to allow retail entities to merge without reference to the Competition Commission.
- Ofwat should give customers and their representatives a greater role in determining the services provided by their water company through 'negotiated settlements'.

The review's recommendations are expected to be incorporated into the Floods and Water Bill, a draft of which was published in April 2009. Public consultation on the draft Bill is due to finish in July 2009.

More information is available from Ofwat at [www.ofwat.gov.uk](http://www.ofwat.gov.uk) and Defra at [www.defra.gov.uk](http://www.defra.gov.uk).

### **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 the Water Services Regulation Authority (WSRA) or Ofwat as it is more commonly known.

The water industry operates on five-yearly cycles known as Asset Management Plan (AMP) periods. Ofwat sets prices at the beginning of each period, following submissions from each company about what it will cost to deliver their plans. In April 2009, following extensive consultation, Anglian Water submitted its final business plan for AMP5 (2010 to 2015) to Ofwat.

In addition to agreeing its Asset Management Plan on a five-yearly cycle, every water company sends Ofwat an annual detailed breakdown of its performance in a document called the June Return. This return is then used to monitor and compare companies' performances.

Other government agencies regulate different aspects of our operations. For example, the Drinking Water Inspectorate is responsible for ensuring compliance with the drinking water quality regulations, while the Environment Agency controls the amount of water we are allowed to take from the environment and the quality of the water that we return to it.

For Anglian Water's Final Business Plan for 2010-2015 please go to [www.anglianwater.co.uk](http://www.anglianwater.co.uk).

### **Price Review 2009 (PR09)**

The prices that water companies can charge their customers are set every five years by Ofwat.

This year has been an important one for the current price review process, which will determine the scale of Anglian Water's investment programme, and therefore customers' bills, between 2010 and 2015 (AMP5). It is also the first review to take place within the context of Anglian Water's 25 year 'Strategic Direction Statement' plan.

In August 2008 we submitted our draft business plan to Ofwat. Following further consultation, we submitted our final business plan in April 2009.

Our plan proposes a capital investment programme of £2.26 billion for the period AMP5 to continue the improvements to our infrastructure. This investment, together with other increases in operating costs, will result in an increase in average bills of 0.6 per cent per year, excluding inflation, over five years. If Ofwat accepts our plan, where one of our priorities is affordability for our customers, the average household bill would increase by £11, excluding inflation, over the five year period, from £362 in 2010 to £373 in 2015.

In developing our plan, we have sought to balance prices, service performance, quality and risk while ensuring that we continue to deliver our fundamental objectives: clean, safe, reliable drinking water and effective wastewater services at an affordable price.

Throughout the planning process, affordability for customers has been one of our principal concerns, particularly in the current economic climate. We have worked hard in the face of substantial pressures on operating and financing costs to limit proposed bill rises and produce a plan that we believe represents excellent value for our customers.

Ofwat is due to respond to the latest submission in a draft determination in July ahead of the final determination in November 2009. The new prices will come into effect in April 2010.

### **Efficiency challenge**

Ofwat's Final Determination for the current Asset Management Plan 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.

The company carried out a restructuring programme in the 2004/05 financial year, saving approximately £10 million per annum in operating costs, beginning in the financial year 2005/06. We have continued to make efficiency savings from a range of initiatives and in 2008/09 these amounted to approximately £13 million.

### Financial performance

	<b>Year ended 31 March 2009 £m</b>	<b>Year ended 31 March 2008 £m</b>
Turnover	1,037.4	969.2
Operating profit before goodwill amortisation	445.6	421.0

Turnover for the year was £1,037.4 million, an increase of 7.0 per cent over the previous year due principally to the annual price increase. There were no significant reductions in business volumes in the year resulting from the economic downturn.

Operating costs for the year increased by £32.3 million (9.8 per cent) to £363.5 million (2008: £331.2 million). Significant increases in power and commodity prices were offset by our continued focus on sustainable cost reduction initiatives including reduction in energy consumption, enhanced productivity through more centralised management of operations, and procurement savings. Power price increases caused an annual rise in power costs of approximately £13 million (25 per cent).

In addition there were one-off costs of £4.9 million relating to the Pitsford water quality incident in the summer of 2008. The bad debt charge in the year was consistent with the charge in the prior year. Overall, operating expenditure as a percentage of turnover increased slightly from 34.2 per cent to 35.0 per cent.

Gross capital expenditure for the year was £434.5 million, £158.1 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 four years of the current Asset Management Plan period (2005 to 2010) was approximately £1,649 million (at 2008/09 prices), compared with £1,624 million in the Final Determination.

We are on track to meet our AMP4 obligations, including the addition of eight nitrate removal plants, circa 33,000 new meters, completing two enhanced sludge treatment centres and providing first time sewerage to some 1,500 properties. We have also reduced the number of properties at risk of experiencing low water pressure by 130 and reduced the number of properties affected by interruptions of more than six hours by 40 per cent.

We continue to make good progress on our largest scheme to increase the amount of water we are able to extract and treat from our largest reservoir at Rutland. As part of the project, £43.5 million was invested to extend the Wing Water Treatment works. The new part of the treatment works has been designed to be standalone from the existing works to improve the resilience of our water supply capability from Rutland reservoir to customers in a number of towns including Northampton, Peterborough and Milton Keynes.

### Operational performance

We entered the year as the leading water and wastewater company in terms of Ofwat's overall performance assessment (OPA) for the second consecutive year, with a 2007/08 score of 419 out of a maximum of 438 points.

We maintained a strong position in 2008/09, and with strong performances in drinking water quality, wastewater treatment compliance and customer service, expect to remain amongst the industry leaders.

Despite this strong overall performance, we anticipate our actual OPA score for 2008/09 will be down, at 415 (2007/08: 419). This year we have learnt valuable lessons in the prevention and handling of pollution incidents (see below for further details). We continue our innovative FOG campaign, working with business and domestic customers to raise awareness of the factors contributing to sewer flooding.

### **Drinking water quality**

The Drinking Water Inspectorate (DWI) sets stringent quality standards for our drinking water, and our drinking water quality results are key indicators of our performance.

We test the quality of our drinking water continuously and rigorously, both on site and in our laboratories. We also regularly test samples taken from customers' taps.

In June 2008 Anglian Water detected Cryptosporidia in routine water quality samples taken from the Pitsford treatment works in Northamptonshire. We took the precautionary approach of advising customers in approximately 108,000 homes to boil their tap water.

More than 300 Anglian Water staff and contractors worked around the clock during this period to restore drinking water supplies to their usual extremely high standard and to keep customers fully informed both directly and through the local media in a high profile communications campaign. We also worked very closely with the Drinking Water Inspectorate, health protection agencies and community organisations.

The Pitsford incident was independently investigated and the DWI made a number of recommendations, all of which we have acted upon. The DWI commended Anglian Water for our prompt response to the problem and for our actions to protect public health as part of a multi-agency team. The total cost of the incident, including the installation of ultra-violet water treatment at the works, and goodwill payments to customers was £4.9 million, none of which has been borne by our customers. The DWI confirmed that there will be no prosecution as a result of the incident, citing the quality and speed of our response as an important factor in their decision.

We were disappointed that the incident occurred and very much regret the inconvenience it caused to our customers. We have undertaken a comprehensive review across all Anglian Water sites to help prevent a similar incident from occurring again. In addition, we have shared the lessons we have learnt in detecting, and rectifying the problem, with external agencies, including health protection and environmental health teams, and other water companies.

### **2008/09 results**

Drinking water quality remained excellent. We achieved a mean zonal compliance score of 99.98 per cent for 2008, our highest score since this measure was introduced by the DWI in 2004. Hartlepool Water achieved 100 per cent mean zonal compliance.

### **Investment**

During AMP4, Anglian Water is investing almost £100.0 million in further improving drinking water quality to ensure we continue to meet the highest standards. By the end of the year we had delivered over 80 per cent of our AMP4 drinking water quality programme, with 24 of a total 31 nitrate removal schemes now complete, eight in 2008/09.

### **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 'serious water stress' by the Environment Agency. Anglian Water manages the demand for water by a combination of leakage control, metering and the promotion of water efficiency to our customers.

In 2007/08, we achieved a total water loss figure of 5.6 cubic meters of water per kilometre of main per day (m<sup>3</sup>/km/day), almost half the industry average of 10.1 m<sup>3</sup>/km/day. In 2008/09, we are provisionally on course subject to audit to achieve the same figure in spite of the cold winter weather across the country between December 2008 and February 2009, and which led, in our region, to the highest number of mains bursts since

2003/04. We responded well to the increase in bursts, quickly deploying leak detection and repair resources to the worst affected areas as highlighted by our leakage monitoring system.

### **Bathing water quality**

The quality of the water we return to the sea around our region's coastline plays an important role in improving the overall standard of our region's bathing waters. We are working to improve biodiversity, protect health and provide a more pleasurable experience for the millions of people who visit our region's coastline every year.

For the tenth time in 12 years, Anglian Water once again achieved 100 per cent compliance with the mandatory bathing water standards. In 2008 we met tighter guideline standards at 73.9 per cent of the region's beaches (2007: 68.1 per cent). This was an excellent result, particularly in the context of the wet summer of 2008.

For a bathing water beach to achieve Blue Flag status it must achieve guideline water quality standard, as well as pass 27 other tests. In 2009 there are 17 designated Blue Flag beaches in our region, compared to 15 in 2008. This is an excellent result in a year when the number of beaches recommended nationally was the lowest since 2002. (Anglian Water region 71.7 per cent; UK 47.6 per cent).<sup>1</sup>

### **River water quality**

Anglian Water works to protect and sustain the region's waterways, which are 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 2008 for the 2007 calendar year, the Agency classed the biological quality of 99.8 per cent of rivers in our region as 'very good' to 'fair' (2006: 99.8 per cent). In 92.1 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2006: 92.3 per cent). Since 2006, the Environment Agency has reduced the total length of rivers surveyed, revising the 2006 data accordingly. The totals quoted here therefore cannot be compared to those in our previous reports.

Anglian Water also helps to maintain river water quality via its award-winning RiverCare project, managed on its behalf by Keep Britain Tidy (formerly known as ENCAMS). 41 teams around our region have adopted stretches of river as part of this unique project, carrying out regular litter picks and biodiversity checks. We are developing plans to expand the scheme in 2009/10.

Regrettably, during 2008/09, the Environment Agency brought four prosecutions against us. We were fined a total of £236,000 across six pollution incidents. We have examined the causes of each incident in depth, learnt lessons and taken decisive action to improve future performance. For more information, see the Anglian Water Community and Environment Report.

### **Customer service**

Anglian Water continues to benchmark and compare our customer service with major service providers from all service sectors. This drives innovation and challenges us to improve beyond the 'norm' for water companies.

Although we recognise that our customers do not have a choice in who provides their water and wastewater services, we aim to behave as if they do.

Our focus on improving customer service has yielded significant results this year. This is principally due to the continued use of a Customer Service Index (CSI), which measures performance against a range of customer-related metrics from across the business and which goes beyond those aspects of our customer service performance measured and benchmarked by Ofwat.

---

<sup>1</sup> 34 of our 46 designated bathing beaches achieved the Bathing Water Directive Guideline standard and 33 of these qualify for the Marine Conservation Society Recommended category. Guideline compliance exceeds Mandatory Compliance and includes assessment of facilities on beaches in addition to good water quality.

Our overall CSI continued its upward trend this year, increasing by 24.6 points, or 25.3 per cent, and indicating performance across four specific measures:

- Levels of service (this represents the jobs completed within our Levels of Service target) were up 5.48 per cent to 93 per cent.
- After a significant 96 per cent improvement last year, backlog work (number of jobs outside level of service multiplied by number of weeks late) was up slightly during this 2008/09 period from 1,581 to 2,245.
- Chase calls (when customers ring us to say we haven't done what we said we would) over the year have fallen by 17 per cent from 12,963 in 2007/08 to 10,698 in the 2008/09 period.
- Service delivery failures have also fallen this year, by 23 per cent from 468 to 360.

The total number of written complaints have reduced this year by nearly four per cent overall. The final quarter of the year recorded a significant 33 per cent improvement compared to the previous year. We are setting targets to ensure these improvements continue throughout the 2009/10 period.

There has been a marked increase in customers choosing to email us, in preference to making a verbal contact. Emails are recorded as written complaints and offer customers additional choice in how they contact us.

In regular surveys 92 per cent of our customers said they were satisfied with the service they received from our call centre. Of those, 72 per cent said they were very satisfied. Only three per cent of customers stated they were dissatisfied with our service.

We are pleased with these results, but recognise that there is still room for improvement.

### **Occupational health and safety**

Anglian Water's first responsibility is to the health and safety of its employees, contractors and the public.

Anglian Water believes that nothing is so important that we cannot take the time to do it safely. We believe that all accidents are preventable.

We are committed to continuous improvement in our performance on Occupational Health and Safety (OH&S). 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 devote considerable resources to reinforcing Health and Safety messages to all staff and contractors via the company's internal communications' channels. We are very pleased that in 2009, for the third consecutive year, Anglian Water was awarded the prestigious Royal Society for the Prevention of Accidents (RoSPA) Gold Award.

### **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. A structured approach to the management of risk is consequently embedded in the organisation to identify, analyse and manage these threats. The Board regularly review a register of significant risks.

On a day-to-day basis, we face a range of operational risks that could potentially impact on public health and/or the environment. Anglian Water seeks to mitigate these risks by ensuring that our processes and procedures are of the highest standard for compliance, governance and ethical issues and are consistently applied and rigorously tested.

We have also identified additional longer-term risks, some of which are beyond our direct control. Our key, long-term challenges from 2010 to 2035 are covered in detail in the Anglian Water Strategic Direction Statement (SDS). Other issues are also discussed in the Anglian Water summary Community and Environment report. Both publications are available online and in hard copy.

Anglian Water also tries to plan ahead for sudden events through its Business Continuity Plans, outlining our strategic response across a range of scenarios. The plans allow us to recover as quickly as possible and minimise the loss to the business. We are working to achieve accreditation to BS25999 for business continuity.



The following list provides a summary of the principal risks and challenges we face and our responses.

### **Climate change**

#### **The issue**

Climate change presents us with our biggest challenges over the next 25 years and beyond. Predictions suggest hotter, drier summers with reduced summer rainfall which may result in reductions in reservoir levels. This will also reduce levels in the rivers we rely upon to help maintain reservoir levels.

At the same time, hotter, drier weather coupled with the anticipated regional growth will significantly increase demand. These combined supply and demand issues represent a risk to one of our customers' most important priorities - the availability of an unrestricted supply.

We also anticipate more frequent, extreme storms and wetter winters. These can, and have, caused localised flooding that overwhelms our sewer network, floods customers' homes and has the potential to disable treatment works.

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 adapting to the impact of climate change on the many ecologically sensitive areas we own and manage.

#### **Our response**

The challenges posed by climate change have required considerable research to inform our strategic planning. Details are in the Anglian Water Strategic Direction Statement and actions have been incorporated into our final business plan which was submitted to Ofwat in April 2009.

We have undertaken extensive work to understand the risk from rising sea levels, changing rainfall patterns and the likelihood of extreme weather. We have identified our critical infrastructure at risk to levels of flooding, working to prioritise our most vulnerable and strategically important coastal assets and to assess the investment required to protect or move them in subsequent Asset Management Plans.

Looking ahead, we are investing an additional £50 million beyond the 2005–2010 regulatory determination in schemes to improve the security of supply to customers across our region. We are also improving the resilience of parts of our network.

### **Growth**

#### **The issue**

Coping with the forecast demand in housing growth and population in the Anglian Water region is one of our most significant long-term risks. Although current economic conditions have slowed the rate of house building in the short term, it is anticipated that the planned developments will be re-started once financial conditions in the UK improve. Although the total number of new connections showed a fall from 24,000 last year to 18,000 this year, this has not altered the underlying 25 year growth forecasts, which are driven by demographic, rather than economic, trends. Indeed, current regional plans are being reviewed to account for higher development targets over the medium and long-term.

#### **Our response**

Our region contains a large part of three of the four growth areas defined by Government and a number of individual growth points. We made more than 18,000 new connections to our network this year and are working with key business consumers to ensure availability of supply in South Humber, an important area for projected industrial growth. Our long-term approach is outlined in the Anglian Water Strategic Direction Statement.

We have detailed our response to this challenge, and the investment required in our final business plan submission for AMP5 (2010–2015), which was submitted to Ofwat in April 2009. The plan includes options for increasing water resources, transferring water between rivers within our region and also reinforcement of our

wastewater assets (treatment and sewer network) to cater for new development without compromising environmental water quality. In addition, we champion the use of sustainable drainage techniques in place of piped systems as a more environmentally sound way of managing surface water in the context of a changing climate.

#### **Hardship and bad debt**

The credit crunch has deepened further this year and we are intensifying our efforts to be supportive and helpful to the increasing number of customers who want to pay but who are struggling to do so. We continue to offer a range of tariffs for our most vulnerable customers. In addition, we have relaunched our Back on Track scheme this year to help those customers who have been through a financially challenging period and built up arrears, but who are now in a position to start making regular repayments.

During the year we made a payment of £0.75 million (2008: £1.0 million) to the Anglian Water Trust Fund, which provided further support to those experiencing genuine hardship. From April 2009 the Anglian Water Trust Fund became the Anglian Water Assistance Fund.

#### **Recovering bad debt**

We continue to use the full effect of the law against those who are able to pay but chose not to. Our new debt management system went live in January 2009, allowing us to use the range of debt recovery procedures available to us more effectively.

We successfully trialled a limited number of charging orders against debtors last year and increased the number this year. We also work closely with third parties and debt collection agencies to organise viable payment arrangements for those debtors who want to pay but who need help with prioritising their commitments. This often helps avoid legal action and the additional burden to the debtor of court fees and costs.

#### **Alternatives**

We continue to take a lead on seeking the introduction of trickle flow devices.

The number of customers who choose not to pay puts a considerable cost burden on those who do pay their water charges. It is very clear that a further deterrent is needed for those debtors choosing not to pay. We feel by introducing trickle meters in a controlled way, possibly following a court order, the potential inconvenience to households of a restricted water flow supply will help reduce the payment timeline and associated costs.

When disconnection was available to all water companies as a deterrent, the number of disconnections was in fact, low. We feel trickle flow devices will work in a similar way to deter those who can pay but choose not to. We continue to work to encourage our customers to contact us at an early stage if they experience difficulty in paying their water bills.

#### **Competition**

##### **The Issue**

Since privatisation in 1989, the water industry in England and Wales has operated as regional monopolies. Competition to date has been limited to large business customers and sites without a public water supply or wastewater services that are relatively close to another water company's boundary.

Since 2007 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 and wastewater services from Anglian Water at a wholesale price and sell it to their domestic customers.

The networks supplying new developments are most appealing to new market entrants due to their combination of comparatively low maintenance costs, combined with the ability to charge at, or close to, regional average tariffs.



### **Our response**

Anglian Water supports the introduction of competition; however, it is important that this is done in a way that provides choice and economic benefit to all customers.

The Cave Review recommends a number of changes to modernise and streamline the inset appointment regime. We will consider these and work with relevant stakeholders to develop these further. In the meantime, we will focus on improving our business processes in addition to our levels of service to domestic and commercial customers alike.

### **Economic conditions**

#### **The issue**

The current global recession, and in particular the impact this has had on the financial markets, has meant Anglian Water's ability to raise new funds to finance its capital expenditure programme is even more critical.

Continuing uncertainties mean it is important we actively manage the situation to ensure the best possible outcome for Anglian Water.

The recession has also had an impact on our commercial customers, as, affected by the slowdown in economic market conditions, they have begun to cut back on production. This will inevitably lead to reduced revenues in the short-term.

#### **Our response**

Anglian Water will continue to work with its efficient debt-based financial structure. By careful management of our credit rating and standing with our investors, it has been possible to raise new funds at acceptable rates. Anglian Water will continue to work with its commercial customers to assist them wherever possible and practicable.

Further details on the management of financial risk are provided in note 19 of the financial statements.

### **Energy management**

#### **The issue**

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 17 per cent of our total operating costs. The recent volatility and significant price increases in the wholesale power markets will continue to make a significant impact on Anglian Water's cost base in 2009/10.

#### **Our response**

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

Our energy efficiency programme is now in its fourth year and continues to drive reductions in power consumption, with the aim of reducing energy costs by 20 per cent by 2010 (from the 2006/07 baseline). This initiative has saved £10 million to date, one year ahead of target, and plans to save an additional £1.4 million in 2009/10.

We also continue to 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**

### **The issue**

Anglian Water closed the defined benefit (final salary) pension scheme to new employees in 2002. This brought our exposure to this risk more into line with the industry as a whole. 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.

The impact that the current global recession has had on the financial markets has significantly impacted all pension schemes this year, with equity markets falling considerably, and interest rates fallen to unprecedented levels. The assets of the scheme are invested in both equity instruments and debt instruments.

### **Our response**

We are working closely with the Trustees, the in-house Treasury team and our advisers to develop solutions for managing investment, interest rate and inflation risks and to manage the impact of expected improvements in longevity. During 2008/09 we continued to make additional deficit reduction payments which amounted to £10.9 million in the year.

### **Outlook**

Looking ahead to 2009/10, our priorities will be to complete our AMP4 capital investment programme and begin planning how we will deliver our plans for AMP5.

We expect that 2009/10 will continue to be a challenging year, anticipating that the continuing recession will add pressure to revenue generation and collection, necessitating increased management focus in both these areas.

We also recognise that continuing economic uncertainty will demand intense focus on putting in place the financing for AMP5. In addition, we will continue our emphasis on the efficient running of the business and execution of our capital programme.

**Morrison**

**Introduction**

Morrison is a Support Services business performing maintenance and improvement works on social housing.

Following the acquisition of AWG by Osprey in 2006/07, the group reviewed the position of Morrison within its structure. As a result of this review the Utility Services business was sold on 8th May 2008 and is reported as a discontinued operation, the activities of the Morrison PLC central team were closed or subsumed into the Facilities Services business, which was retained.

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

- To improve 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 is self-financed through its own cash generation, it has a requirement from its parent to focus on cash generation and to pass funds each year through to AWG. During the year some £107.5 million of loans were repaid to AWG or other group companies from cash generated by the business and from the disposal proceeds of Morrison Utility Services Ltd. Morrison Facilities Services ended the year with no loans.

Morrison also paid up dividends of £43.0 million to AWG during the year.

***Facilities Services – continuing operations***

**Key Performance Indicators**

	<b>Year ended 31 March 2009</b>	<b>Year ended 31 March 2008</b>
Accident frequency rate <sup>1</sup>	0.34	0.36
Adjusted operating profit margin <sup>2</sup>	2.1%	3.8%
Adjusted operating profit <sup>2</sup>	£6.1m	£12.3m
Operating profit	£2.7m	£6.9m
Operating cash flow	£8.4m	£8.0m
Order book at 31 March	£762m	£827m

<sup>1</sup> Number of accidents per 100,000 hours worked, only calculated on an annual basis

<sup>2</sup> Operating profit and operating profit margin stated before goodwill amortisation and exceptional items

**Market operations**

Morrison Facilities Services principally provides outsourced property repair and maintenance and capital spending 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 and housing associations in the UK, managing circa 400,000 homes and other local authority buildings. It also provides facilities services to a number of schools. 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' and housing associations' capital spending programmes, such as kitchen and bathroom replacement programmes.

Facilities Services currently has 20 major clients. The award of contracts by local government is governed by strict procurement criteria to ensure that best value is obtained. At the end of 2007/08 the company did not retain two contracts at re-bid leading to a revenue and profit reduction in 2008/09 compared to the prior year.

At the start of 2008/09, the investors decided to re-focus Morrison to achieve greater growth. As a result, the senior management team has been largely refreshed during the year, there has been a renewed focus on

marketing and business development, greater scrutiny of individual contract performance across a balanced score card of metrics, and a commitment to a new vision and values. The business has been gathering momentum as a result, with the mobilisation of two new contracts with Housing Associations Midland Heart and Riverside early in the year, and the achievement of preferred bidder status on five further contracts by year end. These contracts will not be mobilised until the next financial year. The current year also saw the further development of the contract with Manchester City Council.

**Financial performance**

	<b>Year ended 31 March 2009 £m</b>	<b>Year ended 31 March 2008 £m</b>
Turnover	282.6	323.0
Operating profit before goodwill amortisation and exceptional operating costs	6.1	12.3
Goodwill amortisation	(3.4)	(3.4)
Operating exceptional items	-	(2.0)
Operating profit	2.7	6.9

Facilities Services' turnover reduced 12.5 per cent to £282.6 million (2008: £323.0 million), due mainly to the loss of two contracts servicing Birmingham and the National Probation Department (NPD).

Operating profit before goodwill amortisation and exceptional operating costs also reduced by £6.2 million to £6.1 million (2008: £12.3 million); although this includes costs from Morrison plc of £2.8 million, which were excluded from 2007/08 comparatives. Other factors affecting operating profit in the year were the expiry of the Birmingham and NPD contracts, combined with start-up costs on new contract wins and the implementation of hand held technology.

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

**Management**

***Structure***

Morrison operates as a standalone group within Anglian Water Group. As such it complies with Anglian Water Group policies and controls. Morrison agrees performance objectives and reports against these to Anglian Water Group. Morrison has its own operating management board of six Directors. 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, one of which was appointed during the year.

***Responsibility and control***

The Morrison CEO has responsibility for the performance of each of the regional 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 that demands quality work delivered cost-effectively, it is vital that Morrison's people strategy focuses upon ensuring its staff are equipped to deliver, enabling employees to fulfil their potential through ensuring they are properly skilled and motivated.

Morrison invests in the ongoing training and development of employees through the delivery of a range of internal and external programmes which are evaluated to test for effectiveness of delivery to optimise return on investment. The company liaises closely with the Construction Skills and the Learning Skills Council to maximise grant revenue, and foster close relationships with local colleges in the delivery of vocational courses and our Apprenticeship programme. Facilities Services is accredited for Investors In People. During the year the Facilities Services business was proud to recognise the contribution of its 132 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 over a number of years 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. Morrison has maintained an excellent safety performance over many years, which is essential for long-term success in this competitive sector, and has won a series of awards in recognition of its achievements in this area.

Morrison is actively involved in apprentice schemes and training the long-term unemployed. 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.

***Commercial relationships***

The Morrison Facilities Services business operates under framework contracts of typically three to 10-years duration. Many contracts operate on a schedule of rates basis with increases each year to allow for inflation though in recent years there has been a move to partnership arrangements, where the price is based on output specifications. Each contract has its own unique set of key performance indicators (KPIs) agreed with the client. These KPIs can influence the profit on the contracts.

**Risks**

***Economic trends***

Much of Morrison's activities are operated within framework agreements with local authorities, Arms Length Management Organisations and housing associations. These have been better insulated from the economic slow down than many areas of the private sector, and revenues and cash conversion have both held up well during the year. The company is winning new business and has a healthy order pipeline, but the Chancellor has forecast tightening public spending in the future and the company is mindful of the importance of very tight cost control and the need to deliver higher quality at lower cost.

***Contractual risk***

The majority of Morrison's contracts are with public authorities. 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.

As well as increasing the proportion of its work in framework contracts, Morrison spreads its contractual risk by operating a portfolio of contracts and clients. 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, which clearly presents a potential exposure.

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

#### ***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 Facilities Services was 0.34 against a target of 0.40.

AWG's Safety First – Second Nature approach is highlighted in campaigns throughout Morrison, requiring that employees and sub-contractors participate in safety improvement.

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.

Shortly before year-end the company was awarded corporate certification to ISO14001, recognising its achievements in the area of Health, Safety and the Environment.

#### **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.

#### **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 over the medium term. The challenges of the current economic environment will place even greater focus by management on margin improvement and sustainability of cash generation.

**Property**

**Financial performance and Key Performance Indicators**

	<b>Year ended 31 March 2009 £m</b>	<b>Year ended 31 March 2008 £m</b>
Capital employed at 31 March	21.5	28.8
Operating loss before exceptional items	(12.7)	(5.8)
Costs of a fundamental restructuring	-	(22.8)
Operating cash flow	(7.7)	(8.5)

**Introduction**

During 2008/09, Anglian Water Group Limited has continued to pursue the value realisation of its property investments. Notwithstanding the extremely difficult property market present throughout 2008/09 and which is expected to continue during 2009/10, this process has allowed further rationalisation of the portfolio, along with completion of certain previously committed schemes.

A small but focused management team remains in place to manage these property assets and to seek their disposal for the best value at the appropriate time.

**Financial performance**

Operating loss before exceptional items for AWG Property for the year was £12.7 million (2008: loss of £5.8 million) on a reduced turnover of £30.5 million (2008: £32.0 million) as a result of the change in strategy for the business. Given the currently difficult property market, a review of the net realisable value of assets at the proposed point of sale has been undertaken and the above operating loss includes a further charge of £5.7 million in relation to asset write downs and onerous leases.

**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 three 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. The current economic environment presents risks in relation to the financial stability of joint venture partners and maturity of debt funding on individual properties. The AWG Property strategy mitigates these by; ensuring that the assets are able to generate sufficient income to service the interest costs; and having an asset management strategy to add value to which the funding counterparties are also committed. The combination of which is intended to mitigate the requirement to realise value from such assets in an adverse property market.

**Pensions**

The majority of employees participate in the group defined contribution scheme.

**Outlook**

AWG Property will focus on the controlled realisation of value from its remaining property portfolio.

### **Other business activities**

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

### **Pensions**

At 31 March 2009 the gross deficit for the group (before deferred tax) was £102.1 million (2008: £82.1 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:

- 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.

The group's board, through the Financing, Treasury and Energy Policy 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 2009 the group held cash, deposits and current asset investments of £1,067.9 million (2008: £866.9 million) and had undrawn committed multi-currency facilities of £590 million (2008: £580 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 with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2009 Anglian Water's and Osprey Acquisitions' 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 81.8 per cent (2008: 81.4 per cent) and 90.5% (2008: 87.8%) respectively.

### **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 Acquisitions 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 2009, 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.



Anglian Water Group Limited  
**Group profit and loss account**  
for the year ended 31 March 2009

Notes	2009			2008		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m	£m
2	<b>Turnover</b>					
	1,401.4	65.7	<b>1,467.1</b>	1,345.1	515.0	1,860.1
	(40.4)	-	<b>(40.4)</b>	(48.7)	-	(48.7)
	<b>1,361.0</b>	<b>65.7</b>	<b>1,426.7</b>	<b>1,296.4</b>	<b>515.0</b>	<b>1,811.4</b>
	Operating costs:					
	Operating costs before exceptional operating costs and goodwill amortisation					
	(942.4)	(64.6)	<b>(1,007.0)</b>	(902.4)	(501.0)	(1,403.4)
4	Exceptional operating costs					
	-	-	-	(2.0)	(5.1)	(7.1)
	(72.1)	(0.3)	<b>(72.4)</b>	(72.1)	(4.0)	(76.1)
3	<b>Group operating costs</b>					
	<b>(1,014.5)</b>	<b>(64.9)</b>	<b>(1,079.4)</b>	<b>(976.5)</b>	<b>(510.1)</b>	<b>(1,486.6)</b>
	<b>346.5</b>	<b>0.8</b>	<b>347.3</b>	<b>319.9</b>	<b>4.9</b>	<b>324.8</b>
	Share of operating profit in joint ventures					
	3.5	-	<b>3.5</b>	5.3	-	5.3
	Total operating profit before exceptional operating costs and goodwill amortisation					
	422.1	1.1	<b>423.2</b>	399.3	14.0	413.3
	-	-	-	(2.0)	(5.1)	(7.1)
	(72.1)	(0.3)	<b>(72.4)</b>	(72.1)	(4.0)	(76.1)
2	<b>Total operating profit</b>					
	<b>350.0</b>	<b>0.8</b>	<b>350.8</b>	<b>325.2</b>	<b>4.9</b>	<b>330.1</b>
4	Profit on disposal of discontinued operations					
	-	13.4	<b>13.4</b>	-	-	-
4	Costs of a fundamental restructuring					
	-	-	-	(22.8)	-	(22.8)
	<b>350.0</b>	<b>14.2</b>	<b>364.2</b>	<b>302.4</b>	<b>4.9</b>	<b>307.3</b>
5	Net interest payable and similar charges					
			<b>(341.8)</b>			(340.3)
6	Other finance (costs)/income (net)					
			<b>(6.4)</b>			12.1
7	<b>Profit/(loss) on ordinary activities before taxation</b>					
			<b>16.0</b>			(20.9)
8	Tax on profit/(loss) on ordinary activities					
			<b>16.5</b>			20.8
	<b>Profit/(loss) on ordinary activities after taxation</b>					
			<b>32.5</b>			(0.1)
	Equity minority interest					
			<b>(2.5)</b>			(1.1)
	<b>Profit/(loss) for the financial year</b>					
			<b>30.0</b>			(1.2)

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

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

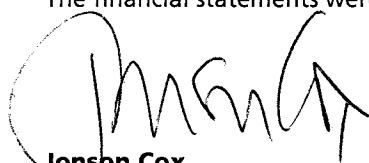


Anglian Water Group Limited  
Group and company balance sheets  
at 31 March 2009

Notes	Group		Company		
	2009 £m	2008 £m	2009 £m	2008 £m	
	<b>Fixed assets</b>				
12	Intangible assets	1,272.7	1,419.0	-	-
13	Tangible fixed assets	5,529.0	5,370.9	-	-
14	Investments				
	Joint ventures				
	- Share of gross assets	96.3	104.0	-	-
	- Share of gross liabilities	(98.0)	(106.1)	-	-
	- Amounts included in provisions	2.0	3.0	-	-
		0.3	0.9	-	-
	Other investments	-	-	1,211.2	1,096.2
	Total investments	0.3	0.9	1,211.2	1,096.2
		6,802.0	6,790.8	1,211.2	1,096.2
	<b>Current assets</b>				
15	Stocks	30.5	45.7	-	-
16	Debtors	334.8	450.8	0.1	-
	Investments	-	170.0	-	-
	Cash at bank and in hand (including short-term deposits)	1,067.9	696.9	0.8	0.6
		1,433.2	1,363.4	0.9	0.6
	<b>Creditors: amounts falling due within one year</b>				
17	Short-term borrowings	(325.6)	(330.4)	-	-
17	Other creditors	(464.1)	(581.6)	(0.1)	-
		(789.7)	(912.0)	(0.1)	-
	<b>Net current assets</b>	643.5	451.4	0.8	0.6
	<b>Total assets less current liabilities</b>	7,445.5	7,242.2	1,212.0	1,096.8
	<b>Creditors: amounts falling due after more than one year</b>				
18	Loans and other borrowings	(6,309.5)	(5,941.6)	(115.0)	-
18	Other creditors	(131.2)	(126.3)	(0.3)	-
		(6,440.7)	(6,067.9)	(115.3)	-
20	<b>Provisions for liabilities and charges</b>	(90.7)	(112.6)	-	-
	<b>Net assets excluding pension assets and liabilities</b>	914.1	1,061.7	1,096.7	1,096.8
22(d)	Pension schemes with net assets	3.5	4.7	-	-
22(d)	Pension schemes with net liabilities	(77.0)	(63.8)	-	-
	<b>Net assets including pension assets and liabilities</b>	840.6	1,002.6	1,096.7	1,096.8
	<b>Capital and reserves</b>				
23	Called up share capital	-	-	-	-
24	Share premium account	1,096.2	1,096.3	1,096.2	1,096.3
24	Profit and loss reserve	(259.6)	(97.0)	0.5	0.5
	<b>Total shareholders' funds</b>	836.6	999.3	1,096.7	1,096.8
	Minority interest	4.0	3.3	-	-
	<b>Capital employed</b>	840.6	1,002.6	1,096.7	1,096.8

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

The financial statements were approved by the board of Directors on 29 June 2009 and signed on its behalf by:

  
Jonson Cox  
Chief Executive

  
Scott Longhurst  
Group Finance Director

Anglian Water Group Limited  
**Group cash flow statement**  
for the year ended 31 March 2009

Notes		<b>2009</b>	2008
		<b>£m</b>	£m
(a)	<b>Net cash inflow from operating activities</b>	<b>604.1</b>	589.2
	<b>Returns on investments and servicing of finance</b>		
	Interest received	<b>51.0</b>	51.7
	Interest paid	<b>(310.9)</b>	(301.4)
	Issue costs capitalised	<b>(2.6)</b>	(3.5)
	Interest element of finance lease payments	<b>(3.4)</b>	(4.9)
	Dividends paid to minority interests	<b>(1.3)</b>	(1.8)
	<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(267.2)</b>	(259.9)
	<b>Taxation</b>	<b>13.5</b>	6.1
	<b>Capital expenditure and financial investment</b>		
	Purchase of tangible fixed assets	<b>(433.7)</b>	(453.5)
	Grants and contributions received	<b>26.9</b>	33.5
	Disposal of tangible fixed assets	<b>0.5</b>	3.8
	Investment in joint ventures	-	(1.0)
	Disposal of other investments	-	0.1
	<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(406.3)</b>	(417.1)
	<b>Acquisitions and disposals</b>		
(b)	Purchase of subsidiary undertakings	-	(0.2)
(c)	Disposal of subsidiary undertakings	<b>112.6</b>	-
	<b>Net cash inflow for acquisitions and disposals</b>	<b>112.6</b>	(0.2)
	<b>Equity dividends paid</b>	<b>(160.8)</b>	(77.2)
	<b>Net cash outflow before management of liquid resources and financing</b>	<b>(104.1)</b>	(159.1)
(e)	<b>Management of liquid resources</b>		
	(Increase)/decrease in short-term deposits and investments	<b>(69.8)</b>	31.8
	<b>Financing</b>		
18	Issue of preference shares	<b>115.0</b>	-
	Increase in loans	<b>444.2</b>	753.1
	Repayment of amounts borrowed	<b>(251.7)</b>	(472.8)
	Capital element of finance lease rental payments	<b>(2.9)</b>	(28.4)
	<b>Net cash inflow from financing</b>	<b>304.6</b>	251.9
(f)	<b>Increase in cash</b>	<b>130.7</b>	124.6

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

Anglian Water Group Limited  
Notes to the group cash flow statement  
for the year ended 31 March 2009

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

	2009			2008		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Group operating profit	346.5	0.8	<b>347.3</b>	319.9	4.9	324.8
Depreciation (net of amortisation of deferred grants and contributions)	243.0	0.2	<b>243.2</b>	232.3	3.5	235.8
Goodwill amortisation	72.1	0.3	<b>72.4</b>	72.1	4.0	76.1
Profit on sale of fixed assets	(0.1)	-	<b>(0.1)</b>	(1.6)	(0.4)	(2.0)
Net movement in provisions	(24.6)	-	<b>(24.6)</b>	(26.1)	-	(26.1)
Working capital:						
Decrease/(increase) in stocks	14.6	-	<b>14.6</b>	(6.2)	0.2	(6.0)
(Increase)/decrease in debtors	(16.7)	(12.3)	<b>(29.0)</b>	(11.2)	1.1	(10.1)
(Decrease)/increase in creditors	(22.3)	4.6	<b>(17.7)</b>	(2.7)	1.3	(1.4)
	(24.4)	(7.7)	<b>(32.1)</b>	(20.1)	2.6	(17.5)
Cash impact of fundamental restructuring	(2.0)	-	<b>(2.0)</b>	(1.9)	-	(1.9)
<b>Net cash inflow from operating activities</b>	<b>610.5</b>	<b>(6.4)</b>	<b>604.1</b>	574.6	14.6	589.2

(b) **Purchase of subsidiary undertakings**

	2009 £m	2008 £m
Deferred acquisition costs	-	(0.2)
<b>Net cash outflow for purchase of subsidiary undertakings</b>	<b>-</b>	<b>(0.2)</b>

(c) **Disposal of subsidiary undertakings**

	2009 £m	2008 £m
Consideration received (see note 29)	<b>140.6</b>	-
Cash at bank and in hand disposed with subsidiary undertakings (see note 29)	<b>(20.7)</b>	-
Disposal costs paid	<b>(7.3)</b>	-
<b>Net cash inflow for disposal of subsidiary undertakings</b>	<b>112.6</b>	-

(d) **Cash flows from disposals**

Contributions to the cash flow from disposals during the year were as follows:

	2009 £m
Net cash inflow from operating activities	<b>(6.4)</b>
Returns on investments and servicing of finance	<b>(0.1)</b>
Capital expenditure and financial investment	<b>(0.2)</b>
Management of liquid resources	<b>1.4</b>
<b>Net decrease in cash</b>	<b>(5.3)</b>

(e) **Management of liquid resources**

This comprises movements in short-term deposits which have maturity dates of up to one year.

Anglian Water Group Limited  
**Notes to the group cash flow statement (continued)**  
for the year ended 31 March 2009

(f) **Analysis of net debt**

	At 1 April 2008 £m	Cash flows £m	Disposals (excluding cash and overdrafts) £m	Non-cash movements £m	Exchange £m	At 31 March 2009 £m
Cash at bank and in hand	238.2	130.7	-	-	0.5	<b>369.4</b>
Deposits and investments	628.7	69.8	-	-	-	<b>698.5</b>
Debt due within one year	(330.4)	251.6	0.1	(246.9)	-	<b>(325.6)</b>
Debt due after one year	(5,941.6)	(553.6)	-	185.7	-	<b>(6,309.5)</b>
	<b>(5,405.1)</b>	<b>(101.5)</b>	<b>0.1</b>	<b>(61.2)</b>	<b>0.5</b>	<b>(5,567.2)</b>

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 £698.5 million (2008: £458.7 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 2009, £296.9 million (2008: £108.6 million) of the group's cash at bank and in hand and £616.4 million (2008: £583.7 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 £24.8 million (2008: £37.8 million) of the group's deposits and investments was held as collateral for outstanding loan notes. In addition, £0.1 million (2008: £13.8 million) of the group's cash at bank and in hand and £10.8 million (2008: £nil) of the deposits and investments were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

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

	2009 £m	2008 £m
<b>Increase in cash</b>	<b>130.7</b>	124.6
Increase/(decrease) in short-term bank deposits and investments	<b>69.8</b>	(31.8)
Issue of preference shares	<b>(115.0)</b>	-
Increase in loans	<b>(444.2)</b>	(753.1)
Repayment of amounts borrowed	<b>251.7</b>	472.8
Capital element of finance lease rental payments	<b>2.9</b>	28.4
Issue costs capitalised under FRS 4	<b>2.6</b>	3.5
Amortisation of discount and expenses relating to debt issues	<b>(2.6)</b>	(9.9)
Amortisation of fair value adjustments	<b>33.5</b>	36.6
Indexation of loan stock and RPI swaps	<b>(92.1)</b>	(95.9)
Loans and finance leases disposed with subsidiary undertakings	<b>0.1</b>	-
Exchange differences	<b>0.5</b>	0.5
<b>Movement in net debt</b>	<b>(162.1)</b>	(224.3)
Net debt at 1 April	<b>(5,405.1)</b>	(5,180.8)
<b>Net debt at 31 March</b>	<b>(5,567.2)</b>	(5,405.1)

Anglian Water Group Limited  
Notes to the group financial statements

for the year ended 31 March 2009

**1. Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year except for the amendment to FRS 17 'Retirement benefits'.

The group has adopted the amendment to FRS 17 within these financial statements. This has changed the disclosures in relation to retirement benefits and the comparative disclosures have been restated. However the impact of adopting the amendment is not material to the results or the financial position of the group.

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 preparation**

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.

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and 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 financial statements.

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 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

**1. Accounting policies (continued)**

**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 measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3.4 million).

**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) 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, subject to agreed liability caps, 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.



# Anglian Water Group Limited

## Notes to the group financial statements (continued)

for the year ended 31 March 2009

### 1. Accounting policies (continued)

#### f) Research and development

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

#### 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 tax 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 tax is calculated at the rates at which it is estimated that taxation will arise. The deferred tax 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 tax 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 tax 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 tax 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

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.

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 - 100 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 and connection charges, developer payments for water and sewer requisitions, 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**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 undertakings, 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

**1. Accounting policies** (continued)

**r) Borrowings**

A financial liability is initially recognised net of issues costs incurred. Costs that are incurred directly in connection with the issue of a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument.

Indexation on index linked borrowings is calculated with reference to the current applicable UK RPI index compared to the UK RPI index applicable at the time of issue. It is payable on the maturity of each respective borrowing. The total interest charge on the index linked borrowings is a product of the indexation accrued to date and the nominal coupon rate payable on the indexed principal of the borrowings.

**s) 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 and swaptions are used to manage the group's interest cost and 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. Premiums on swaptions are included in the calculation of the contracted rates implicit in the instrument. Interest rate swaps and swaptions 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. Where a financial instrument is used to manage interest cost but is not part of a hedging relationship, gains are recognised on maturity of the instrument and losses are recognised immediately where there is an estimated future net cash outflow over the remaining life of the instrument.

On 23 November 2006 Osprey Acquisitions Limited, a wholly owned subsidiary of Anglian Water Group Limited, acquired AWG Plc and its subsidiaries. On acquisition, fair values were attributed to the net identifiable assets and liabilities acquired in accordance with the requirements of FRS 6 'Acquisitions and mergers'. The fair value adjustment made to loans and borrowings on acquisitions is being amortised over the life of the individual debt instruments to which it relates and included within interest payable.

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. The disclosure requirements of FRS 13 'Derivatives and other financial instruments: disclosures' have been applied.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**1. Accounting policies** (continued)

**t) 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. *Other onerous contracts*

Provision is made for contractual obligations on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument.

iii. *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.

iv. *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.

v. *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.

**u) 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.

**v) 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.

**w) 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.

**x) 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

**1. Accounting policies** (continued)

**y) Key assumptions and significant judgments**

The group uses estimates and makes 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 measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3.4 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 (before deferred tax) of £102.1 million (2008: £82.1 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. Operational assets have estimated economic lives of between 30 and 100 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. The depreciation charge for infrastructure assets is based on the level of future annual expenditure which requires judgement in determining this estimate. 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.

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**2. Segmental analysis**

**By class of business for the year ended 31 March 2009**

At 31 March 2009 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.
- Morrison 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 its disposal, the following business has been classified as a discontinued operation in accordance with FRS 3 'Reporting financial performance':

- Utility Services (sold 8 May 2008); manages infrastructure maintenance, renewals, installation and specialist services to blue-chip utility clients in the gas, water, electricity and telecommunications sectors.

	Turnover £m	Total operating profit before goodwill amortisation £m	Goodwill amortisation £m	Non- operating exceptional items £m	Profit before finance charges £m	Net operating assets/ (liabilities) <sup>(2)</sup> £m
<b>Continuing operations</b>						
Anglian Water	1,037.4	445.6	(68.7)	-	376.9	6,457.0
Morrison Facilities Services	282.6	6.1	(3.4)	-	2.7	58.6
AWG Property	30.5	(12.7)	-	-	(12.7)	21.5
Other <sup>(1)</sup>	51.7	(14.8)	-	-	(14.8)	(72.2)
Less: Intersegmental trading	(0.8)	(2.1)	-	-	(2.1)	-
	<b>1,401.4</b>	<b>422.1</b>	<b>(72.1)</b>	<b>-</b>	<b>350.0</b>	<b>6,464.9</b>
<b>Discontinued operations</b>						
Utility Services	65.7	1.1	(0.3)	13.4	14.2	-
<b>Total</b>	<b>1,467.1</b>	<b>423.2</b>	<b>(72.4)</b>	<b>13.4</b>	<b>364.2</b>	<b>6,464.9</b>
Net debt						(5,567.2)
Current tax						(4.4)
Deferred tax						(52.7)
						<b>840.6</b>
<b>Total</b>						
- Group	1,426.7	419.7	(72.4)	13.4	360.7	
- Joint ventures	40.4	3.5	-	-	3.5	

<sup>(1)</sup> 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.

<sup>(2)</sup> Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

2. Segmental analysis (continued)

By class of business for the year ended 31 March 2008

	Turnover £m	Total operating profit before exceptional operating costs and goodwill amortisation £m	Exceptional operating costs £m	Goodwill amortisation £m	Non-operating exceptional items £m	Profit before finance charges £m	Net operating assets/ (liabilities) <sup>(2)</sup> £m
<b>Continuing operations</b>							
Anglian Water	969.2	421.0	-	(68.7)	-	352.3	6,360.8
Morrison 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 <sup>(1)</sup>	38.8	(27.3)	-	-	-	(27.3)	(93.6)
Less: Intersegmental trading	(17.9)	(0.9)	-	-	-	(0.9)	-
	<b>1,345.1</b>	<b>399.3</b>	<b>(2.0)</b>	<b>(72.1)</b>	<b>(22.8)</b>	<b>302.4</b>	<b>6,374.1</b>
<b>Discontinued operations</b>							
Utility Services	515.0	14.0	(5.1)	(4.0)	-	4.9	104.8
<b>Total</b>	<b>1,860.1</b>	<b>413.3</b>	<b>(7.1)</b>	<b>(76.1)</b>	<b>(22.8)</b>	<b>307.3</b>	<b>6,478.9</b>
Net debt							(5,405.1)
Current tax							4.2
Deferred tax							(75.4)
							<b>1,002.6</b>
<b>Total</b>							
- Group	1,811.4	408.0	(7.1)	(76.1)	(22.8)	302.0	
- Joint ventures	48.7	5.3	-	-	-	5.3	

<sup>(1)</sup> 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.

<sup>(2)</sup> Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.



Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

2. Segmental analysis (continued)

By geographical segment

	Turnover		Profit before finance charges		Net operating assets/(liabilities) <sup>(1)</sup>	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
<b>Continuing operations</b>						
United Kingdom	1,359.6	1,316.8	346.5	300.7	6,470.5	6,376.5
Europe	38.8	24.0	3.6	1.7	(1.3)	1.3
Rest of world	3.0	4.3	(0.1)	-	(4.3)	(3.7)
	<b>1,401.4</b>	<b>1,345.1</b>	<b>350.0</b>	<b>302.4</b>	<b>6,464.9</b>	<b>6,374.1</b>
<b>Discontinued operations</b>						
United Kingdom	63.4	493.3	14.2	4.4	-	105.5
Europe	2.3	21.7	-	0.5	-	(0.7)
	<b>65.7</b>	<b>515.0</b>	<b>14.2</b>	<b>4.9</b>	<b>-</b>	<b>104.8</b>
<b>Total</b>	<b>1,467.1</b>	<b>1,860.1</b>	<b>364.2</b>	<b>307.3</b>	<b>6,464.9</b>	<b>6,478.9</b>

<sup>(1)</sup> Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.

There is no material difference between turnover by origin and by destination.

3. Group operating costs

	2009			2008		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Raw materials and consumables	34.9	5.9	40.8	35.1	46.2	81.3
Other operating costs	476.9	42.4	519.3	424.1	341.8	765.9
Staff costs (see note 9)	245.2	16.0	261.2	279.6	109.4	389.0
Change in stocks of finished goods and work in progress	-	0.1	0.1	(8.6)	0.5	(8.1)
Own work capitalised	(57.5)	-	(57.5)	(58.5)	-	(58.5)
Profit on sale of fixed assets	(0.1)	-	(0.1)	(1.6)	(0.4)	(2.0)
<b>Operating costs before depreciation, exceptional costs and amortisation</b>	<b>699.4</b>	<b>64.4</b>	<b>763.8</b>	<b>670.1</b>	<b>497.5</b>	<b>1,167.6</b>
Depreciation of tangible fixed assets	253.7	0.2	253.9	242.7	3.5	246.2
Amortisation of deferred grants and contributions	(10.7)	-	(10.7)	(10.4)	-	(10.4)
Depreciation net of amortisation of deferred grants and contributions	243.0	0.2	243.2	232.3	3.5	235.8
<b>Total before exceptional operating costs and goodwill amortisation</b>	<b>942.4</b>	<b>64.6</b>	<b>1,007.0</b>	<b>902.4</b>	<b>501.0</b>	<b>1,403.4</b>
Exceptional operating costs	-	-	-	2.0	5.1	7.1
Amortisation of intangible assets	72.1	0.3	72.4	72.1	4.0	76.1
<b>Group operating costs</b>	<b>1,014.5</b>	<b>64.9</b>	<b>1,079.4</b>	<b>976.5</b>	<b>510.1</b>	<b>1,486.6</b>

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

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**4. Exceptional items**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Exceptional operating costs</b>		
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)
	<u>-</u>	<u>(7.1)</u>
<b>Non-operating exceptional items:</b>		
<b>Profit on disposal of discontinued operations</b>		
Profit on sale of Utility Services (see note 29)	<b>13.4</b>	-
	<u>13.4</u>	<u>-</u>
<b>Costs of a fundamental restructuring</b>		
Costs incurred in the restructuring of the Property business	-	(22.8)
	<u>-</u>	<u>(22.8)</u>

Following a strategic review of the Morrison businesses, a formal disposal process was undertaken during the year ended 31 March 2008 culminating in the disposal of Utility Services, on 8 May 2008, for gross consideration of £140.6 million and a profit on disposal of £13.4 million. The group also received a number of offers for Facilities Services which did not fully value its performance and growth prospects hence the external sale process was aborted. Costs associated with the disposal processes during the year ended 31 March 2008 have been highlighted as exceptional operating costs and allocated between continuing and discontinued operations.

Costs of a fundamental restructuring of the Property business during the year ended 31 March 2008 include asset write down provisions of £20.1 million, closure costs of £1.3 million and aborted disposal process costs of £1.4 million.

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**5. Net interest payable and similar charges**

	<b>2009</b>	2008
	<b>£m</b>	£m
Interest payable on bank loans and overdrafts	<b>(0.5)</b>	(0.1)
Interest payable on other loans including financing expenses	<b>(413.5)</b>	(420.0)
Interest payable on finance leases	<b>(3.9)</b>	(4.5)
Amortisation of fair value adjustments	<b>33.5</b>	36.6
Group interest and similar charges payable	<b>(384.4)</b>	(388.0)
Share of joint venture interest payable	<b>(3.9)</b>	(4.0)
Total interest and similar charges payable	<b>(388.3)</b>	(392.0)
Group interest receivable	<b>46.5</b>	51.7
<b>Net interest payable and similar charges</b>	<b>(341.8)</b>	(340.3)

**6. Other finance (costs)/income (net)**

	<b>2009</b>	2008
	<b>£m</b>	£m
Unwinding of discount on onerous lease obligation provision (see note 20)	<b>(0.7)</b>	(0.2)
Defined benefit pension scheme interest (charge)/credit (see note 22(b))	<b>(5.7)</b>	12.3
	<b>(6.4)</b>	12.1

**7. Profit on ordinary activities before taxation**

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

	<b>2009</b>	2008
	<b>£m</b>	£m
Profit on disposal of tangible fixed assets	<b>(0.1)</b>	(2.0)
Profit on disposal of subsidiary undertakings	<b>(13.4)</b>	-
Operating lease rentals		
– Land and buildings	<b>13.8</b>	11.5
– Plant and machinery	<b>6.7</b>	14.8
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
– Owned assets	<b>236.2</b>	228.2
– Under finance lease	<b>7.0</b>	7.6
Amortisation of goodwill - subsidiaries	<b>72.4</b>	76.1
Research and development expenditure	<b>0.4</b>	0.5
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)	<b>0.6</b>	0.8
– For other services supplied pursuant to legislation	<b>0.5</b>	0.2
– 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	<b>1.1</b>	2.2
Fees paid to other accounting firms for other work <sup>1</sup>	<b>1.1</b>	1.5

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

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**8. Taxation**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Analysis of charge/(credit) in the year</b>		
Current tax:		
UK corporation tax - current year	<b>6.0</b>	11.1
Adjustments in respect of previous periods	-	(5.6)
Share of joint ventures	<b>0.2</b>	0.7
	<b>6.2</b>	6.2
Foreign tax	<b>0.5</b>	0.3
<b>Total current tax charge</b>	<b>6.7</b>	6.5
Deferred tax:		
Charge for timing differences arising in year	<b>14.3</b>	10.7
Impact of discounting on deferred tax liability	<b>(17.8)</b>	(11.8)
Impact of increase in discount rates	<b>(3.6)</b>	(1.2)
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	-	(17.8)
Adjustments in respect of previous periods	<b>(16.1)</b>	(7.2)
<b>Total deferred tax credit</b>	<b>(23.2)</b>	(27.3)
	<b>(16.5)</b>	(20.8)
<b>Total tax credit on profit/(loss) on ordinary activities</b>	<b>(16.5)</b>	(20.8)

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 £3.6 million (2008: £1.2 million) in the year. 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.

The current tax adjustments in respect of previous periods of £(5.6) million in 2008 arose from the agreement of prior year tax computations.

In addition to the current tax charge above, a £6.2 million credit (2008: £11.1 million) for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that are in excess of the pension costs charged to the profit and loss account.

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than the standard rate of Corporation Tax in the UK of 28 per cent (2008: 30 per cent). The differences are explained below:

	<b>2009</b>	2008
	<b>£m</b>	£m
Profit/(loss) on ordinary activities before taxation	<b>16.0</b>	(20.9)
Profit/(loss) on ordinary activities at the standard UK rate of corporation tax of 28 per cent (2008: 30 per cent)	<b>4.5</b>	(6.3)
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	<b>20.5</b>	28.3
Items not taxable	<b>(3.8)</b>	-
Capital allowances for the year in excess of (2008: less than) depreciation	<b>(5.9)</b>	2.0
Short-term timing differences	<b>(8.4)</b>	(12.7)
Difference in foreign tax rates	<b>(0.6)</b>	(0.2)
Adjustments in respect of previous periods	-	(5.6)
Losses in joint venture companies	<b>0.4</b>	1.0
<b>Current tax charge for the year</b>	<b>6.7</b>	6.5

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.

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**9. Employee information**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Staff costs</b>		
Wages and salaries	<b>219.4</b>	329.9
Social security costs	<b>16.8</b>	29.8
Pension costs – defined contribution (see note 22)	<b>5.5</b>	7.6
Pension costs – defined benefit (see note 22)	<b>19.9</b>	22.8
	<b>261.6</b>	390.1

Staff costs for the year ended 31 March 2009 include £57.5 million (2008: £58.5 million) of costs that have been capitalised as 'own work capitalised'. In addition, £0.4 million (2008: £1.1 million) 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:

	<b>2009</b>	2008
<b>Continuing operations</b>		
Anglian Water	<b>3,772</b>	3,833
Morrison Facilities Services	<b>2,499</b>	3,215
AWG Property	<b>27</b>	45
Other	<b>343</b>	339
	<b>6,641</b>	7,432
<b>Discontinued operations</b>		
Utility Services	<b>356</b>	3,415
	<b>6,997</b>	10,847

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

**The company**

The company has no employees (2008: none).

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**10. Profit of the parent 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, dealt with in the financial statements of the company, is £160.8 million (2008: £81.0 million).

**11. Dividends**

Interim dividends declared and paid during the year

	<b>2009</b>	2008
	<b>£m</b>	£m
Paid on:		
5 June 2008	<b>45.8</b>	-
1 July 2008	<b>35.0</b>	-
8 August 2008	<b>80.0</b>	-
29 June 2007	-	35.0
10 December 2007	-	42.2
	<b>160.8</b>	<b>77.2</b>

**12. Intangible assets**

	<b>Goodwill</b>
	<b>£m</b>
<b>The group</b>	
<b>Cost</b>	
At 1 April 2008	<b>1,521.7</b>
Disposal of subsidiary undertakings (see note 29)	<b>(79.6)</b>
<b>At 31 March 2009</b>	<b>1,442.1</b>
<b>Amortisation</b>	
At 1 April 2008	<b>(102.7)</b>
Charge for the year	<b>(72.4)</b>
Disposal of subsidiary undertakings (see note 29)	<b>5.7</b>
<b>At 31 March 2009</b>	<b>(169.4)</b>
<b>Net book amount</b>	
<b>At 31 March 2009</b>	<b>1,272.7</b>
At 31 March 2008	1,419.0

**The company**

The company has no intangible assets (2008: none).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**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
<b>The group</b>						
<b>Cost</b>						
At 1 April 2008	35.1	2,781.5	2,285.1	279.4	316.6	<b>5,697.7</b>
Additions	0.2	-	-	1.4	434.5	<b>436.1</b>
Transfers on commissioning	3.1	165.8	200.9	48.9	(418.7)	-
Disposals	-	-	(5.0)	(0.3)	(0.1)	<b>(5.4)</b>
Disposal of subsidiary undertakings (see note 29)	-	-	-	(9.0)	-	<b>(9.0)</b>
Exchange adjustments	-	-	-	0.2	-	<b>0.2</b>
<b>At 31 March 2009</b>	<b>38.4</b>	<b>2,947.3</b>	<b>2,481.0</b>	<b>320.6</b>	<b>332.3</b>	<b>6,119.6</b>
<b>Grants and contributions</b>						
At 1 April 2008	-	(12.8)	-	-	(0.1)	<b>(12.9)</b>
Additions	-	(14.7)	-	-	(1.1)	<b>(15.8)</b>
<b>At 31 March 2009</b>	-	<b>(27.5)</b>	-	-	<b>(1.2)</b>	<b>(28.7)</b>
<b>Depreciation</b>						
At 1 April 2008	(1.2)	(97.1)	(143.5)	(72.1)	-	<b>(313.9)</b>
Charge for the year	(0.9)	(82.0)	(118.4)	(52.6)	-	<b>(253.9)</b>
Disposals	-	-	5.0	-	-	<b>5.0</b>
Disposal of subsidiary undertakings (see note 29)	-	-	-	1.0	-	<b>1.0</b>
Exchange adjustments	-	-	-	(0.1)	-	<b>(0.1)</b>
<b>At 31 March 2009</b>	<b>(2.1)</b>	<b>(179.1)</b>	<b>(256.9)</b>	<b>(123.8)</b>	-	<b>(561.9)</b>
<b>Net book amount</b>						
<b>At 31 March 2009</b>	<b>36.3</b>	<b>2,740.7</b>	<b>2,224.1</b>	<b>196.8</b>	<b>331.1</b>	<b>5,529.0</b>
At 31 March 2008	33.9	2,671.6	2,141.6	207.3	316.5	5,370.9

Tangible fixed assets at 31 March 2009 include land of £20.5 million (2008: £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:

	2009 £m	2008 £m
Cost	<b>109.0</b>	110.5
Aggregate depreciation	<b>(16.8)</b>	(10.5)
Net book amount at 31 March	<b>92.2</b>	100.0
Depreciation charged in year	<b>(7.0)</b>	(7.6)

**The company**

The company has no tangible fixed assets (2008: none).

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**14. Investments**

**a) Joint ventures**

	<u>£m</u>
<b>The group</b>	
<b>Amount under equity method of accounting</b>	
At 1 April 2008	0.9
Loss for the year	(0.6)
Actuarial loss on pension schemes	(1.7)
Amounts offset against trade balances	2.7
Transfer from provisions (see note 20)	(1.0)
<b>At 31 March 2009</b>	<u><b>0.3</b></u>

The loss for the year of joint ventures is stated after operating profits of £3.5 million (2008: £5.3 million) less interest payable of £3.9 million (2008: £4.0 million) and a tax charge of £0.2 million (2008: £0.7 million). The transfer from provisions of £1.0 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 2009.

<b>Undertaking</b>	<b>Country of incorporation</b>	<b>Activity</b>	<b>Proportion of shares held</b>
<b>AWG Property</b>			
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%
<b>Facilities Services</b>			
Morrison Veolia 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 is ordinary shares of £1 each.

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

**b) Other investments**

	<u>£m</u>
<b>The group</b>	
<b>Cost</b>	
<b>At 1 April 2008 and 31 March 2009</b>	<u><b>-</b></u>

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 cost of £nil (2008: £nil). The net book value at 31 March 2009 included £nil (2008: £nil) of shares.



Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

14. Investments (continued)

c) Subsidiary undertakings

	Loans to subsidiary undertakings £m	Shares in subsidiary undertakings £m	Total £m
<b>The company</b>			
<b>Cost</b>			
At 1 April 2008	548.0	548.2	<b>1,096.2</b>
Additions	-	115.0	<b>115.0</b>
<b>At 31 March 2009</b>	<b>548.0</b>	<b>663.2</b>	<b>1,211.2</b>

During the year, the company increased its investment in its directly owned subsidiary undertaking, Osprey Holdco Limited, by £115.0 million.

The principal subsidiary undertakings of the group are listed in note 31.

15. Stocks

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Raw materials and consumables	13.7	22.3	-	-
Work in progress	16.8	23.3	-	-
Finished goods	-	0.1	-	-
	<b>30.5</b>	<b>45.7</b>	<b>-</b>	<b>-</b>

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

16. Debtors

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
<b>Amounts falling due within one year</b>				
Trade debtors	158.9	197.3	-	-
Amounts due from customers for contract work	2.7	62.6	-	-
Retention on contracts	-	6.4	-	-
Amounts owed by joint ventures				
– Trade balances	2.5	3.5	-	-
– Loans	13.5	19.7	-	-
Corporation tax recoverable	-	4.2	0.1	-
Other debtors	11.2	16.3	-	-
Prepayments and accrued income	146.0	140.8	-	-
	<b>334.8</b>	<b>450.8</b>	<b>0.1</b>	<b>-</b>

Prepayments and accrued income as at 31 March 2009 includes water and wastewater income not yet billed of £111.7 million (2008: £98.6 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**17. Creditors: amounts falling due within one year**

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
Current portion of loans and other borrowings	323.4	327.2	-	-
Obligations under finance leases	2.2	3.2	-	-
<b>Short-term borrowings</b> (see note 19)	<b>325.6</b>	<b>330.4</b>	<b>-</b>	<b>-</b>
Trade creditors	124.6	180.1	-	-
Receipts in advance	95.8	132.1	-	-
Amounts owed to joint ventures	0.9	1.2	-	-
Other creditors	42.2	28.4	-	-
Corporation tax	4.4	-	-	-
Other taxation and social security	9.8	20.4	-	-
Accruals and deferred income	179.2	210.2	0.1	-
Deferred grants and contributions	7.2	9.2	-	-
<b>Other creditors</b>	<b>464.1</b>	<b>581.6</b>	<b>0.1</b>	<b>-</b>

Receipts in advance includes £89.6 million (2008: £84.5 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	
	2009 £m	2008 £m	2009 £m	2008 £m
Preference shares	115.0	-	115.0	-
Non-current portion of long-term loans	6,132.0	5,876.8	-	-
Obligations under finance leases	62.5	64.8	-	-
<b>Loans and other borrowings</b> (see note 19)	<b>6,309.5</b>	<b>5,941.6</b>	<b>115.0</b>	<b>-</b>
Other creditors	4.9	2.4	0.3	-
Deferred grants and contributions	126.3	123.9	-	-
<b>Other creditors</b>	<b>131.2</b>	<b>126.3</b>	<b>0.3</b>	<b>-</b>

The 115,000,000 no par, senior preference shares, which do not carry any voting rights, were issued on 27 March 2009 at £1 per share and carry an annual fixed cumulative preference dividend of 25 per cent of the aggregate amount paid up, these dividends are payable annually in arrears on 31 May each year. The senior preference shares are redeemable at £1 per share at the option of the company. On winding up, the senior preference shareholders rank above ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of these shares. In accordance with FRS 25 'Financial Instruments: Presentation' these senior preference shares have been included within creditors: amounts due after more than one year and the dividend treated as interest payable.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

19. Loans, other borrowings and financial instruments

	Group		Company	
	2009 £m	2008 £m	2009 £m	2008 £m
<b>Loans and other borrowings</b>				
£100 million 5.5% index linked 2008 (c), (d), (g)	-	176.2	-	-
£100 million 12.375% fixed rate 2014 (d), (g)	120.9	125.3	-	-
£250 million 5.837% fixed rate 2022 (d), (g)	265.9	267.1	-	-
£200 million 6.875% fixed rate 2023 (d), (g)	230.3	232.4	-	-
£200 million 6.625% fixed rate 2029 (d), (g)	226.2	227.5	-	-
£246 million 6.293% fixed rate 2030 (d), (g)	278.1	279.6	-	-
£275 million 7.882% fixed rate 2012/2037 <sup>(1)</sup> (d), (f), (g)	296.7	297.2	-	-
£250 million 5.25% fixed rate 2015 (b), (d), (g)	252.2	252.5	-	-
£150 million 5.5% fixed rate 2017/2040 <sup>(2)</sup> (b), (d), (f), (g)	150.7	150.8	-	-
£150 million 4.125% index linked 2020 (c), (d), (g)	230.3	226.2	-	-
£75 million 3.666% index linked 2024 (c), (d), (g)	112.0	109.8	-	-
£200 million 3.07% index linked 2032 (c), (d), (g)	313.8	307.4	-	-
£60 million 3.07% index linked 2032 (c), (d), (g)	94.1	92.2	-	-
Finance leases (b), (d), (g)	64.7	68.0	-	-
£150 million index linked swap 2024 (e), (g)	65.5	61.4	-	-
£175 million index linked swap 2030 (e), (g)	86.5	81.6	-	-
£258 million index linked swap 2013 (e), (g)	49.2	38.2	-	-
Euro 350 million 5.375% fixed rate 2009 (a), (d), (g)	229.3	229.4	-	-
Euro 650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	464.1	466.4	-	-
US\$100 million 7.01% private placements 2008 (a), (d), (g)	-	71.4	-	-
US\$25 million 7.07% private placements 2009 (a), (d), (g)	2.7	5.4	-	-
US\$23 million 7.13% private placements 2009 (a), (d), (g)	16.4	16.7	-	-
US\$195 million 7.23% private placements 2011 (a), (d), (g)	143.6	145.8	-	-
£402 million 2.4% index linked 2035 (c), (d), (g)	476.9	463.6	-	-
£50 million 1.7% index linked 2046 (c), (d), (g)	65.1	63.3	-	-
£50 million 1.7% index linked 2046 (c), (d), (g)	65.1	63.6	-	-
£40 million 1.7146% indexation bond 2056 (c), (d), (g)	54.8	53.4	-	-
£50 million 1.6777% indexation bond 2056 (c), (d), (g)	67.8	66.1	-	-
£60 million 1.7903% indexation bond 2049 (c), (d), (g)	81.5	79.4	-	-
£60 million RPI swap 2008 (e), (g)	-	(4.4)	-	-
£90 million RPI swap 2008 (e), (g)	-	(6.7)	-	-
£100 million 1.3784% indexation bond 2057 (c), (d), (g)	110.6	104.7	-	-
£50 million 1.3825% indexation bond 2056 (c), (d), (g)	55.3	52.3	-	-
£50 million Class B authorised loan facility (g)	50.0	50.0	-	-
£100 million Class A wrapped floating rate bonds (d), (g)	99.9	99.9	-	-
£100 million RPI swap 2057 (e), (g)	9.7	5.8	-	-
£75 million 1.449% indexation bond 2062 (c), (d), (g)	78.7	75.7	-	-
£50 million 1.52% indexation bond 2055 (c), (d), (g)	52.3	50.3	-	-
JPY 15 billion 2.925% bond due 2018/2037 (a), (b), (d), (g)	65.9	65.9	-	-
£65.9 million RPI swap 2059 (e), (g)	3.3	0.7	-	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	109.9	110.0	-	-
£50 million RPI swap 2043 (e), (g)	1.4	0.1	-	-
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (g)	25.0	-	-	-
Euro 500 million 6.25% fixed rate bond 2016 (a), (d), (g)	392.2	-	-	-
£25 million 6.875% private placements 2034 (d), (g)	24.6	-	-	-
£450 million term facility (b), (d), (h)	447.7	447.1	-	-
Loan notes LIBOR minus 0.50% 2012	24.8	37.8	-	-
£462 million 10% 2017 (d)	460.8	460.6	-	-
Other loans	3.6	4.3	-	-
Senior preference shares	115.0	-	115.0	-
<b>Total loans and other borrowings</b>	<b>6,635.1</b>	<b>6,272.0</b>	<b>115.0</b>	<b>-</b>
Less amounts included in creditors falling due within one year	<b>(325.6)</b>	<b>(330.4)</b>	<b>-</b>	<b>-</b>
Loans and other borrowings due after more than one year	<b>6,309.5</b>	<b>5,941.6</b>	<b>115.0</b>	<b>-</b>

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**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 £2.9 million (2008: £66.7 million), the adjustment to the Euro loans is £(311.4) million (2008: £(112.8) million) and the adjustment to the Japanese Yen loans is £(49.6) million (2008: £(9.8) million).
- (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 £61.7 million (2008: £68.9 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 six (2008: eight) index linked 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 £30.4 million (2008: £27.0 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 2009 this charge applies to £5,673.2 million (2008: £5,322.0 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 2009, this charge applies to £447.7 million (2008: £447.1 million) of the debt listed above.

<sup>(1)</sup> The coupon for this instrument will increase to Floating rate LIBOR + 6.0 per cent effective July 2012.

<sup>(2)</sup> The coupon for this instrument will increase to Floating rate 3 month LIBOR + 3.5 per cent effective October 2017.

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

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

**Maturity analysis of financial liabilities**

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

	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
<b>At 31 March 2009</b>				
Less than one year	323.4	2.2	9.3	<b>334.9</b>
Between one and two years	118.4	2.5	9.5	<b>130.4</b>
Between two and five years	1,225.5	9.7	10.8	<b>1,246.0</b>
After five years	4,903.1	50.3	11.3	<b>4,964.7</b>
	<b>6,570.4</b>	<b>64.7</b>	<b>40.9</b>	<b>6,676.0</b>
<b>At 31 March 2008</b>				
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
	<b>6,204.0</b>	<b>68.0</b>	<b>36.6</b>	<b>6,308.6</b>

The group analysis is net of issue costs of £25.7 million (2008: £25.7 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 £40.9 million (2008: £36.6 million).

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

	2009		2008	
	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	<b>323.2</b>	<b>6,269.3</b>	327.0	5,898.4
Debt issue costs	-	<b>(25.7)</b>	-	(25.7)
Obligations under finance leases	<b>2.2</b>	<b>62.5</b>	3.2	64.8
Other loans	<b>0.2</b>	<b>3.4</b>	0.2	4.1
	<b>325.6</b>	<b>6,309.5</b>	330.4	5,941.6

**Borrowing facilities**

The group has the following unused committed borrowing facilities:

	2009 £m	2008 £m
Expiring within one year	<b>340.0</b>	330.0
Expiring between one and two years	<b>225.0</b>	-
Expiring between two and five years	<b>25.0</b>	250.0
	<b>590.0</b>	<b>580.0</b>

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

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

**Control of treasury**

The treasury team, which reports directly to the Group Finance Director, substantially manages the financing, including debt, interest costs and foreign exchange for the group. 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
- enhance control of financial resources and
- monitor counter party credit exposure.

**Management of financial risk**

Financial risks faced by the group include funding, interest rate, contractual, liquidity, credit and currency risks. The group regularly reviews these risks 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 Risk Management Group, 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 accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills 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 strategy.

**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 covenant restrictions.

**Market risk**

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

***Interest rate***

The group's policy for the management of interest rate risk is to achieve an optimum mix of funding at indexed (to RPI), fixed and floating rates of interest.

**Credit risk**

Placements of cash on deposit expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

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

**Liquidity risk**

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments.

**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.

**Fair value of financial assets and financial liabilities**

	2009		2008 (restated) <sup>(1)</sup>	
	Book value £m	Fair value <sup>(2)</sup> £m	Book value £m	Fair value <sup>(2)</sup> £m
Cash at bank and in hand (including short-term deposits)	<b>1,067.9</b>	<b>1,067.9</b>	696.9	696.9
Current asset investments	-	-	170.0	170.0
Short-term borrowings	<b>(420.2)</b>	<b>(422.1)</b>	(320.2)	(313.7)
Long-term borrowings	<b>(6,346.5)</b>	<b>(5,782.0)</b>	(5,819.2)	(5,460.7)
Interest rate swaps	<b>347.3</b>	<b>418.9</b>	44.1	52.5
Index linked swaps	<b>(215.7)</b>	<b>(386.8)</b>	(176.7)	(273.9)
Net debt	<b>(5,567.2)</b>	<b>(5,104.1)</b>	(5,405.1)	(5,128.9)
Provisions excluding deferred tax and joint venture net liabilities (see note 20)	<b>(36.0)</b>	<b>(52.4)</b>	(34.2)	(34.2)
Other financial liabilities	<b>(4.9)</b>	<b>(4.9)</b>	(2.4)	(2.4)
	<b>(5,608.1)</b>	<b>(5,161.4)</b>	(5,441.7)	(5,165.5)

<sup>(1)</sup> The fair values of borrowings have been restated to be consistent with the basis used in 2009 to take into account credit spreads.

<sup>(2)</sup> The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £105.3 million (2008: £88.8 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors: amounts falling due within one year.

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 including credit spreads experienced on publicly traded debt instruments. 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 and swaptions 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 2009. The value at that date was determined by market interest rates, which fluctuate over time.

The fair value of interest rate swaptions, as included within provisions above, represents the cost which the group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates.

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

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

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

Unrecognised gains and losses on hedges

	2009			2008		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at 1 April	27.4	(155.4)	<b>(128.0)</b>	27.3	(11.0)	16.3
Reversal of items unrecognised at 1 April	(2.3)	3.9	<b>1.6</b>	(15.1)	9.3	(5.8)
Recognised during the year	(20.6)	11.6	<b>(9.0)</b>	(9.3)	1.7	(7.6)
Arising during the year	114.2	(266.4)	<b>(152.2)</b>	24.5	(155.4)	(130.9)
Unrecognised at 31 March	<b>118.7</b>	<b>(406.3)</b>	<b>(287.6)</b>	27.4	(155.4)	(128.0)

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 £287.6 million (2008: £128.0 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 2009.

Of the unrecognised gains and losses at 31 March 2009, a net gain of £15.4 million (2008: loss of £8.1 million) is expected to be included in the profit and loss account for the year ended 31 March 2010 and the balance in future years.

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
<b>At 31 March 2009</b>							
Total borrowings (all sterling) <sup>(1)</sup>	<b>(6,635.1)</b>	(2,884.7)	(479.2)	(3,271.2)	-	<b>7.4%</b>	<b>10.9</b>
Cash, deposits and current asset investments:							
- Sterling	<b>1,060.2</b>	-	1,060.2	-	-		
- Euro	<b>6.6</b>	-	6.6	-	-		
- Other currencies	<b>1.1</b>	-	1.1	-	-		
Net debt	<b>(5,567.2)</b>	(2,884.7)	588.7	(3,271.2)	-		
Provisions	<b>(36.0)</b>	-	-	-	(36.0)		
Other financial liabilities	<b>(4.9)</b>	-	-	-	(4.9)		
Net financial assets/(liabilities)	<b>(5,608.1)</b>	<b>(2,884.7)</b>	<b>588.7</b>	<b>(3,271.2)</b>	<b>(40.9)</b>		
<b>At 31 March 2008</b>							
Total borrowings (all sterling) <sup>(1)</sup>	(6,272.0)	(2,819.4)	(623.0)	(2,829.6)	-	7.5%	12.4
Cash, deposits and current asset investments:							
- Sterling	858.8	-	858.8	-	-		
- Euro	7.1	-	7.1	-	-		
- Other currencies	1.0	-	1.0	-	-		
Net debt	(5,405.1)	(2,819.4)	243.9	(2,829.6)	-		
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)		

<sup>(1)</sup> The underlying currencies of borrowings as set out in the table of loans and other borrowings on page 50 have been swapped to sterling.

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.



Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**20. Provisions for liabilities and charges**

	Deferred tax £m	Onerous leases £m	Other onerous contracts £m	Business closures and disposals £m	Contract and other £m	Joint venture net liabilities £m	Total £m
<b>The group</b>							
At 1 April 2008	75.4	19.7	-	9.8	4.7	3.0	<b>112.6</b>
Charge/(credit) for the year	(23.2)	8.8	3.5	(1.5)	(0.3)	-	<b>(12.7)</b>
Transfer to investments	-	-	-	-	-	(1.0)	<b>(1.0)</b>
Unwinding of discount	-	0.7	-	-	-	-	<b>0.7</b>
Utilised in the year	-	(6.0)	-	(3.4)	-	-	<b>(9.4)</b>
Disposal of subsidiary undertakings (see note 29)	0.5	-	-	-	-	-	<b>0.5</b>
<b>At 31 March 2009</b>	<b>52.7</b>	<b>23.2</b>	<b>3.5</b>	<b>4.9</b>	<b>4.4</b>	<b>2.0</b>	<b>90.7</b>

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.

The other onerous contracts provision is made for contractual obligations on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument. The provision is discounted and is expected to be utilised by 2016.

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 two years, and the restructuring of the Property business.

The contract and other provisions comprise uncertain warranty and certification costs of £1.3 million (2008: £1.3 million), which are expected to crystallise over a period of approximately two years and £3.1 million (2008: £3.4 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 (2008: none).

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

**21. Deferred tax**

The total tax 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 £61.2 million.

	<b>£m</b>	
At 1 April 2008		<b>75.4</b>
Deferred tax credited to the profit and loss account		<b>(23.2)</b>
Disposal of subsidiary undertakings (see note 29)		<b>0.5</b>
<b>At 31 March 2009</b>		<b>52.7</b>
	<b>2009</b>	2008
	<b>£m</b>	£m
Accelerated capital allowances	<b>920.8</b>	940.0
Short-term timing differences	<b>(137.6)</b>	(154.1)
Surplus ACT asset	<b>(142.5)</b>	(142.5)
Undiscounted provision for deferred tax	<b>640.7</b>	643.4
Discount	<b>(588.0)</b>	(568.0)
Discounted provision for deferred tax	<b>52.7</b>	75.4
Deferred tax asset on pension liability (see note 22)	<b>(28.6)</b>	(23.0)
Total deferred tax included in the balance sheet	<b>24.1</b>	52.4
The following are deferred tax assets that are not recognised in the accounts		
Surplus ACT	<b>22.8</b>	22.8
Tax losses carried forward	<b>1.7</b>	1.7
	<b>24.5</b>	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 (2008: none).

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**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. 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.

The valuation used for the 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 2009. For all three of the group's main schemes the latest valuations were at 31 March 2008.

The group contributed 15.3 per cent (2008: 15.3 per cent) of pensionable pay plus £10.7 million (2008: £10.7 million) per annum to AWGPS during the year. The group's contributions to MPLAP were £15.1million (2008: £15.1 million) during the year and to MFPS were 20.3 per cent (2008: 20.3 per cent) of pensionable salaries plus £117,000 (2008: £117,000) per month. In the year to 31 March 2010, contributions are expected to be £47.6 million for employers' contributions and £5.5 million for members' contributions.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £5.5 million (2008: £7.6 million).

**a) Principal actuarial assumptions**

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

	<b>2009</b>	2008
	<b>% pa</b>	% pa
Discount rate	<b>6.3</b>	6.3
Inflation rate	<b>3.0</b>	3.5
Increase to deferred benefits during deferment	<b>3.0</b>	3.5
Increases to inflation related pensions in payment	<b>3.0<sup>(1)</sup></b>	3.5
General salary increases	<b>4.0<sup>(2)</sup></b>	4.5
	<b>2009</b>	2008
	<b>years</b>	years
Longevity at age 65 for current pensioners		
– Men	<b>23.2</b>	23.4
– Women	<b>25.7</b>	25.8
Longevity at age 65 for future pensioners <sup>(3)</sup>		
– Men	<b>25.3</b>	24.7
– Women	<b>27.6</b>	26.9

<sup>(1)</sup> For MFPS, the assumption for inflationary pension increases capped at 5 per cent is 2.8 per cent (2008: 3.2 per cent). Additionally, heavier mortality is assumed for this scheme, with life expectancy at age 65 for current pensioners being 18.5 years (2008: 18.5 years) for males and 20.6 years (2008: 20.6 years) for females. For members reaching 65 in 2030, the life expectancy at age 65 is 19.5 years (2008: 19.5 years) for males and 21.5 years (2008: 21.5 years) for females.

<sup>(2)</sup> For AWGPS, the salary increase will be restricted to RPI for one year (2008: two years).

<sup>(3)</sup> The life expectancy shown for future pensioners is for those reaching 65 in 2030.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

22. Pension commitments (continued)

b) Amounts recognised in profit or loss

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2009</b>				
<b>Analysis of amount charged to staff costs within operating profit</b> (see note 9)				
Current service cost	(13.1)	(5.2)	(0.1)	<b>(18.4)</b>
Past service cost	(1.3)	(0.2)	-	<b>(1.5)</b>
<b>Total operating charge</b>	<b>(14.4)</b>	<b>(5.4)</b>	<b>(0.1)</b>	<b>(19.9)</b>
<b>Analysis of amount (charged)/credited to other finance income</b> (see note 6)				
Expected return on pension scheme assets	47.1	16.7	-	<b>63.8</b>
Interest on pension scheme liabilities	(51.5)	(15.3)	(2.7)	<b>(69.5)</b>
<b>Net return</b>	<b>(4.4)</b>	<b>1.4</b>	<b>(2.7)</b>	<b>(5.7)</b>
<b>Total charge to profit on ordinary activities before taxation</b>	<b>(18.8)</b>	<b>(4.0)</b>	<b>(2.8)</b>	<b>(25.6)</b>
<b>2008</b>				
<b>Analysis of amount charged to staff costs within operating profit</b>				
Current service cost	(13.1)	(7.6)	(0.2)	(20.9)
Past service cost	(0.6)	(1.3)	-	(1.9)
<b>Total operating charge</b>	<b>(13.7)</b>	<b>(8.9)</b>	<b>(0.2)</b>	<b>(22.8)</b>
<b>Analysis of amount credited/(charged) to other finance income</b>				
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)
<b>Net return</b>	<b>11.2</b>	<b>3.3</b>	<b>(2.2)</b>	<b>12.3</b>
<b>Total charge to profit on ordinary activities before taxation</b>	<b>(2.5)</b>	<b>(5.6)</b>	<b>(2.4)</b>	<b>(10.5)</b>

The actual return on scheme assets was a loss of £118.4 million (2008: gain of £6.2 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

22. Pension commitments (continued)

c) Amounts recognised in the statement of total recognised gains and losses

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2009</b>				
Actual return on pension scheme assets less expected return	(130.0)	(52.2)	-	<b>(182.2)</b>
Experience gains and losses arising on the scheme liabilities	13.2	11.3	(1.4)	<b>23.1</b>
Changes in assumptions underlying the present value of the scheme liabilities	94.3	13.9	3.9	<b>112.1</b>
Increase in unrecognised asset	-	4.0	-	<b>4.0</b>
<b>Total loss recognised</b>	<b>(22.5)</b>	<b>(23.0)</b>	<b>2.5</b>	<b>(43.0)</b>
<b>2008</b>				
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 in unrecognised asset	-	2.5	-	2.5
Total loss recognised	(83.2)	(6.8)	(2.4)	(92.4)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £103.4 million (2008: £60.4 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

22. Pension commitments (continued)

d) Amounts recognised in the balance sheet

	Expected rate of return %pa	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2009</b>					
Equities	7.0	223.0	106.9	-	<b>329.9</b>
Corporate bonds	6.3	50.2	36.9	-	<b>87.1</b>
Gilts	4.0	333.1	48.8	-	<b>381.9</b>
Property	6.0	13.7	4.7	-	<b>18.4</b>
Alternatives	6.0	34.3	5.6	-	<b>39.9</b>
Other	0.5	53.1	18.6	-	<b>71.7</b>
Total assets		707.4	221.5	-	<b>928.9</b>
Fair value of scheme liabilities		(759.3)	(232.6)	(42.7)	<b>(1,034.6)</b>
Amounts not recognised <sup>(1)</sup>		-	3.6	-	<b>3.6</b>
Deficit in the scheme		(51.9)	(7.5)	(42.7)	<b>(102.1)</b>
Related deferred tax asset		14.5	2.1	12.0	<b>28.6</b>
Net pension liability		<b>(37.4)</b>	<b>(5.4)</b>	<b>(30.7)</b>	<b>(73.5)</b>
Comprising:					
Pension schemes with net assets		-	3.5	-	<b>3.5</b>
Pension schemes with net liabilities		(37.4)	(8.9)	(30.7)	<b>(77.0)</b>
		<b>(37.4)</b>	<b>(5.4)</b>	<b>(30.7)</b>	<b>(73.5)</b>
<b>2008</b>					
Equities	7.6	301.0	133.4	-	434.4
Corporate bonds	6.6	37.1	36.4	-	73.5
Gilts	4.6	323.6	43.7	-	367.3
Property	6.6	19.8	5.8	-	25.6
Alternatives	6.6	10.6	11.6	-	22.2
Other	5.0	98.5	12.7	-	111.2
Total assets		790.6	243.6	-	1,034.2
Fair value of scheme liabilities		(824.2)	(246.8)	(44.9)	(1,115.9)
Amounts not recognised <sup>(1)</sup>		-	(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		<b>(24.2)</b>	<b>(2.6)</b>	<b>(32.3)</b>	<b>(59.1)</b>
Comprising:					
Pension schemes with net assets		-	4.7	-	4.7
Pension schemes with net liabilities		(24.2)	(7.3)	(32.3)	(63.8)
		<b>(24.2)</b>	<b>(2.6)</b>	<b>(32.3)</b>	<b>(59.1)</b>

<sup>(1)</sup> 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.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class net of investment expenses. The expected return on equities is determined as gilt yields plus a 3 per cent equity risk premium. The return on bonds is determined by the market yield on long-term bonds with an adjustment for defaults. The expected return on property is determined as gilt yields plus a 2 per cent risk premium. The expected return on other assets is set by reference to base rates.

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, nor other assets used by, the Group.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

22. Pension commitments (continued)

e) Reconciliation of fair value of scheme assets

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2009</b>				
At 1 April 2008	790.6	243.6	-	<b>1,034.2</b>
Expected return on scheme assets	47.1	16.7	-	<b>63.8</b>
Employers' contributions	23.0	22.1	2.5	<b>47.6</b>
Members' contributions	4.0	1.5	-	<b>5.5</b>
Benefits paid	(27.3)	(7.2)	(2.5)	<b>(37.0)</b>
Actuarial loss	(130.0)	(52.2)	-	<b>(182.2)</b>
Disposal of subsidiary undertakings	-	(3.0)	-	<b>(3.0)</b>
<b>At 31 March 2009</b>	<b>707.4</b>	<b>221.5</b>	<b>-</b>	<b>928.9</b>
<b>2008</b>				
At 1 April 2007	788.4	210.9	-	999.3
Expected return on scheme assets	51.0	15.8	-	66.8
Employers' contributions	21.0	24.3	1.9	47.2
Members' contributions	4.0	2.0	-	6.0
Benefits paid	(27.7)	(5.0)	(1.9)	(34.6)
Actuarial loss	(46.1)	(4.4)	-	(50.5)
At 31 March 2008	790.6	243.6	-	1,034.2

f) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2009</b>				
At 1 April 2008	(824.2)	(246.8)	(44.9)	<b>(1,115.9)</b>
Current service cost	(13.1)	(5.2)	(0.1)	<b>(18.4)</b>
Past service cost	(1.3)	(0.2)	-	<b>(1.5)</b>
Interest cost	(51.5)	(15.3)	(2.7)	<b>(69.5)</b>
Members' contributions	(4.0)	(1.5)	-	<b>(5.5)</b>
Benefits paid	27.3	7.2	2.5	<b>37.0</b>
Actuarial gain	107.5	25.2	2.5	<b>135.2</b>
Disposal of subsidiary undertakings	-	4.0	-	<b>4.0</b>
<b>At 1 March 2009</b>	<b>(759.3)</b>	<b>(232.6)</b>	<b>(42.7)</b>	<b>(1,034.6)</b>
<b>2008</b>				
At 1 April 2007	(757.3)	(223.0)	(42.0)	(1,022.3)
Current service cost	(13.1)	(7.6)	(0.2)	(20.9)
Past service cost	(0.6)	(2.0)	-	(2.6)
Interest cost	(39.8)	(12.5)	(2.2)	(54.5)
Members' contributions	(4.0)	(2.0)	-	(6.0)
Benefits paid	27.7	5.0	1.9	34.6
Actuarial loss	(37.1)	(4.7)	(2.4)	(44.2)
At 31 March 2008	(824.2)	(246.8)	(44.9)	(1,115.9)

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

22. Pension commitments (continued)

g) History of schemes

	2009 £m	2008 £m	2007 £m
<b>Deficit at 31 March</b>			
Fair value of scheme assets	<b>928.9</b>	1,034.2	999.3
Present value of scheme liabilities	<b>(1,034.6)</b>	(1,115.9)	(1,022.3)
Amounts not recognised	<b>3.6</b>	(0.4)	(3.4)
Deficit in the scheme	<b>(102.1)</b>	(82.1)	(26.4)
Related deferred tax asset	<b>28.6</b>	23.0	8.0
Net pension liability	<b>(73.5)</b>	(59.1)	(18.4)
<b>History of experience gains and losses</b>			
Actual return on pension scheme assets less expected return	<b>(182.2)</b>	(60.6)	(10.6)
Experience gains and losses arising on scheme liabilities	<b>23.1</b>	(43.9)	(3.3)
Changes in assumptions underlying the present value of the scheme liabilities	<b>112.1</b>	9.6	47.0
Movement on unrecognised asset	<b>4.0</b>	2.5	(1.1)
Amount recognised in the statement of total recognised gains and losses	<b>(43.0)</b>	(92.4)	32.0

The company was incorporated on 14 September 2006 and therefore comparative amounts are only shown for the previous two accounting periods.



Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2009

**23. Share capital**

	Share capital £m
<b>Allotted, issued and fully paid</b>	
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	-
<b>At 1 April 2008 and 31 March 2009</b>	<b>-</b>

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.

Provided that no senior preference shares (see note 18) remain in issue, the holders of preference shares shall be entitled to receive any dividends resolved to be distributed pro rata to their holdings of preference shares. On a distribution of assets of the company among its members on a winding up or other return of capital (other than a redemption or purchase by the company of its own shares), the holders of the preference shares shall be entitled (such entitlement ranking after satisfaction in full of the rights of holders of senior preference shares) to receive in priority to any holder of any other class of shares except the senior preference shares which rank ahead of them, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. Provided that no senior preference shares remain in issue the preference shares are redeemable at the option of the company at a price to be determined by the Board of Directors. The preference shares do not carry any voting rights.

**24. Movement in shareholders' funds**

**The group**

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2008	-	1,096.3	(97.0)	<b>999.3</b>
Profit for the financial year	-	-	30.0	<b>30.0</b>
Share issue costs	-	(0.1)	-	<b>(0.1)</b>
Actuarial loss recognised on the pension schemes	-	-	(44.1)	<b>(44.1)</b>
Current tax relating to actuarial loss on the pension schemes	-	-	6.2	<b>6.2</b>
Deferred tax relating to actuarial loss on the pension schemes	-	-	6.2	<b>6.2</b>
Currency translation differences on foreign currency net investments	-	-	(0.1)	<b>(0.1)</b>
Total recognised gains and losses relating to the year	-	(0.1)	(1.8)	<b>(1.9)</b>
Dividends paid	-	-	(160.8)	<b>(160.8)</b>
<b>At 31 March 2009</b>	<b>-</b>	<b>1,096.2</b>	<b>(259.6)</b>	<b>836.6</b>

**The company**

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2008	-	1,096.3	0.5	<b>1,096.8</b>
Profit for the financial year	-	-	160.8	<b>160.8</b>
Share issue costs	-	(0.1)	-	<b>(0.1)</b>
Dividends paid	-	-	(160.8)	<b>(160.8)</b>
<b>At 31 March 2009</b>	<b>-</b>	<b>1,096.2</b>	<b>0.5</b>	<b>1,096.7</b>

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**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 2009.

	<b>2009</b>	2008
	<b>£m</b>	£m
Contracted for but not provided in the financial statements	<b>122.2</b>	140.1

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

**The company**

The company has no such commitments (2008: none).

**26. Commitment under operating leases**

At 31 March 2009 the group had annual commitments under non-cancellable operating leases expiring:

	<b>2009</b>		2008	
	<b>Land and buildings</b>	<b>Plant and machinery</b>	Land and buildings	Plant and machinery
	<b>£m</b>	<b>£m</b>	£m	£m
Within one year	<b>0.1</b>	<b>0.3</b>	1.0	2.3
Within two and five years	<b>1.6</b>	<b>3.7</b>	1.4	5.9
After five years	<b>9.9</b>	-	7.4	-
	<b>11.6</b>	<b>4.0</b>	9.8	8.2

**The company**

The company has no such commitments (2008: none).

**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 £11.2 million (2008: £19.2 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 2009, the group had £142.5 million (2008: £142.5 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)

for the year ended 31 March 2009

**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 Global Asset Management and its affiliates), Industry Funds Management (IFM), and 3i.

**29. Disposal of subsidiary undertakings**

During the year, the group made the following disposal of subsidiary undertakings:

On 8 May 2008 the Utility Services business, comprising the group's 100 per cent interest in the ordinary share capital of Morrison Utility Services Limited, together with its subsidiaries, was sold for a gross consideration of £140.6 million.

	<u>£m</u>
<b>Net assets disposed</b>	
Intangible fixed assets - goodwill	73.9
Tangible fixed assets	8.0
Stocks	0.6
Debtors	133.6
Cash at bank and in hand	20.7
Short-term borrowings	(0.1)
Other creditors falling due within one year	(110.4)
Other creditors falling due after more than one year	(0.2)
Provisions for liabilities and charges	0.5
Net pension liabilities	(0.7)
<b>Net assets disposed</b>	<u>125.9</u>
<b>Profit on disposal</b>	
Consideration received	140.6
Net assets disposed	(125.9)
Disposal costs	(1.3)
<b>Profit on disposal</b>	<u>13.4</u>

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2009

**30. Related party transactions**

**a) Transactions with the shareholders of the ultimate parent undertaking**

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 policies of both the company and the group.

On 27 March 2009 the company issued £115 million of senior preference shares to the four members of the consortium of investors owning Anglian Water Group Limited in the same proportion as their existing shares. At 31 March 2009 the amount outstanding was £115 million (2008: £nil). Interest of £0.3 million has been accrued but not paid on these preference shares.

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 2009 the amount outstanding was £462 million (2008: £462 million). Interest of £11.3 million (2008: £15.6 million) has been accrued but not paid on these loan notes.

During the year to 31 March 2009 there were no other transactions other than £160.8 million of dividends (2008: none other than £77.2 million of dividends) with the shareholders of the ultimate parent undertaking.

**b) Other related party transactions**

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

	<b>2009</b>	2008
	<b>£m</b>	£m
Sale of goods/services	<b>1.0</b>	1.6
Purchase of goods/services	<b>(0.3)</b>	(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**

	<b>2009</b>		2008	
	<b>Amounts owed from related parties</b>	<b>Amounts owed to related parties</b>	Amounts owed from related parties	Amounts owed to related parties
	£m	£m	£m	£m
Morrison Veolia Limited	<b>1.3</b>	-	1.9	-
Joint ventures with AWG Property	<b>1.2</b>	<b>(0.9)</b>	2.1	(1.2)
Amounts provided	-	-	(0.5)	-
	<b>2.5</b>	<b>(0.9)</b>	3.5	(1.2)

**Loans to related parties**

	<b>At 1 April</b>	<b>Decrease/ Increase during the year</b>	<b>At 31 March</b>
	£m	£m	£m
<b>Year ended 31 March 2009</b>			
Joint ventures with AWG Property	26.5	(13.0)	<b>13.5</b>
Amounts provided	(6.8)	6.8	-
	<b>19.7</b>	<b>(6.2)</b>	<b>13.5</b>
<b>Year ended 31 March 2008</b>			
Joint ventures with AWG Property	2.0	24.5	26.5
Amounts provided	-	(6.8)	(6.8)
	2.0	17.7	19.7

# Anglian Water Group Limited

## Notes to the group financial statements (continued)

for the year ended 31 March 2009

### 31. Principal group companies

The principal subsidiary undertakings at 31 March 2009 are shown below.

	Country of incorporation	Activities
<b>Group and Other</b>		
Osprey Holdco Limited <sup>(1)</sup>	England	Financing 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
<b>Anglian Water</b>		
Anglian Water Services Limited <sup>(2)</sup>	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
<b>Morrison</b>		
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
<b>Property Services</b>		
AWG Property Limited	Scotland	Development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

<sup>(1)</sup> This company is owned directly by Anglian Water Group Limited.

<sup>(2)</sup> Including Anglian Water Services trading as Hartlepool Water.

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.

# Independent auditors' report to the members of Anglian Water Group Limited

We have audited the group and parent company financial statements (the 'financial statements') of Anglian Water Group Limited for the year ended 31 March 2009 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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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 31st March 2009 and of the group's profit 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**

Chartered Accountants

Birmingham

29 June 2009