

**Anglian Water Group Limited**  
**Annual report and consolidated financial statements**  
for the year ended 31 March 2010

(Registered under the Companies (Jersey) Law 1991)

Anglian Water Group Limited  
**Directors' report**  
for the year ended 31 March 2010

The Directors present their report and the audited financial statements of Anglian Water Group Limited for the year ended 31 March 2010.

**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, providing social housing repairs and property development. The information that fulfils the requirement of the business review, including the company's financial risk management objectives, is set out in pages 5 to 21.

**Group results and returns to shareholders**

The profit and loss account on page 22 shows the group's results for the year. Dividends of £16.9 million (2009: £160.8 million) have been paid in the year. In addition a first interim dividend of £110.0 million in respect of the year ended 31 March 2011 was approved by the board on 26 May 2010 and was paid on 8 June 2010. This dividend has not been included as a liability at 31 March 2010.

**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	
Jonson Cox	Chief Executive	(resigned 31 March 2010)
Scott Longhurst	Managing Director, Finance & Non Regulated Business	
Peter Simpson	Managing Director, Anglian Water Services	(appointed 30 January 2010)

**Non-Executive Directors:**

Graeme Bevans	CPP
Daniel Fetter	CPP
Cressida Hogg	3i
Manoj Mehta	IFM
Niall Mills	CFS
Christine O'Reilly	CFS
Christian Seymour	IFM
Philip White	3i
Roger Witcomb	CPP

CPP – Canada Pension Plan Investment Board  
CFS – Colonial First State Global Asset Management  
IFM – Industry Funds Management

Claire Russell continued to serve as Company Secretary throughout the year and Derek Walmsley resigned as an additional Company Secretary on 28 February 2010.

**Directors' indemnities**

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

Anglian Water Group Limited  
**Directors' report (continued)**  
for the year ended 31 March 2010

**Shareholders**

The investors in the company and their respective group shareholdings as at 31 March 2010 are as follows:

	<b>Number of shares held</b>			
	<b>Class A no par value ordinary shares</b>	<b>Class B no par value ordinary shares</b>	<b>No par value preference shares</b>	<b>No par senior preference shares</b>
CPP Investment Board	4,453,126	656,246	36,138,583,249	-
Colonial First State Global Asset Management	5,000,000	-	35,364,996,063	-
Industry Funds Management	3,065,623	-	21,683,149,948	-
3i	2,325,005	-	16,444,758,534	-
	<b>14,843,754</b>	<b>656,246</b>	<b>109,631,487,794</b>	<b>-</b>

The 115,000,000 no par, senior preference shares held at the beginning of the year, which did not carry any voting rights, were redeemed at £1 per share, together with the related dividends, on 15 February 2010. The senior preference shares carried an annual fixed cumulative preference dividend of 25 per cent of the aggregate amount paid up, payable on 31 May each year. In accordance with FRS 25 'Financial Instruments: Presentation' these senior preference shares were 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, is available from the company's Supply Chain Management department. 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 2010, the group had 41 days purchases outstanding (2009: 37 days). At 31 March 2010, the company had no trade creditors (2009: none).

**Charitable donations (community investment)**

During the year the group made no payment (2009: £0.75 million) to the Anglian Water Trust Fund, which ceased operation. Instead, the group made available £0.75 million to the Anglian Water Assistance Fund, which paid a total of £0.4 million directly to customers who qualify for assistance.

The Anglian Water Group Community Investment Scheme, *give me five*, has given more than 17,400 (2009: 17,200) hours of employee time, during the year ended 31 March 2010, 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 (2009: £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 £275,000 (2009: £162,000) for WaterAid.

**Political donations**

No political donations were made during the year (2009: £nil).

Anglian Water Group Limited  
**Directors' report (continued)**  
for the year ended 31 March 2010

**Employees**

Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. 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 which is now in its fourth year and enables employees to potentially benefit from the group's future performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training 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 2010

**Statement of Directors' responsibilities**

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

The Companies (Jersey) Law 1991 (the "Jersey Companies 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 ("UK GAAP")). 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 under UK GAAP 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 Jersey Companies Law. 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 the maintenance and integrity of the corporate and financial information included on the company's website. It should be noted that information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.



Claire Russell  
Company Secretary  
23 June 2010

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

Anglian Water Group Limited  
**Business review**  
for the year ended 31 March 2010

**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 21.

The results for the group for the year to 31 March 2010 show a pre-tax profit of £42.3 million (2009: £16.0 million) and turnover of £1,395.6 million (2009: £1,426.7 million). The group has net debt at 31 March 2010 of £5,588.1 million (2009: £5,567.2 million). Net cash inflow from operating activities for the year was £646.7 million (2009: £604.1 million).

**Dividends**

Dividends of £16.9 million (2009: £160.8 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 2010.

**Anglian Water**

**Key performance indicators**

Anglian Water's key performance indicators for the year to 31 March 2010 are provided below.

Measure	How we define it	How it relates to our strategy	Our performance	2009/10 performance
<b>Operational</b>				
Drinking water quality (1)	Our 'mean zonal compliance' performance in the calendar year against the required standards.	One of our fundamental public service goals.	2009: 99.96% 2008: 99.98% 2007: 99.96% 2006: 99.95% 2005: 99.96%	Slight reduction due to new or tighter standards on certain parameters.
Leakage (2)	Cubic metres of water lost per kilometre of main per day.	Minimising leaks is vital in a dry region and improves efficiency.	2009/10: 5.62 m <sup>3</sup> /km/day 2008/09: 5.60 m <sup>3</sup> /km/day 2007/08: 5.60 m <sup>3</sup> /km/day 2006/07: 5.50 m <sup>3</sup> /km/day 2005/06: 5.80 m <sup>3</sup> /km/day	We met leakage target despite severe weather.  <i>Industry average 2008/09: 10.80 m<sup>3</sup>/km/day</i>
Overall Performance Assessment (OPA) results	Ofwat's mix of customer-related measures.	Measures our operational performance against the rest of the industry.	2009/10: 415 points (provisional) 2008/09: 415 points 2007/08: 419 points 2006/07: 413 points 2005/06: 388 points	Confirms our leading position.
<b>Financial</b>				
Capital expenditure £ million (3)	Total spend from 1 April 2005 to 31 March 2010, increased by construction-related inflation.	Total investment delivered in this five-year asset management period.	5 years to March 2010: Determination 1,960 Actual 2,005	Capital investment plan for AMP4 completed. Includes c.£40 million unfunded expenditure.
Operating expenditure £ million (4)	Operating costs (excluding depreciation and exceptional operating costs) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives.	2009/10: 386.1 2008/09: 363.5 2007/08: 331.2 2006/07: 324.7 2005/06: 314.4	Up by 6.2 per cent on previous year. Includes a £13.5 million increase in bad debt charge.
<b>Employee</b>				
Accident frequency rate	Number of accidents per 100,000 hours worked.	Indicates how safely we work.	2009/10: 0.37 2008/09: 0.39 2007/08: 0.37 2006/07: 0.39 2005/06: 0.39	Our target is 0.34. We are reducing the number & severity of accidents.
CHaSPI(5)	The Health and Safety Executive (HSE) corporate performance index. Scored out of 10.	Aims to help assess how well an organisation manages its risks and responsibilities towards its workers, the public and other stakeholders	2009/10: 7.7 2008/09: 7.7 2007/08: 7.4 2006/07: 7.3 2005/06: 7.1	We are the only water company to publicly report occupational health and safety this way.
<b>Environmental</b>				
Carbon footprint	CO2 emissions equivalent in tonnes	Measuring our impact on the climate.	2009/10: 493,702 2008/09: 540,239 2007/08: 439,000 2006/07: 459,000	Our target is 50 per cent reduction by 2035 from a 2010 baseline.

- (1) Drinking water results published in 2010 for the 2009 calendar year measured as mean zonal compliance with the regulatory quality standards.
- (2) Lost water from leaks in our network and our customers' own pipes. 2009/10 result subject to formal confirmation from Ofwat in Autumn 2010.
- (3) Cumulative spend from 1 April 2005 to 31 March 2010, inflated by Construction Outputs Price Index (COPI) in each year, (and by RPI in 2009/10) to 2009/10 prices.
- (4) For the appointed and non-appointed businesses.
- (5) 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).

## **Introduction**

Anglian Water is at the heart of every single community in the region, new or well-established, providing clean, safe drinking water and effective, efficient wastewater services. Anglian Water is in it for the long-term and plans for the long-term.

## **Market operations**

### ***Drinking water***

Anglian Water supplies clean, safe, pure drinking water to 4.3 million customers from the Humber in the north, to the Thames estuary just outside London, and from Buckinghamshire in the west to the seaside resorts of the east coast. Anglian Water borrows water from the environment, stores it and treats it to world-class standards.

### ***Wastewater***

Every day around one billion litres of wastewater are flushed down toilets and drains into our wastewater network. Around 2.5 million homes and businesses in our region rely on us to safeguard their health and protect the environment we all live and work in.

The wastewater is separated, treated to the highest standards and returned to the environment through rivers and coastal outlets. It must meet stringent Environment Agency guidelines. Anglian Water treats the organic solids – sludge – which is in demand from farmers for use as a soil conditioner, Nutri-Bio. In 2009 we completed two new enhanced sludge treatment centres.

## **Management**

### ***Structure***

The AWS Board of Directors consists of the Chairman, Sir Adrian Montague; four Executive Directors, Peter Simpson, Scott Longhurst, Chris Newsome and Jean Spencer and three independent Non-Executive Directors, John Watkinson, Robert Napier and Christopher Garnett.

Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome also sit on Anglian Water's Management Board which works closely with the AWS board to develop, review and implement our long-term strategic direction.

### ***People***

Around 3,800 people work directly for Anglian Water. Another seven thousand work for our contractors and partner organisations. That makes Anglian Water one of the largest employers in the region and an important part in the lives of many families.

Anglian Water believes it is vital to invest in its people. Anglian Water is proud to offer worthwhile jobs, good quality training, varied career opportunities and attractive pay and benefits.

The company owes the successful delivery of its AMP4 projects to the expertise and professionalism of colleagues across the business. Looking ahead, Anglian Water knows that AMP5 will present unprecedented levels of challenge on economic and performance efficiency, customer service, competition and water stewardship. High levels of innovation, agility, flexibility and not least, service excellence will be essential.

Anglian Water will need to harness the skills, expertise and team work of every one of its 11,000 employees and partners. It will also need to make sure that the brightest and best talents see their future with it for the long-term. However, in common with every other business in the country, it needs to do this while becoming more flexible and reducing its costs. During the year Anglian Water restructured its support functions and its



Developer Services team; this resulted in 59 redundancies, with professional outplacement support to help people find new jobs outside Anglian Water. It successfully redeployed some staff into existing vacancies within the company, which enabled it to keep redundancies to a minimum.

Anglian Water has recently reached agreement with its trade unions on plans to introduce more flexible and efficient working practices. These changes will be implemented from summer 2010 and will allow it to deliver better service to customers at lower cost.

### **Regulatory environment**

The water industry is one of the most highly regulated sectors in the UK. Several Government agencies monitor and regulate our performance on customer service, quality, prices and investment.

**Ofwat** – as the Water Services Regulation Authority is known – regulates the quality of our customer service and the prices we are able to charge our customers.

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 November 2009, Ofwat issued their Final Determinations to water and wastewater companies, setting out prices for the period 2010/2015. These came into effect on 1 April 2010.

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. Ofwat then uses this return to monitor and compare companies' performances.

The **Drinking Water Inspectorate** is responsible for ensuring compliance with the drinking water quality regulations, while the Environment Agency controls the amount of water the business is allowed to take from the environment and the quality of the water it returns to it.

It's important to us that we provide excellent customer service across the board and we work closely on improving our service with the **Consumer Council for Water**.

The business has strong relationships with a range of Government departments and other organisations.

### **Competitive environment**

There are currently two limited forms of competition in the water industry: inset appointments and Water Supply Licensing.

Inset appointments are where the incumbent water company is replaced by another company which becomes responsible for customer service and maintenance of the water and/or wastewater network. To qualify for an inset appointment the site must be single premises using more than 50 megalitres of water a year, or be a 'greenfield' site that does not have an existing connection to the water supply network. Alternatively, insets may be by agreement.

Anglian Water has a long history of involvement in inset appointments, and it supplies customers outside its statutory area on five sites. Within our area there are six sites served by another company.

Water Supply Licensing allows customers who use over 50 megalitres of water a year to choose their water supplier, who would purchase the water in bulk from us. Wastewater services are not included in this arrangement.

### **The future of competition**

Ofwat launched its refreshed strategy, 'Delivering Sustainable Water' in March 2010. One of their six strategic goals is to harness market forces.

Ofwat is looking at every stage of the water cycle to see where and how market forces can be introduced where there are clear benefits to customers and to the environment. Ofwat believes there are benefits to allowing

more customers a choice in supplier, and are also investigating the potential for competition in the wholesale areas of water and wastewater services.

Ofwat has issued consultations on reducing the threshold above which companies can switch supplier from 50 megalitres a year to five megalitres a year and on bulk supply pricing principles. It is also consulting on a revised policy and process for inset appointments. Anglian Water will submit responses to these consultations during the next year.

*Cave Review – competition and innovation*

In 2008, the Government launched the Cave Review of competition and innovation, and in 2009 Defra issued a consultation on the recommendations proposed by this review. Defra broadly supported the Review's findings. It agrees that the case for extending competition to households remains weak, and that effort should be concentrated on widening choice for business customers.

*Walker Review – charging and water efficiency*

In 2009, the Government launched the Walker Review into charging for household water and sewerage services. The Review concludes that while we need to have a charging system that attaches incentives to the efficient use of water, charges need to be affordable, especially to those on low incomes. It also concludes that metering is the fairest way to charge for water use, and that 80 per cent of all customers in England could be metered by 2020 if its recommendations are followed. This aligns with our long-term strategy, as set out in our Strategic Direction Statement, to meter all of our customers where practical by 2035.

Another issue highlighted by the review is bad debt, which currently costs every customer who pays their bill £12 per year. During the recent recession we saw our total charge for bad debt increase by £13.5 million in 2009/10. We welcome the Report's call for legislative changes to help water and wastewater companies recover debts more easily.

*Playing an active part*

Anglian Water was involved in both the Cave Review and the Walker Review. Anglian Water is now a member of the Market Reform and Finance Forum, a group chaired by Defra and consisting of representatives from Government, Regulators, the Shareholder Executive and the water and wastewater companies. The purpose of the group is to ensure that current financing structures in the water industry remain viable while wider competition is introduced.

**Efficiency challenge**

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

Ofwat issued their decision on pricing in their Final Determination in November 2009. Anglian Water's customers' bills will fall on average by £28<sup>1</sup> over the next five years.

This represents the largest bill reduction of any of the water and wastewater companies in England and Wales. It means the business will need to find more ways to cut costs and make additional significant efficiency savings to meet our regulators' challenging targets on investment, efficiency, quality and customer service.

---

<sup>1</sup> At 2009/10 prices

### Financial performance

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Turnover	1,099.8	1,037.4
Operating profit before goodwill amortisation and exceptional costs	472.0	445.6

Turnover for the year was £1,099.8 million, an increase of 6.0 per cent over the previous year due principally to the regulatory pricing formula. Business volumes in the year remained steady despite the recession in the wider economy.

Operating costs (before exceptional costs) for the year increased by £22.6 million (6.2 per cent) to £386.1 million (2009: £363.5 million). The charge for bad debts increased by £13.5 million compared with the previous year, reflecting an increased level of customer debt which we believe is a consequence of the recessionary environment. Anglian Water is in the process of implementing new debt management processes to help it work effectively with its customers during this difficult economic period.

Other significant cost increases comprised power, rates and operating costs for newly completed infrastructure assets. Partially offsetting these cost increases were some £9 million of savings resulting from this year's efficiency initiatives, including reducing energy consumption, supply chain savings and productivity improvements

Overall, operating expenditure (before exceptional costs) as a percentage of turnover increased slightly from 35.0 per cent last year to 35.1 per cent.

During the year Anglian Water embarked on a reorganisation to prepare for the AMP5 period (2010/2015) which gave rise to exceptional costs of £8.8 million. This involved the introduction of more flexible working practices in operational areas, a review of support services and renegotiating key supplier contracts. The principal costs relate to redundancies and one-off staff compensation payments for changes to their contractual terms of employment.

As a result of the continuing capital programme depreciation (net of amortisation of grants and contributions) was up 5.9 per cent from £228.3 million last year to £241.7 million.

Net interest payable and other finance charges (excluding the intra-group interest receivable of £193.1 million, 2008/09: £193.6 million) decreased by 16.0 per cent from £308.9 million in 2008/09 to £259.5 million in 2009/10. This primarily reflects the impact of lower RPI in the year on index linked debt, partially offset by the reduction in deposit income caused by the historically low base rate.

The tax charge has increased by £38.7 million to £51.7 million. The increase is primarily due to higher taxable profits and a lower deferred tax credit arising from discounting compared with the prior year; together with an additional charge due to Advance Corporation Tax ('ACT') utilisation from another Anglian Water Group company.

### Operational performance

The total capital investment in the AMP4 period (2005/2010) was approximately £2,005 million (at 2009/10 prices), compared with £1,960 million in the Final Determination. The capital investment figure includes c.£40 million of unfunded expenditure the company made in enhancing resilience of supply and £55 million of new connections charges against which we received new connections income. We have met all of our AMP4 obligations.

During the final year of AMP4 we completed a further five nitrate schemes, completed two enhanced sludge treatment centres and provided first time sewerage to some 2,000 properties. We have also completed schemes to reduce phosphorous levels in wastewater effluent from 24 of our treatment works under the Habitats Directive. The proportion of household properties on a metered charge increased to 66 per cent (2009: 64 per cent)

The business substantially completed its biggest project since privatisation at Rutland Water in March 2010, delivering our Wing expansion scheme. This £116 million project combines facilities for abstraction and treatment of water, with the creation of additional wildlife habitats at the reservoir. Rutland Water is a Site of Special Scientific Interest, one of only three nest sites for ospreys in England and home to internationally important numbers of water fowl. The associated new treatment works at Morcott, near Rutland Water, was commissioned in March 2010. It will supply drinking water to up to a million customers in some of the region's biggest towns, including Peterborough, Bedford and Milton Keynes, and provide additional resilience of supply to the surrounding areas.

#### **Financial needs and resources**

In the year to 31 March 2010 Anglian Water raised £204.6 million of new funds and made repayments totalling £298.3 million on maturing bonds and £2.2 million on finance leases. In addition to this, the subordinated intra-group loan of £90.0 million, which was provided by the shareholder consortium, as a precautionary measure, to maintain and improve near-term debt covenants at March 2009, was repaid in full in July 2009 to Osprey Holdco Limited, and repaid to the consortium in February 2010.

New bank facilities totalling £355.0 million were successfully negotiated on a forward starting basis, which will replace £225.0 million of current undrawn facilities when they expire in July 2010. In addition, a further £130.0 million of funds were raised in May 2010 through the successful issuance of a new index-linked bond.

At 31 March 2010 Anglian Water had net borrowings of £4,355.2 million, an increase of £67.8 million over the prior year. Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,032.2 million and cash and deposits of £677.0 million. The increased net borrowings comprise a net decrease of £236.3 million in cash and deposits (which causes net debt to increase), partly offset by a decrease of £168.5 million in loans and associated costs.

The business generated a net cash inflow from operating activities of £658.8 million in the year ended 31 March 2010 (2009: £630.5 million).

#### **Drinking water quality**

Anglian Water's drinking water quality continued to be excellent in 2009, with an overall compliance score of 99.96 per cent (2008: 99.98 per cent). The slight reduction from 2008 in this year's score is due in part to the start of regulatory monitoring of the pesticides metaldyhyde and clopyralid.

Over the past five years Anglian Water has completed 28 schemes to enhance water quality, including 24 nitrate reduction schemes. Anglian Water plans to invest around £120 million in further improving drinking water quality in AMP5. This programme includes schemes to work together with the agricultural community on ways to cut the levels of pesticides and nitrates entering rivers and aquifers in the first place, emphasising the responsible and sustainable use of these chemicals.

#### **Water resources and leakage**

At just 600 millimetres a year, our region's average annual rainfall is a third less than the rest of England, making it drier even than some parts of Spain. Demand for water is growing too. The region's population is growing, with the number of new homes in our region forecast to reach one million by 2035.

Anglian Water is already playing a leading role in conserving the water resources of our region to protect our environment and ensure water supplies into the future. Although the population served has grown by 20 per cent, our successful demand management strategy means that we supply the same amount of water now – around 1.1 billion litres every day – as we did 20 years ago.

In Anglian Water's water resource plans for the period 2010 to 2035 it sets out to anticipate all the challenges to meeting future demand for water. As well as population growth it takes into account the impact of climate change and the pressures increased demand has on the environment.

Anglian Water emphasises getting the balance right between meeting its customers' needs now and managing expectations about the availability of water in the future. This approach focuses on:

- supporting water efficiency in our business and in our customers' homes and businesses;
- minimising the amount of water lost through leakage;
- promoting and encouraging voluntary metering.

Anglian Water has one of the best records for leakage control in the water sector, meeting all its AMP4 targets and with water loss figures at around half the industry average. In spite of the severe winter weather of 2009/10, Anglian Water maintained its service levels and met its leakage target of 211.5 MI/d (equivalent to 5.63m<sup>3</sup>/km/day).

Anglian Water achieved this high performance by ensuring its response and repair services remained excellent. Anglian Water's infrastructure network continues to be assessed as stable.

### **Bathing water quality**

Bathing water results were very good for the Anglian Water region in 2009. All 46 bathing waters in the region met the mandatory standards of the Bathing Water Regulations for the eighth year running (2008: 46).

In addition, 35 bathing waters (76.1 per cent) also met the Regulations' more stringent guideline standards (2008: 73.9 per cent).

Water quality at guideline level is one of the 32 requirements a beach must meet to be awarded Blue Flag status, which also considers a range of other environmental and amenity factors. Application for Blue Flag status is at the discretion of individual resorts. Based on the 2009 data, 15 beaches in the Anglian Water region will fly Blue Flags in 2010 (2009:17).

### **Customer service**

Anglian Water aims to provide excellent customer service and monitor its performance against a suite of measures reflecting what its customers tell it they value. This year's high Customer Service Index score of 125 (2008/09: 113) reflects the priority we place on meeting its customers' needs, with particular emphasis on reducing the number of complaints, speedier complaint resolution and the even more rapid recovery of service failures. Levels of service were consistently above 90 per cent this year, up from 88 per cent to 92 per cent overall, year on year. The business has also reduced written complaints by 28 per cent.

Anglian Water welcomes Ofwat's introduction of the Service Incentive Mechanism for AMP5, and recognises the opportunity it offers the company improve further the levels of service its customers can expect.

### **Occupational health and safety**

It's Anglian Water's firm belief that all accidents are preventable and that nothing is so important that we cannot take the time to do it safely. Anglian Water's target is no accidents to people and no harm to the environment. We want to make sure that everyone working at Anglian Water is absolutely committed to achieving this goal.

Health and safety is an important agenda item at all meetings, from team catch-ups to Board level and is managed through our safe and well system.

Anglian Water works with hundreds of contractors and suppliers across our region and beyond and recognises the opportunity its position as client gives it to positively influence health and safety in key areas of our supply chain. Anglian Water includes contractors' accident rates in its Accident Frequency Rate and works very closely with its partners to improve not just its own health and safety performance but also standards across the industry.

### ***Evaluation and action***

This year Anglian Water recorded 66 potentially serious accidents. The number and severity of the accidents is down considerably on last year's 99 and the business is determined to see this downward trend continue. In 2010 Directors and senior managers will be launching a major campaign to improve safety behaviours.

Anglian Water positively encourages employees and contractors to report all accidents and incidents, however minor. Reporting these near misses helps to identify and prevent potential causes of serious injury or ill health in the future.

### ***Accreditation***

After an extensive audit by Lloyds Register Quality Assurance, our health and safety management system, Safe and Well, was certified to OHSAS 18001 in all areas of the business during 2009. This reflects our commitment to continual improvement in health and safety.

The Royal Society for the Prevention of Accidents (RoSPA) recognised our commitment to health and safety with their prestigious Gold Award. Anglian Water is proud that this is the fourth consecutive year we have achieved this award.

### ***Principal risks and uncertainties***

There are a number of commercial risks and uncertainties that could have a considerable impact on operations, financial condition or reputation. We invest substantial resources to identify, analyse and manage these challenges. Our board regularly reviews a register of significant risks.

Our key, long-term challenges from 2010 to 2035 are covered in more detail in its Strategic Direction Statement (SDS). Other issues are also discussed in more detail in the Community and Environment report and the Drinking Water Quality Report.

In February 2010 Anglian Water's Business Continuity management system achieved accreditation to BS25999. Anglian Water is the only water company to have implemented this key recommendation of the Pitt Review of flooding. The Business Continuity management system outlines our strategic response across a range of scenarios. The plans allow us to recover as quickly as possible and minimise disruption to customers and loss to the business.

### ***Climate change***

Climate change is one of the biggest threats to our business. Anglian Water is taking action to meet the challenges to its assets and our region's environment from damage by flood in our low-lying region.

As the driest region in the UK, classed as 'water-stressed' by the Environment Agency, we must manage supply and demand carefully to meet one of our customers' most important priorities – the availability of an unrestricted supply of water.

Anglian Water also anticipates more frequent, extreme storms and wetter winters. These can, and have, caused localised flooding that threatens our wastewater network, floods customers' homes and has the potential to disable treatment works.

In the last five years Anglian Water has invested an additional £40 million beyond Ofwat's 2005/2010 regulatory determination in schemes to improve the resilience of supply to customers across our region.

### ***Energy Management***

Anglian Water is one of the largest users of electricity in the east of England, due to the power required to treat water and wastewater and pump it around such a geographically flat region. Energy represents around 17 per cent of total operating costs.

The government carbon trading scheme, the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), commenced on 1 April 2010. The business understands the risks and opportunities arising from it and has effective processes in place to manage our involvement.

Anglian Water continues 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.

### ***Growth***

Coping with the forecast rise in population in our region is one of our most significant long-term risks. Our region contains a large part of three of the four growth areas defined by the Government and a number of individual growth points.

Although current economic conditions have slowed the rate of house building in the short term, at the moment we anticipate that the planned developments will be restarted once financial conditions in the UK improve. Although the total number of new connections this year was at only 60 per cent of our normal level, the underlying 25-year growth forecasts have not changed. However, changes to the political landscape following the General Election of May 2010 could result in a reassessment of current planning policy with the potential for the abolition of national and regional housing targets and the regional planning system. We await developments.

### ***Meeting the challenge of regional growth***

Anglian Water's Final Business Plan for 2010/2015 includes:

- options for increasing water resources;
- transferring water between supply zones within our region;
- reinforcing our wastewater assets to supply new development without compromising environmental water quality.

In addition, Anglian Water champions the use of sustainable drainage techniques in place of piped systems as a more environmentally sound way of managing surface water in our growing region, particularly in the context of a changing climate.

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

#### ***Hardship***

Anglian Water is aware of the impact of the recession in our region, and is intensifying its efforts to identify and support the increasing number of customers who want to pay but are struggling to do so.

- we offer a telephone helpline and encourage customers in difficulty to contact us at an early stage;
- our Back on Track scheme continues to help 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;
- we continue to offer a range of tariffs for our most vulnerable customers;
- the Anglian Water Assistance Fund provides further assistance to those experiencing genuine hardship.

#### ***Recovering bad debt***

The number of customers who choose not to pay puts a considerable cost burden on those who do pay their water charges, currently, £12 per year. Anglian Water welcomes the Walker Report's call for legislative changes to help water and wastewater companies recover debts more easily. We have a strong focus on recovering bad debt:

- seeking legal redress against those who are able to pay but choose not to;
- using our debt management system, introduced in January 2009, to exploit the recovery procedures available to us effectively;
- working with the Data Commission and credit referencing agencies on information exchange for credit referencing;
- benchmarking, reviewing and implementing best practice.

### ***Competition***

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. In 2008, Government launched the Cave Review of competition and innovation, and in 2009 Defra issued a consultation on the recommendations proposed by this review.

Anglian Water was involved in the Cave Review and subsequent Defra consultations. We now participate in the Market Reform and Finance Forum set up to ensure that current financing structures in the water industry remain viable while wider competition is introduced, and chaired by Defra.

***Economic conditions***

The global economic outlook continues to be challenging with uncertainty in the financial markets.

The recession is having an impact on our commercial customers, and although demand has been relatively stable so far, there remains a risk that revenues could be reduced in the short term. Anglian Water will continue to work with commercial customers to assist them wherever possible and practicable.

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

***Pensions***

Anglian Water closed the defined benefit (final salary) pension scheme to new employees in 2002. This brought exposure to this risk more into line with the industry as a whole. However, the defined benefit scheme remains a financial risk, with significant continued exposure on an actuarial basis, particularly as people are living longer.

The assets of the scheme are invested in a wide portfolio, including both equity and debt instruments. The Trustees, the in-house Treasury team and our advisers work closely to manage investment, interest rate and inflation risks and the impact of expected improvements in longevity.

During 2009/10 the pension scheme net valuation deficit (on an FRS 17 accounting basis) nearly doubled, due primarily to the reduction in discount rates which increase the scheme's liabilities. This was partly offset by deficit reduction payments of £20.8 million and an improvement in market conditions over the last twelve months.

***Anticipated change to statutory obligations***

A change to our statutory obligations for wastewater could have an impact on the services funded in our Final Determination. In December 2008, Defra announced the transfer of private sewers and lateral drains to water and wastewater companies in England from 2011. No further commitment to the date and scope of transfer has since been given and we await confirmation of the new government's plans on this issue. Meanwhile the business is assessing the consequences of transfer and planning how we would deliver the new obligation.

Ofwat has confirmed that the transfer of private sewers will be treated as a Relevant Change of Circumstance, which may result in an interim review of price limits.

***Outlook***

2009/10 marks the end of the five-year investment period 2005/2010 (AMP4). Over the next five years Anglian Water will invest over £2 billion in the region as it tackles the increasingly tough challenges of climate change and growth. Anglian Water will increase its efficiency and customer service performance as well as reducing the average bill for customers by £28 over the five years to 2014/15.

Peter Simpson became Managing Director of Anglian Water Services Limited on 7 January 2010. This was in planned succession to Chief Executive Jonson Cox, who resigned as Chairman and Director of Anglian Water Services Limited on 29 January 2010 after six years with the company.

Peter Simpson was previously Anglian Water's Chief Operating Officer. This continuity of management ensures the company is well-placed to meet the considerable challenges of AMP5.



**Morrison Facilities Services (Morrison)**

**Principal activities**

Morrison is a leading social housing repairs provider in the United Kingdom. We principally provide outsourced property repair and maintenance and capital investment services to housing associations and local authorities.

Morrison currently has over 40 major clients. We manage more than 300,000 homes and other local authority buildings and provide facilities services to over 500 schools. We offer repair and maintenance services and related activities such as call centre management and tenant liaison. Morrison also manages local authorities' and housing associations' capital spending programmes in areas such as kitchen and bathroom replacement.

**The Morrison Vision and Values**

Morrison's Vision is to "transform the quality of homes and communities for our customers". This embodies the need to improve service and value for customers and clients, improve and enrich both homes and the communities they form, and to be known as a service partner that genuinely strives to make a difference rather than just a contractor. Morrison's Values are aligned to Customers, to People, and to Performance.

**The Social Housing market in which we operate**

The 2009 UK social housing market (comprising responsive maintenance, planned maintenance and Decent Homes) was worth an estimated £9.2 billion in 2009. We estimate annual market growth of two per cent for the next three years, depending on government spending targets and on a possible replacement for the Decent Homes programme.

Morrison is a large, respected player in this hugely fragmented market, in which the top 10 players have a combined market share of just 27 per cent. We are ranked number three in this market by revenue – and number two for our core responsive maintenance work.

Councils and housing associations have outsourced about 85 per cent of their capital and repairs work, though only about 50 per cent of our core responsive work has been outsourced to date. Outsourcing for repairs work is likely to increase as councils and housing associations continue to seek private sector involvement to address their growing spend and service challenges.

Our clients' buying behaviour increasingly favours large companies like Morrison. Bundled multi-trade works (for example painting, plumbing and gas servicing) are now commonplace as councils and housing associations find combined contracts are more cost-effective and easier to run. Bigger multi-trade players like Morrison have benefited, with the market share of the largest providers increasing in each of the last two years. Morrison's scale also means we can invest in training and IT systems that support client and tenant demands for rapid, top quality service backed by better management information.

We feel we have abundant opportunities to grow since the market itself seems likely to grow, since we believe more work will be outsourced to the private sector and we are well placed to grow share in a fragmented market.

**Measuring our delivery**

**Key Performance Indicators**

	<b>Year ended 31 March 2010</b>	<b>Year ended 31 March 2009</b>
Accident frequency rate <sup>1</sup>	0.25	0.34
Operating profit margin	4.6%	2.2%
Cash conversion ratio <sup>2</sup>	91%	108%
Trade debtor days <sup>3</sup>	39	50
Order book at 31 March <sup>4</sup>	£923m	£762m

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

<sup>2</sup> Cash from operating activities as a share of earnings before interest, tax, depreciation and amortisation

<sup>3</sup> Includes amounts recoverable on contracts

<sup>4</sup> Excluding contract extensions

	<b>Year ended 31 March 2010 £m</b>	<b>Year ended 31 March 2009 £m</b>
Turnover	267.3	282.6
Operating profit before goodwill amortisation	12.4	6.1
Goodwill amortisation	(3.4)	(3.4)
Operating profit	9.0	2.7

In the year to 31 March 2010 Morrison Facilities Services achieved revenues of £267.3 million (including joint ventures). The five percent decrease in full year turnover is attributable largely to a reduction in turnover at the group's Manchester Working Limited subsidiary (2010: £61.2 million; 2009: £76.9 million) as the UK Government's Decent Homes initiative neared completion.

A focus on efficient working and cost reduction contributed to an increase in operating margin from 2.2 per cent in 2009 to 4.6 per cent in the current year. This allowed the business to generate an operating profit of £12.4 million, representing an increase of over 100 per cent from the previous year and bringing Morrison in line with the best-performing companies in the sector.

The business has achieved a higher operating margin as a result of three key initiatives:

- Completion of a project to align front line headcount with business requirements. This project was completed in January 2010 at a total cost of £1.6 million and had contributed £2.8 million of permanent cost savings by the balance sheet date.
- Turnaround of previously loss-making contracts.
- Labour and material efficiency projects across the portfolio of contracts to improve margin.

A further project designed to exploit synergies within the organisation and achieve economies of scale relating to the purchase of materials is also close to completion, and is expected to generate significant efficiency savings in 2010/11.

**Financial position at the balance sheet date**

Our focus on reducing Morrison's working capital cycle has led to a significant decrease in unbilled work and outstanding trade debtors. Total amounts outstanding and recoverable on contracts decreased by 22 per cent from £38.5 million in 2009 to £30.0 million. The number of days' sales held in net trade debtors and amounts recoverable on contracts decreased from 83 days in February 2009 and 50 days at the previous year end to 39 days at 31 March 2010.

Net cash of £21.9 million is stated after dividend payments of £6.1 million, and represents an increase of £1.9 million on the 2009 figure. The reduction in outstanding trade debtors in the year contributed to a healthy conversion of earnings before interest, taxation, depreciation and amortisation into operating cash flow during the year. The company achieved a cash conversion ratio of 91 per cent, continuing the strong performance seen in the previous year (2009: 108 per cent). Cash collection in 2009 was boosted by the expiry of a number of contracts.

Morrison Facilities Services' operations require only a limited fixed asset base, although the company remains committed to investing its future growth through the acquisition and development of new solutions and systems.

#### **The board and management team**

Morrison has its own board of six Directors. The board of Morrison Plc includes the Chairman and Managing Director Finance & Non Regulated Business of AWG acting as non-executive Directors, together with two other independent non-executives, one of which was appointed during the year.

The Morrison Chief Executive is responsible for the overall performance of the company. Each regional operating division is run by its own management and administrative team, and is supported by a small number of head office employees comprising the finance, human resources and legal functions.

#### **Operation of the board**

The Board meets ten times per year to review the company's strategy and its performance using a balanced score card. There is a regular Board cycle of additional topics (such as a safety review, competitor review, and a longer Strategy Review day) and other executives from around the business are regularly invited to attend where appropriate.

An annual review of the board's effectiveness is conducted by circulating a confidential questionnaire to each permanent board member. This is reviewed by the chairman and the findings are discussed at the next board meeting.

#### **Principal risks and uncertainties**

##### ***Economic trends***

Morrison operates primarily within repair and maintenance framework agreements with local authorities and housing associations. These have been less susceptible to the UK's economic challenges than much of the private sector and revenue and cash conversion have proven resilient. The Company is winning new business and has a healthy order pipeline but, in light of the Chancellor's economic forecasts, is focused on tight cost control and delivery of higher quality at lower cost.

Morrison is focused on building its portfolio of long-term repair and maintenance contracts as the UK Government's long-term Decent Homes initiative reaches its planned conclusion.

##### ***Pensions***

The Company contributes to both defined contribution and defined benefit schemes. The financial statements include contributions to all schemes, shown in the profit and loss account, and an actuarial adjustment relating to the surplus or deficit associated with defined benefit schemes under FRS 17. Where possible, Morrison's liability for ongoing defined benefit scheme deficits is contractually limited by a cap or collar arrangement.

##### ***Mobilisation risks***

Morrison assigns a mobilisation team made up of specialists from around the business and the local region to each new contract. This team runs mobilisations to an agreed timetable and schedule, regularly reporting progress to senior management.

***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 pressure on margins within the business and influences 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.

Morrison spreads its contractual risk by maintaining a varied client portfolio and increasing the proportion of its work held within framework contracts. When assessing potential contracts, we consider whether they fit with Morrison's core skills and our established supply chain.

***Health & Safety***

Morrison is committed to providing a safe working environment and holds national certification to BS OHSAS 18001 Occupational Health and Safety under the monitoring of the British Safety Council. This internationally-recognised specification promotes a safe and healthy working environment through a framework that allows an organisation to consistently identify and control its health and safety risks, reduce the potential for accidents, aid legislative compliance and improve overall performance.

***Systems dependence and reliability***

The Company uses IT and management processes to coordinate a large volume of work, appointments and tradespersons. A significant IT or other system failure would be disruptive.

The Company mitigates this risk through IT resilience and disaster recovery plans designed to restore service and a business continuity plan for each operational site.

**Property**

**Financial performance and Key Performance Indicators**

	<b>Year ended 31 March 2010 £m</b>	<b>Year ended 31 March 2009 £m</b>
Capital employed at 31 March	16.2	21.5
Operating loss	(11.2)	(12.7)
Operating cash flow	(8.2)	(7.7)

**Introduction**

During 2009/10, the group has continued to pursue the value realisation of its property investments. Notwithstanding the extremely difficult property market present throughout 2009/10 and which is expected to continue during 2010/11, this process has allowed further rationalisation of the portfolio, with completion of the sale of a significant amount of the residual residential properties.

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

**Financial performance**

AWG Property's operating loss for the year was £11.2 million (2009: loss of £12.7 million) on a reduced turnover of £17.7 million (2009: £30.5 million) as a result of the change in strategy for the business. Given the continuing difficult property market, the review of the net realisable value of assets at the proposed point of sale has resulted in a charge of £3.0 million in relation to asset write downs.

**Management**

AWG Property has its own board, which consists of one Anglian Water Group Limited Director (the Managing Director, Finance and Non Regulated Business), the Managing Director of AWG Property and two further Executive Directors. The Managing Director of AWG Property 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 these 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.

Anglian Water Group Limited  
**Business review (continued)**  
for the year ended 31 March 2010

**Other business activities**

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

**Pensions**

At 31 March 2010 the gross deficit for the group (before deferred tax) was £200.9 million (2009: £102.1 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 Managing Director Finance & Non Regulated Business. 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;
- enhance control of financial resources;
- monitor counter party credit exposures.

The group's board, through the Finance, 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 2010 the group held cash, deposits and current asset investments of £814.4 million (2009: £1,067.9 million) and had undrawn committed multi-currency facilities of £605 million (2009: £590 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 2010 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 80.6 per cent (2009: 81.8 per cent) and 87.3 per cent (2009: 90.5 per cent) 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 Acquisitions Limited, AWG Parent Co Limited (formerly 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 2010, 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 2010

Notes	2010	2009			
	<b>Total continuing operations</b>	Continuing operations	Discontinued operations	Total	
	£m	£m	£m	£m	
2	<b>Turnover</b>				
	Turnover (including share of joint ventures)	<b>1,431.1</b>	1,401.4	65.7	1,467.1
	Less: share of turnover of joint ventures	<b>(35.5)</b>	(40.4)	-	(40.4)
	<b>Group turnover</b>	<b>1,395.6</b>	1,361.0	65.7	1,426.7
	Operating costs:				
	Operating costs before exceptional operating costs and goodwill amortisation	<b>(942.9)</b>	(942.4)	(64.6)	(1,007.0)
4	Exceptional operating costs	<b>(10.8)</b>	-	-	-
	Goodwill amortisation	<b>(72.1)</b>	(72.1)	(0.3)	(72.4)
3	<b>Group operating costs</b>	<b>(1,025.8)</b>	(1,014.5)	(64.9)	(1,079.4)
	<b>Group operating profit</b>	<b>369.8</b>	346.5	0.8	347.3
	Share of operating profit in joint ventures	<b>1.9</b>	3.5	-	3.5
	Total operating profit before exceptional operating costs and goodwill amortisation	<b>454.6</b>	422.1	1.1	423.2
	Exceptional operating costs	<b>(10.8)</b>	-	-	-
	Goodwill amortisation	<b>(72.1)</b>	(72.1)	(0.3)	(72.4)
2	<b>Total operating profit</b>	<b>371.7</b>	350.0	0.8	350.8
4	Profit on disposal of discontinued operations	-	-	13.4	13.4
	<b>Profit on ordinary activities before finance charges</b>	<b>371.7</b>	350.0	14.2	364.2
5	Net interest payable and similar charges	<b>(313.4)</b>			(341.8)
6	Other finance costs (net)	<b>(16.0)</b>			(6.4)
7	<b>Profit on ordinary activities before taxation</b>	<b>42.3</b>			16.0
8	Tax on profit on ordinary activities	<b>(7.9)</b>			16.5
	<b>Profit on ordinary activities after taxation</b>	<b>34.4</b>			32.5
	Equity minority interest	<b>(2.8)</b>			(2.5)
	<b>Profit for the financial year</b>	<b>31.6</b>			30.0

Notes 1 to 30 are an integral part of these financial statements.

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

Anglian Water Group Limited  
**Group statement of total recognised gains and losses**  
for the year ended 31 March 2010

Notes	<b>2010</b> <b>£m</b>	2009 £m
	<b>Profit for the financial year</b>	
	Group	30.6
	Joint ventures	(0.6)
	<b>31.6</b>	<b>30.0</b>
	Share issue costs	(0.1)
	Actuarial loss recognised on the pension schemes:	
22(c)	– Group	(43.0)
	– Less: minority interest	1.3
	– Joint ventures	(2.4)
	Current tax relating to the actuarial loss on the pension schemes:	
	– Group	6.2
	– Joint ventures	-
	Deferred tax relating to the actuarial loss on the pension schemes:	
	– Group	5.9
	– Less: minority interest	(0.4)
	– Joint ventures	0.7
	Currency translation differences on foreign currency net investments	(0.1)
	<b>Total recognised gains and losses relating to the year</b>	<b>(1.9)</b>
	<b>Total recognised gains and losses relating to the year</b>	
	– Group	0.4
	– Joint ventures	(2.3)

**Group statement of movement in shareholders' funds**  
for the year ended 31 March 2010

Notes	<b>2010</b> <b>£m</b>	2009 £m
	<b>Total recognised gains and losses relating to the year</b>	(1.9)
11	Dividends	(160.8)
	<b>Movement in shareholders' funds</b>	(162.7)
	Shareholders' funds at the beginning of the year	999.3
	<b>Shareholders' funds at 31 March</b>	<b>836.6</b>




Anglian Water Group Limited  
Group and company balance sheets  
at 31 March 2010

Notes	Group		Company		
	2010 £m	2009 £m	2010 £m	2009 £m	
	<b>Fixed assets</b>				
12	Intangible assets	1,200.6	1,272.7	-	-
13	Tangible assets	5,606.5	5,529.0	-	-
14	Investments				
	Joint ventures				
	- Share of gross assets	90.6	96.3	-	-
	- Share of gross liabilities	(93.6)	(98.0)	-	-
	- Amounts included in provisions	3.0	2.0	-	-
	Other investments	-	0.3	-	-
	Total investments	-	0.3	1,211.2	1,211.2
		<b>6,807.1</b>	<b>6,802.0</b>	<b>1,211.2</b>	<b>1,211.2</b>
	<b>Current assets</b>				
15	Stocks	28.3	30.5	-	-
16	Debtors	369.6	334.8	-	0.1
	Investments	89.6	-	-	-
	Cash at bank and in hand (including short-term deposits)	724.8	1,067.9	0.6	0.8
		<b>1,212.3</b>	<b>1,433.2</b>	<b>0.6</b>	<b>0.9</b>
	<b>Creditors: amounts falling due within one year</b>				
17	Short-term borrowings	(21.4)	(325.6)	-	-
17	Other creditors	(477.3)	(464.1)	-	(0.1)
		<b>(498.7)</b>	<b>(789.7)</b>	<b>-</b>	<b>(0.1)</b>
	<b>Net current assets</b>	<b>713.6</b>	<b>643.5</b>	<b>0.6</b>	<b>0.8</b>
	<b>Total assets less current liabilities</b>	<b>7,520.7</b>	<b>7,445.5</b>	<b>1,211.8</b>	<b>1,212.0</b>
	<b>Creditors: amounts falling due after more than one year</b>				
18	Loans and other borrowings	(6,381.1)	(6,309.5)	-	(115.0)
18	Other creditors	(130.0)	(131.2)	-	(0.3)
		<b>(6,511.1)</b>	<b>(6,440.7)</b>	<b>-</b>	<b>(115.3)</b>
20	<b>Provisions for liabilities</b>	<b>(95.5)</b>	<b>(90.7)</b>	<b>-</b>	<b>-</b>
	<b>Net assets excluding pension assets and liabilities</b>	<b>914.1</b>	<b>914.1</b>	<b>1,211.8</b>	<b>1,096.7</b>
22(d)	Pension schemes with net assets	1.4	3.5	-	-
22(d)	Pension schemes with net liabilities	(146.0)	(77.0)	-	-
	<b>Net assets including pension assets and liabilities</b>	<b>769.5</b>	<b>840.6</b>	<b>1,211.8</b>	<b>1,096.7</b>
	<b>Capital and reserves</b>				
23	Called up share capital	-	-	-	-
24	Share premium account	1,096.2	1,096.2	1,096.2	1,096.2
24	Profit and loss reserve	(331.1)	(259.6)	115.6	0.5
	<b>Total shareholders' funds</b>	<b>765.1</b>	<b>836.6</b>	<b>1,211.8</b>	<b>1,096.7</b>
	Minority interest	4.4	4.0	-	-
	<b>Capital employed</b>	<b>769.5</b>	<b>840.6</b>	<b>1,211.8</b>	<b>1,096.7</b>

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the board of Directors on 23 June 2010 and signed on its behalf by:

  
**Sir Adrian Montague CBE**  
Chairman

  
**Scott Longhurst**  
Managing Director Finance & Non Regulated Business

Anglian Water Group Limited  
**Group cash flow statement**  
for the year ended 31 March 2010

Notes	<b>2010</b>	2009
	<b>£m</b>	£m
(a) <b>Net cash inflow from operating activities</b>	<b>646.7</b>	604.1
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>6.1</b>	51.0
Interest paid	<b>(325.7)</b>	(310.9)
Issue costs capitalised	<b>(1.5)</b>	(2.6)
Interest element of finance lease rental payments	<b>(3.4)</b>	(3.4)
Dividends paid to minority interests	<b>(2.3)</b>	(1.3)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(326.8)</b>	(267.2)
<b>Taxation</b>	<b>(2.2)</b>	13.5
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(355.4)</b>	(433.7)
Grants and contributions received	<b>19.8</b>	26.9
Disposal of tangible fixed assets	<b>1.1</b>	0.5
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(334.5)</b>	(406.3)
<b>Acquisitions and disposals</b>		
(b) Disposal of subsidiary undertakings	-	112.6
<b>Net cash inflow for acquisitions and disposals</b>	-	112.6
<b>Equity dividends paid</b>	<b>(16.9)</b>	(160.8)
<b>Net cash outflow before management of liquid resources and financing</b>	<b>(33.7)</b>	(104.1)
(c) <b>Management of liquid resources</b>		
Decrease/(increase) in short-term deposits and investments	<b>120.6</b>	(69.8)
<b>Financing</b>		
Issue of preference shares	-	115.0
Redemption of preference shares	<b>(115.0)</b>	-
Increase in amounts borrowed	<b>205.8</b>	444.2
Repayment of amounts borrowed	<b>(308.3)</b>	(251.7)
Capital element of finance lease rental payments	<b>(2.2)</b>	(2.9)
<b>Net cash (outflow)/inflow from financing</b>	<b>(219.7)</b>	304.6
(d) <b>(Decrease)/increase in cash</b>	<b>(132.8)</b>	130.7

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

Anglian Water Group Limited  
Notes to the group cash flow statement  
for the year ended 31 March 2010

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

	2010	2009		
	<b>Total continuing operations</b>	Continuing operations	Discontinued operations	Total
	<b>£m</b>	£m	£m	£m
Group operating profit	<b>369.8</b>	346.5	0.8	347.3
Depreciation (net of amortisation of deferred grants and contributions)	<b>256.2</b>	243.0	0.2	243.2
Goodwill amortisation	<b>72.1</b>	72.1	0.3	72.4
Profit on sale of fixed assets	<b>(0.9)</b>	(0.1)	-	(0.1)
Difference between pension charge and cash contributions	<b>(35.0)</b>	(27.7)	-	(27.7)
Net movement in provisions	<b>(0.3)</b>	3.1	-	3.1
Working capital:				
Decrease in stocks	<b>2.2</b>	14.6	-	14.6
Increase in debtors	<b>(37.9)</b>	(16.7)	(12.3)	(29.0)
Increase/(decrease) in creditors	<b>20.5</b>	(22.3)	4.6	(17.7)
	<b>(15.2)</b>	(24.4)	(7.7)	(32.1)
Cash impact of fundamental restructuring	-	(2.0)	-	(2.0)
<b>Net cash inflow from operating activities</b>	<b>646.7</b>	610.5	(6.4)	604.1

(b) **Disposal of subsidiary undertakings**

	2010	2009
	<b>£m</b>	£m
Consideration received	-	140.6
Cash at bank and in hand disposed with subsidiary undertakings	-	(20.7)
Disposal costs paid	-	(7.3)
<b>Net cash inflow for disposal of subsidiary undertakings</b>	<b>-</b>	<b>112.6</b>

(c) **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 2010

(d) **Analysis of net debt**

	At 1 April 2009 £m	Cash flows £m	Non-cash movements £m	Exchange £m	At 31 March 2010 £m
Cash at bank and in hand	369.4	(132.8)	-	(0.1)	<b>236.5</b>
Deposits and investments	698.5	(120.6)	-	-	<b>577.9</b>
Debt due within one year	(325.6)	425.5	(121.3)	-	<b>(21.4)</b>
Debt due after one year	(6,309.5)	(204.3)	132.7	-	<b>(6,381.1)</b>
	<b>(5,567.2)</b>	<b>(32.2)</b>	<b>11.4</b>	<b>(0.1)</b>	<b>(5,588.1)</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 £488.3 million (2009: £698.5 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 2010, £188.1 million (2009: £296.9 million) of the group's cash at bank and in hand and £488.9 million (2009: £616.4 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 £17.4 million (2009: £24.8 million) of the group's deposits and investments was held as collateral for outstanding loan notes. In addition, £0.1 million (2009: £0.1 million) of the group's cash at bank and in hand and £10.7 million (2009: £10.8 million) of the deposits and investments were held by Rutland Insurance Limited (the group's insurance captive) in order to maintain its required solvency ratio.

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

	2010 £m	2009 £m
<b>(Decrease)/increase in cash</b>	<b>(132.8)</b>	130.7
(Decrease)/increase in short-term bank deposits and investments	<b>(120.6)</b>	69.8
Issue of preference shares	-	(115.0)
Redemption of preference shares	<b>115.0</b>	-
Increase in amounts borrowed	<b>(205.8)</b>	(444.2)
Repayment of amounts borrowed	<b>308.3</b>	251.7
Capital element of finance lease rental payments	<b>2.2</b>	2.9
Issue costs capitalised	<b>1.5</b>	2.6
Amortisation of discount and expenses relating to debt issues	<b>(2.8)</b>	(2.6)
Amortisation of fair value adjustments	<b>31.9</b>	33.5
Indexation of loan stock and RPI swaps	<b>(17.7)</b>	(92.1)
Loans and finance leases disposed with subsidiary undertakings	-	0.1
Exchange differences	<b>(0.1)</b>	0.5
<b>Movement in net debt</b>	<b>(20.9)</b>	(162.1)
Net debt at the beginning of the year	<b>(5,567.2)</b>	(5,405.1)
<b>Net debt at 31 March</b>	<b>(5,588.1)</b>	(5,567.2)

Anglian Water Group Limited  
Notes to the group financial statements  
for the year ended 31 March 2010

**1. Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year, unless otherwise stated.

The group has adopted the amendment to FRS 8 'Related Party Disclosures' within these financial statements. There is no impact on the results or the financial position of the group from adopting this amendment.

a) **Basis of accounting**

The financial statements have been 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 2010

1. **Accounting policies** (continued)

c) **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.

d) **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(e) 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 £3.7 million).

e) **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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**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) 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.

**h) Exceptional items**

Exceptional items are one-off items which derive from events or transactions that fall within ordinary activities of the entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

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 are shown separately on the face of the profit and loss account after operating profit and before interest. All other exceptional items are included within operating profit.

**i) 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(I)). 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.

**j) 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

1. **Accounting policies** (continued)

k) **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.

l) **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.



Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**1. Accounting policies** (continued)

**m) 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.

**n) 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.

**o) 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.

**p) 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.

**q) 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 include payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

**r) 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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**1. Accounting policies** (continued)

s) **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.

t) **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.

u) **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 of the 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 acquisition is being amortised over the life of the individual debt instruments to which it relates and is 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 2010

**1. Accounting policies** (continued)

v) **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.

w) **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 2010

**1. Accounting policies** (continued)

x) **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 £3.7 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 £200.9 million (2009: £102.1 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 2010

2. Segmental analysis

**By class of business for the year ended 31 March 2010**

At 31 March 2010 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 exceptional operating costs and goodwill amortisation £m	Exceptional operating costs £m	Goodwill amortisation £m	Profit before finance charges £m	Net operating assets/ (liabilities) <sup>(2)</sup> £m
<b>Continuing operations</b>						
Anglian Water	1,099.8	472.0	(8.8)	(68.7)	394.5	6,415.4
Morrison Facilities Services	267.3	12.4	-	(3.4)	9.0	50.9
AWG Property	17.7	(11.2)	-	-	(11.2)	16.2
Other <sup>(1)</sup>	47.2	(18.6)	(2.0)	-	(20.6)	(67.6)
Less: Intersegmental trading	(0.9)	-	-	-	-	-
	<b>1,431.1</b>	<b>454.6</b>	<b>(10.8)</b>	<b>(72.1)</b>	<b>371.7</b>	<b>6,414.9</b>
Net debt						(5,588.1)
Current tax						(5.2)
Deferred tax						(52.1)
						<b>769.5</b>
Total						
- Group	1,395.6	452.7	(10.8)	(72.1)	369.8	
- Joint ventures	35.5	1.9	-	-	1.9	

<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 2010

2. **Segmental analysis** (continued)

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

	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) £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	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>
Total						
- Group	1,426.7	419.7	(72.4)	13.4	360.7	
- Joint ventures	40.4	3.5	-	-	3.5	

**By geographical segment**

	Turnover		Profit before finance charges		Net operating assets/(liabilities) <sup>(1)</sup>	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
<b>Continuing operations</b>						
United Kingdom	<b>1,393.6</b>	1,359.6	<b>367.7</b>	346.5	<b>6,421.1</b>	6,470.5
Europe	<b>34.7</b>	38.8	<b>4.3</b>	3.6	<b>(0.6)</b>	(1.3)
Rest of world	<b>2.8</b>	3.0	<b>(0.3)</b>	(0.1)	<b>(5.6)</b>	(4.3)
	<b>1,431.1</b>	1,401.4	<b>371.7</b>	350.0	<b>6,414.9</b>	6,464.9
<b>Discontinued operations</b>						
United Kingdom		63.4		14.2		-
Europe		2.3		-		-
		65.7		14.2		-
<b>Total</b>		<b>1,467.1</b>		<b>364.2</b>		<b>6,464.9</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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**3. Group operating costs**

	2010			2009		
	Before exceptional operating costs £m	Exceptional operating costs <sup>(1)</sup> £m	Total continuing operations £m	Continuing operations £m	Discontinued operations £m	Total £m
	Raw materials and consumables	39.0	-	<b>39.0</b>	34.9	5.9
Other operating costs	456.0	1.2	<b>457.2</b>	476.9	42.4	519.3
Staff costs (see note 9)	246.8	9.6	<b>256.4</b>	245.2	16.0	261.2
Change in stocks of finished goods and work in progress	1.7	-	<b>1.7</b>	-	0.1	0.1
Own work capitalised	(55.9)	-	<b>(55.9)</b>	(57.5)	-	(57.5)
Profit on sale of fixed assets <sup>(2)</sup>	(0.9)	-	<b>(0.9)</b>	(0.1)	-	(0.1)
<b>Operating costs before depreciation and amortisation</b>	<b>686.7</b>	<b>10.8</b>	<b>697.5</b>	<b>699.4</b>	<b>64.4</b>	<b>763.8</b>
Depreciation of tangible fixed assets	263.6	-	<b>263.6</b>	253.7	0.2	253.9
Amortisation of deferred grants and contributions	(7.4)	-	<b>(7.4)</b>	(10.7)	-	(10.7)
Depreciation net of amortisation of deferred grants and contributions	256.2	-	<b>256.2</b>	243.0	0.2	243.2
<b>Total before goodwill amortisation</b>	<b>942.9</b>	<b>10.8</b>	<b>953.7</b>	<b>942.4</b>	<b>64.6</b>	<b>1,007.0</b>
Amortisation of intangible assets	72.1	-	<b>72.1</b>	72.1	0.3	72.4
<b>Group operating costs</b>	<b>1,015.0</b>	<b>10.8</b>	<b>1,025.8</b>	<b>1,014.5</b>	<b>64.9</b>	<b>1,079.4</b>

<sup>(1)</sup> The exceptional operating costs of £10.8 million relate to restructuring and other costs (see note 4). There were no exceptional operating costs in 2009.

<sup>(2)</sup> The profit on sale of fixed assets relates to various sales of surplus land and assets.

**4. Exceptional items**

	2010 £m	2009 £m
<b>Exceptional operating costs</b>		
Restructuring and other costs	<b>(10.8)</b>	-
<b>Non-operating exceptional items:</b>		
<b>Profit on disposal of discontinued operations</b>		
Profit on sale of Utility Services	-	13.4

Restructuring and other costs relate to redundancy and other one-off costs incurred to reposition the Anglian Water business to meet the challenge of the Final Determination published by Ofwat in November 2009, £8.8 million, and senior management restructuring costs, £2.0 million.

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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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

	<b>2010</b>	2009
	<b>£m</b>	£m
Interest payable on bank loans and overdrafts	<b>(0.6)</b>	(0.5)
Interest payable on other loans including financing expenses	<b>(328.2)</b>	(321.4)
Indexation	<b>(17.7)</b>	(92.1)
Interest payable on finance leases	<b>(3.0)</b>	(3.9)
Amortisation of fair value adjustments	<b>31.9</b>	33.5
Group interest and similar charges payable	<b>(317.6)</b>	(384.4)
Share of joint venture interest payable	<b>(2.2)</b>	(3.9)
Total interest and similar charges payable	<b>(319.8)</b>	(388.3)
Group interest receivable	<b>6.4</b>	46.5
<b>Net interest payable and similar charges</b>	<b>(313.4)</b>	(341.8)

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

	<b>2010</b>	2009
	<b>£m</b>	£m
Unwinding of discount on onerous lease obligation provision (see note 20)	<b>(0.1)</b>	(0.7)
Defined benefit pension scheme interest charge (see note 22(b))	<b>(15.9)</b>	(5.7)
	<b>(16.0)</b>	(6.4)

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

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

	<b>2010</b>	2009
	<b>£m</b>	£m
Profit on disposal of tangible fixed assets	<b>(0.9)</b>	(0.1)
Profit on disposal of subsidiary undertakings	-	(13.4)
Operating lease rentals		
– Land and buildings	<b>12.1</b>	13.8
– Plant and machinery	<b>5.3</b>	6.7
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
– Owned assets	<b>248.1</b>	236.2
– Under finance leases	<b>8.1</b>	7.0
Amortisation of goodwill - subsidiaries	<b>72.1</b>	72.4
Research and development expenditure	<b>0.4</b>	0.4
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>	0.6
– For other services supplied pursuant to legislation	<b>0.1</b>	0.5
– For other services	<b>0.5</b>	-
Total fees paid to the auditors	<b>1.2</b>	1.1
Fees paid to other accounting firms for other work <sup>(1)</sup>	<b>0.9</b>	1.1

<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 2010

**8. Taxation**

	<b>2010</b>	2009
	<b>£m</b>	£m
<b>Analysis of charge/(credit) in the year</b>		
Current tax:		
UK corporation tax – current year	<b>12.7</b>	6.0
Share of joint ventures	<b>0.2</b>	0.2
	<b>12.9</b>	6.2
Foreign tax	<b>0.6</b>	0.5
<b>Total current tax charge</b>	<b>13.5</b>	6.7
Deferred tax:		
Charge for timing differences arising in year	<b>27.4</b>	14.3
Impact of discounting on deferred tax liability	<b>(9.9)</b>	(17.8)
Impact of increase in discount rates	<b>(1.8)</b>	(3.6)
Adjustments in respect of previous periods	<b>(21.3)</b>	(16.1)
<b>Total deferred tax credit</b> (see note 21)	<b>(5.6)</b>	(23.2)
<b>Total tax charge/(credit) on profit on ordinary activities</b>	<b>7.9</b>	(16.5)

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a credit of £1.8 million (2009: £3.6 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 and £15.0 million would occur.

The deferred tax adjustments in respect of previous periods, for both 2010 and 2009, relate to the effect of the prior year capital allowance disclaimers.

In addition to the current tax charge above, a £5.4 million (2009: £6.2 million) credit 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 (2009: higher) than the standard rate of Corporation Tax in the UK of 28 per cent (2009: 28 per cent). The differences are explained below:

	<b>2010</b>	2009
	<b>£m</b>	£m
Profit on ordinary activities before taxation	<b>42.3</b>	16.0
Profit on ordinary activities at the standard UK rate of corporation tax of 28 per cent	<b>11.8</b>	4.5
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	<b>29.9</b>	20.5
Items not taxable	<b>(0.3)</b>	(3.8)
Capital allowances for the year in excess of depreciation	<b>(17.9)</b>	(5.9)
Short-term timing differences	<b>(9.5)</b>	(8.4)
Difference in foreign tax rates	<b>(0.7)</b>	(0.6)
Losses in joint venture companies	<b>0.2</b>	0.4
<b>Current tax charge for the year</b>	<b>13.5</b>	6.7

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 2010

**9. Employee information**

	<b>2010</b>	2009
	<b>£m</b>	£m
<b>Staff costs for the group</b>		
Wages and salaries	<b>220.8</b>	219.4
Social security costs	<b>16.5</b>	16.8
Pension costs – defined contribution (see note 22)	<b>5.7</b>	5.5
Pension costs – defined benefit (see note 22)	<b>13.4</b>	19.9
	<b>256.4</b>	261.6

Staff costs for the year ended 31 March 2010 include £37.9 million (2009: £38.9 million) of costs that have been capitalised as 'own work capitalised'. The amount disclosed in the prior year has been restated from £57.5 million to £38.9 million to exclude associated non-staff costs capitalised. In addition, during the year ended 31 March 2009, £0.4 million of non-operating redundancy costs were included within wages and salaries in the above table.

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

	<b>2010</b>	2009
<b>Continuing operations</b>		
Anglian Water	<b>3,811</b>	3,772
Morrison Facilities Services	<b>2,469</b>	2,499
AWG Property	<b>20</b>	27
Other	<b>342</b>	343
	<b>6,642</b>	6,641
<b>Discontinued operations</b>		
Utility Services		356
		<b>6,997</b>

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 (2009: none).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**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 £132.0 million (2009: £160.8 million).

**11. Dividends**

Interim dividends declared and paid during the year

	<b>2010</b>	2009
	<b>£m</b>	£m
Paid on:		
15 February 2010	<b>16.9</b>	-
5 June 2008	-	45.8
1 July 2008	-	35.0
8 August 2008	-	80.0
	<b>16.9</b>	<b>160.8</b>

In addition a first interim dividend of £110.0 million in respect of the year ended 31 March 2011 was approved by the board on 26 May 2010 and was paid on 8 June 2010. This dividend has not been included as a liability at 31 March 2010.

**12. Intangible assets**

	<b>Goodwill</b>
	<b>£m</b>
<b>The group</b>	
<b>Cost</b>	
<b>At 1 April 2009 and 31 March 2010</b>	<b>1,442.1</b>
<b>Amortisation</b>	
At 1 April 2009	<b>(169.4)</b>
Charge for the year	<b>(72.1)</b>
<b>At 31 March 2010</b>	<b>(241.5)</b>
<b>Net book amount</b>	
<b>At 31 March 2010</b>	<b>1,200.6</b>
At 31 March 2009	1,272.7
<b>The company</b>	
The company has no intangible assets (2009: none).	

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**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 2009	38.4	2,947.3	2,481.0	320.6	332.3	<b>6,119.6</b>
Additions	0.1	-	-	1.7	350.6	<b>352.4</b>
Transfers on commissioning	1.3	140.5	258.9	71.3	(472.0)	-
Disposals	(0.2)	-	(4.9)	(0.1)	-	<b>(5.2)</b>
<b>At 31 March 2010</b>	<b>39.6</b>	<b>3,087.8</b>	<b>2,735.0</b>	<b>393.5</b>	<b>210.9</b>	<b>6,466.8</b>
<b>Grants and contributions</b>						
At 1 April 2009	-	(27.5)	-	-	(1.2)	<b>(28.7)</b>
Additions	-	(12.1)	-	-	1.0	<b>(11.1)</b>
<b>At 31 March 2010</b>	<b>-</b>	<b>(39.6)</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>(39.8)</b>
<b>Depreciation</b>						
At 1 April 2009	(2.1)	(179.1)	(256.9)	(123.8)	-	<b>(561.9)</b>
Charge for the year	(0.7)	(82.0)	(124.0)	(56.9)	-	<b>(263.6)</b>
Disposals	-	-	4.9	0.1	-	<b>5.0</b>
<b>At 31 March 2010</b>	<b>(2.8)</b>	<b>(261.1)</b>	<b>(376.0)</b>	<b>(180.6)</b>	<b>-</b>	<b>(820.5)</b>
<b>Net book amount</b>						
<b>At 31 March 2010</b>	<b>36.8</b>	<b>2,787.1</b>	<b>2,359.0</b>	<b>212.9</b>	<b>210.7</b>	<b>5,606.5</b>
At 31 March 2009	36.3	2,740.7	2,224.1	196.8	331.1	5,529.0

Tangible fixed assets at 31 March 2010 include land of £21.8 million (2009: £20.5 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:

	2010 £m	2009 £m
Cost	<b>113.6</b>	109.0
Aggregate depreciation	<b>(24.9)</b>	(16.8)
Net book amount at 31 March	<b>88.7</b>	92.2
Depreciation charged in year	<b>(8.1)</b>	(7.0)

**The company**

The company has no tangible fixed assets (2009: none).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**14. Investments**

**a) Joint ventures**

	<u>£m</u>
<b>The group</b>	
<b>Amount under equity method of accounting</b>	
At 1 April 2009	0.3
Loss for the year	(0.5)
Actuarial loss on pension schemes	(1.1)
Amounts offset against trade balances	0.3
Transfer to provisions (see note 20)	1.0
<b>At 31 March 2010</b>	<u>-</u>

The loss for the year of joint ventures is stated after operating profits of £1.9 million (2009: £3.5 million) less interest payable of £2.2 million (2009: £3.9 million) and a tax charge of £0.2 million (2009: £0.2 million). The transfer to 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 2010.

<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	Property development	50%
Shawlands Retail Limited	Scotland	Property development	50%
Exchange House Property Unit Trust	Jersey	Property investment	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 2009 and 31 March 2010</b>	<u>-</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 (2009: £nil). The net book value at 31 March 2010 included £nil (2009: £nil) of shares.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**14. Investments** (continued)

**c) Subsidiary undertakings**

<b>The company</b>	<b>Loans to subsidiary undertakings £m</b>	<b>Shares in subsidiary undertakings £m</b>	<b>Total £m</b>
<b>Cost</b>			
<b>At 1 April 2009 and 31 March 2010</b>	548.0	663.2	<b>1,211.2</b>

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

**15. Stocks**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Raw materials and consumables	<b>11.0</b>	13.7	-	-
Work in progress	<b>17.3</b>	16.8	-	-
	<b>28.3</b>	30.5	-	-

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

**16. Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Amounts falling due within one year</b>				
Trade debtors	<b>193.9</b>	158.9	-	-
Amounts due from customers for contract work	<b>1.2</b>	2.7	-	-
Amounts owed by joint ventures				
– Trade balances	<b>3.5</b>	2.5	-	-
– Loans	<b>9.1</b>	13.5	-	-
Corporation tax recoverable	-	-	-	0.1
Other debtors	<b>11.8</b>	11.2	-	-
Prepayments and accrued income	<b>150.1</b>	146.0	-	-
	<b>369.6</b>	334.8	-	0.1

Prepayments and accrued income as at 31 March 2010 includes water and wastewater income not yet billed of £121.4 million (2009: £111.7 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£m</b>	£m	<b>£m</b>	£m
Current portion of loans and other borrowings	<b>18.8</b>	323.4	-	-
Obligations under finance leases	<b>2.6</b>	2.2	-	-
<b>Short-term borrowings</b> (see note 19)	<b>21.4</b>	325.6	-	-
Trade creditors	<b>123.5</b>	124.6	-	-
Receipts in advance	<b>129.5</b>	95.8	-	-
Amounts owed to joint ventures	<b>0.5</b>	0.9	-	-
Other creditors	<b>12.8</b>	42.2	-	-
Corporation tax	<b>5.2</b>	4.4	-	-
Other taxation and social security	<b>9.9</b>	9.8	-	-
Accruals and deferred income	<b>188.5</b>	179.2	-	0.1
Deferred grants and contributions	<b>7.4</b>	7.2	-	-
<b>Other creditors</b>	<b>477.3</b>	464.1	-	0.1

Receipts in advance includes £108.6 million (2009: £89.6 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 one year**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£m</b>	£m	<b>£m</b>	£m
Preference shares	-	115.0	-	115.0
Non-current portion of long-term loans	<b>6,316.9</b>	6,132.0	-	-
Obligations under finance leases	<b>64.2</b>	62.5	-	-
<b>Loans and other borrowings</b> (see note 19)	<b>6,381.1</b>	6,309.5	-	115.0
Other creditors	<b>2.5</b>	4.9	-	0.3
Deferred grants and contributions	<b>127.5</b>	126.3	-	-
<b>Other creditors</b>	<b>130.0</b>	131.2	-	0.3

The 115,000,000 no par value, senior preference shares, which did not carry any voting rights, were redeemed at £1 per share, together with the related dividend, on 15 February 2010. The senior preference shares carried an annual fixed cumulative preference dividend of 25 per cent of the aggregate amount paid up. In accordance with FRS 25 'Financial Instruments: Presentation' these senior preference shares were 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 2010

**19. Loans, other borrowings and financial instruments**

	<b>Group</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>£m</b>	£m	<b>£m</b>	£m
<b>Loans and other borrowings</b>				
£100 million 12.375% fixed rate 2014 (d), (g)	<b>116.5</b>	120.9	-	-
£250 million 5.837% fixed rate 2022 (d), (g)	<b>264.7</b>	265.9	-	-
£200 million 6.875% fixed rate 2023 (d), (g)	<b>228.2</b>	230.3	-	-
£200 million 6.625% fixed rate 2029 (d), (g)	<b>224.8</b>	226.2	-	-
£246 million 6.293% fixed rate 2030 (d), (g)	<b>276.6</b>	278.1	-	-
£275 million 7.882% fixed rate 2012/2037 <sup>(1)</sup> (d), (f), (g)	<b>296.3</b>	296.7	-	-
£250 million 5.25% fixed rate 2015 (b), (d), (g)	<b>251.9</b>	252.2	-	-
£150 million 5.5% fixed rate 2017/2040 <sup>(2)</sup> (b), (d), (f), (g)	<b>150.7</b>	150.7	-	-
£150 million 4.125% index linked 2020 (c), (d), (g)	<b>226.0</b>	230.3	-	-
£75 million 3.666% index linked 2024 (c), (d), (g)	<b>110.2</b>	112.0	-	-
£200 million 3.07% index linked 2032 (c), (d), (g)	<b>309.5</b>	313.8	-	-
£60 million 3.07% index linked 2032 (c), (d), (g)	<b>93.4</b>	94.1	-	-
Finance leases (b), (d), (g)	<b>66.8</b>	64.7	-	-
£150 million index linked swap 2024 (e), (g)	<b>65.4</b>	65.5	-	-
£175 million index linked swap 2030 (e), (g)	<b>86.7</b>	86.5	-	-
£258 million index linked swap 2013 (e), (g)	<b>54.5</b>	49.2	-	-
Euro 350 million 5.375% fixed rate 2009 (a), (d), (g)	-	229.3	-	-
Euro 650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	<b>461.7</b>	464.1	-	-
US\$25 million 7.07% private placements 2009 (a), (d), (g)	-	2.7	-	-
US\$23 million 7.13% private placements 2009 (a), (d), (g)	-	16.4	-	-
US\$195 million 7.23% private placements 2011 (a), (d), (g)	<b>141.4</b>	143.6	-	-
£402 million 2.4% index linked 2035 (c), (d), (g)	<b>476.9</b>	476.9	-	-
£50 million 1.7% index linked 2046 (c), (d), (g)	<b>64.5</b>	65.1	-	-
£50 million 1.7% index linked 2046 (c), (d), (g)	<b>65.5</b>	65.1	-	-
£40 million 1.7146% indexation bond 2056 (c), (d), (g)	<b>54.4</b>	54.8	-	-
£50 million 1.6777% indexation bond 2056 (c), (d), (g)	<b>67.3</b>	67.8	-	-
£60 million 1.7903% indexation bond 2049 (c), (d), (g)	<b>80.8</b>	81.5	-	-
£100 million 1.3784% indexation bond 2057 (c), (d), (g)	<b>111.8</b>	110.6	-	-
£50 million 1.3825% indexation bond 2056 (c), (d), (g)	<b>55.8</b>	55.3	-	-
£50 million Class B authorised loan facility (g)	-	50.0	-	-
£100 million Class A wrapped floating rate bonds (d), (g)	<b>99.9</b>	99.9	-	-
£100 million RPI swap 2057 (e), (g)	<b>11.7</b>	9.7	-	-
£75 million 1.449% indexation bond 2062 (c), (d), (g)	<b>80.6</b>	78.7	-	-
£50 million 1.52% indexation bond 2055 (c), (d), (g)	<b>53.6</b>	52.3	-	-
JPY 15 billion 2.925% bond due 2018/2037 (a), (b), (d), (g)	<b>65.9</b>	65.9	-	-
£65.9 million RPI swap 2059 (e), (g)	<b>4.9</b>	3.3	-	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	<b>109.9</b>	109.9	-	-
£50 million RPI swap 2043 (e), (g)	<b>1.8</b>	1.4	-	-
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (g)	<b>25.0</b>	25.0	-	-
Euro 500 million 6.25% fixed rate bond 2016 (a), (d), (g)	<b>392.4</b>	392.2	-	-
£25 million 6.875% private placements 2034 (d), (g)	<b>24.6</b>	24.6	-	-
£100m Class B 6.75% fixed rate bond 2024 <sup>(3)</sup> (d), (g)	<b>98.9</b>	-	-	-
European Investment Bank £50 million 1.626% term facility 2019 (c), (d), (g)	<b>51.1</b>	-	-	-
European Investment Bank £50 million 1.3% term facility 2020 (c), (g)	<b>50.5</b>	-	-	-
£450 million term facility (b), (d), (h)	<b>448.3</b>	447.7	-	-
Loan notes LIBOR minus 0.50% 2012	<b>17.4</b>	24.8	-	-
£462 million 10% 2017 (d)	<b>461.0</b>	460.8	-	-
Other loans	<b>2.7</b>	3.6	-	-
Senior preference shares	-	115.0	-	115.0
<b>Total loans and other borrowings</b>	<b>6,402.5</b>	6,635.1	-	115.0
Less amounts included in creditors falling due within one year	<b>(21.4)</b>	(325.6)	-	-
Loans and other borrowings due after more than one year	<b>6,381.1</b>	6,309.5	-	115.0



Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**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 borrowings. The adjustment to the US dollar borrowings is £10.1 million (2009: £2.9 million), the adjustment to the Euro borrowings is £(177.0) million (2009: £(311.4) million) and the adjustment to the Japanese Yen borrowings is £(49.9) million (2009: £(49.6) 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 £4.2 million (2009: £61.7 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 (2009: six) 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 £13.5 million (2009: £30.4 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 2010 this charge applies to £5,473.1 million (2009: £5,673.2 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 2010, this charge applies to £448.3 million (2009: £447.7 million) of the debt listed above.
- <sup>(1)</sup> The coupon for this instrument will increase to floating rate LIBOR plus 6.0 per cent effective July 2012.
- <sup>(2)</sup> The coupon for this instrument will increase to floating rate 3 month LIBOR plus 3.5 per cent effective October 2017.
- <sup>(3)</sup> The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10.9 per cent effective June 2014.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**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 2010</b>				
Less than one year	18.8	2.6	6.3	<b>27.7</b>
Between one and two years	141.4	3.0	9.1	<b>153.5</b>
Between two and five years	1,082.3	15.6	10.7	<b>1,108.6</b>
After five years	5,093.2	45.6	16.8	<b>5,155.6</b>
	<b>6,335.7</b>	<b>66.8</b>	<b>42.9</b>	<b>6,445.4</b>
<b>At 31 March 2009</b>				
Less than one year	323.4	2.2	9.3	334.9
Between one and two years	118.4	2.5	9.5	130.4
Between two and five years	1,225.5	9.7	10.8	1,246.0
After five years	4,903.1	50.3	11.3	4,964.7
	<b>6,570.4</b>	<b>64.7</b>	<b>40.9</b>	<b>6,676.0</b>

The group analysis is net of issue costs of £24.4 million (2009: £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 £42.9 million (2009: £40.9 million).

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

	2010		2009	
	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	17.4	6,340.0	323.2	6,269.3
Debt issue costs	-	(24.4)	-	(25.7)
Obligations under finance leases	2.6	64.2	2.2	62.5
Other loans	1.4	1.3	0.2	3.4
	<b>21.4</b>	<b>6,381.1</b>	<b>325.6</b>	<b>6,309.5</b>

**Borrowing facilities**

The group has the following unused committed borrowing facilities:

	2010 £m	2009 £m
Expiring within one year	<b>580.0</b>	340.0
Expiring between one and two years	-	225.0
Expiring between two and five years	<b>25.0</b>	25.0
	<b>605.0</b>	<b>590.0</b>

In June 2009 a £355.0 million forward starting facility was signed to replace the existing £225.0 million facilities when they mature in July 2010.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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

**Control of treasury**

The treasury team, which reports directly to the Managing Director Finance & Non Regulated Business, 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, currency, liquidity and credit 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 Finance, Treasury and Energy Policy Group, including the Managing Director Finance & Non Regulated Business 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**

**a) 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.

**b) Interest rate**

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

**c) Commodity price risk**

The group is exposed to commodity price risk in its energy procurement and utilises forward energy instruments to minimise its exposure to price fluctuations.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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

**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.

**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.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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

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

	2010		2009	
	Book value £m	Fair value <sup>(1)</sup> £m	Book value £m	Fair value <sup>(1)</sup> £m
Cash at bank and in hand (including short-term deposits)	<b>724.8</b>	<b>724.8</b>	1,067.9	1,067.9
Current asset investments	<b>89.6</b>	<b>89.6</b>	-	-
Short-term borrowings	<b>(21.4)</b>	<b>(21.4)</b>	(420.2)	(422.1)
Long-term borrowings	<b>(6,363.7)</b>	<b>(6,297.9)</b>	(6,346.5)	(5,782.0)
Interest rate swaps	<b>207.7</b>	<b>263.6</b>	347.3	418.9
Index linked swaps	<b>(225.1)</b>	<b>(425.1)</b>	(215.7)	(386.8)
Net debt	<b>(5,588.1)</b>	<b>(5,666.4)</b>	(5,567.2)	(5,104.1)
Energy hedging instruments	-	<b>(21.6)</b>	-	-
Provisions excluding deferred tax and joint venture net liabilities (see note 20)	<b>(40.4)</b>	<b>(39.6)</b>	(36.0)	(52.4)
Other financial liabilities	<b>(2.5)</b>	<b>(2.5)</b>	(4.9)	(4.9)
	<b>(5,631.0)</b>	<b>(5,730.1)</b>	(5,608.1)	(5,161.4)

<sup>(1)</sup> The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £120.3 million (2009: £105.3 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, 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 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 2010. The value at that date was determined by market interest rates, which fluctuate over time.

The fair value of the group's energy hedging instruments is calculated to reflect the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2010. The value at that date was determined by market 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 2010

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

**Unrecognised gains and losses on hedges**

	2010			2009 (restated) <sup>(1)</sup>		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised at the beginning of the year	124.1	(240.0)	<b>(115.9)</b>	18.0	(106.8)	(88.8)
Reversal of items unrecognised at beginning of year	(5.4)	24.0	<b>18.6</b>	(2.3)	4.7	2.4
Recognised during the year	(33.1)	30.2	<b>(2.9)</b>	(11.2)	7.0	(4.2)
Arising during the year	23.4	(88.1)	<b>(64.7)</b>	119.6	(144.9)	(25.3)
Unrecognised at 31 March	<b>109.0</b>	<b>(273.9)</b>	<b>(164.9)</b>	124.1	(240.0)	(115.9)

<sup>(1)</sup> The unrecognised gains and losses in the prior year have been restated to exclude indexation on index linked swaps which is recognised on the balance sheet as part of interest accruals.

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 £164.9 million (2009: £115.9 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 2010.

Of the unrecognised gains and losses at 31 March 2010, a net gain of £26.8 million (2009: loss of £5.9 million) is expected to be included in the profit and loss account for the year ended 31 March 2011 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 2010</b>							
Total borrowings (all sterling) <sup>(1)</sup>	<b>(6,402.5)</b>	(2,984.1)	(421.1)	(2,997.3)	-	<b>7.1%</b>	<b>12.0</b>
Cash, deposits and current asset investments:							
– Sterling	<b>806.9</b>	-	806.9	-	-		
– Euro	<b>6.4</b>	-	6.4	-	-		
– Other currencies	<b>1.1</b>	-	1.1	-	-		
Net debt	<b>(5,588.1)</b>	(2,984.1)	393.3	(2,997.3)	-		
Provisions	<b>(40.4)</b>	-	-	-	(40.4)		
Other financial liabilities	<b>(2.5)</b>	-	-	-	(2.5)		
Net financial assets/(liabilities)	<b>(5,631.0)</b>	<b>(2,984.1)</b>	<b>393.3</b>	<b>(2,997.3)</b>	<b>(42.9)</b>		
<b>At 31 March 2009</b>							
Total borrowings (all sterling) <sup>(1)</sup>	(6,635.1)	(2,884.7)	(479.2)	(3,271.2)	-	7.4%	10.9
Cash, deposits and current asset investments:							
– Sterling	1,060.2	-	1,060.2	-	-		
– Euro	6.6	-	6.6	-	-		
– Other currencies	1.1	-	1.1	-	-		
Net debt	(5,567.2)	(2,884.7)	588.7	(3,271.2)	-		
Provisions	(36.0)	-	-	-	(36.0)		
Other financial liabilities	(4.9)	-	-	-	(4.9)		
Net financial assets/(liabilities)	(5,608.1)	(2,884.7)	588.7	(3,271.2)	(40.9)		

<sup>(1)</sup> The underlying currencies of borrowings as set out in the table of loans and other borrowings on page 47 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 2010

**20. Provisions for liabilities**

	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 2009	52.7	23.2	3.5	4.9	4.4	2.0	<b>90.7</b>
Charge/(credit) for the year	(5.6)	0.4	4.6	2.6	0.1	-	<b>2.1</b>
Transfer from investments	-	-	-	-	-	1.0	<b>1.0</b>
Unwinding of discount	-	0.1	-	-	-	-	<b>0.1</b>
Utilisation of ACT	5.0	-	-	-	-	-	<b>5.0</b>
Utilised in the year	-	(2.6)	-	(0.8)	-	-	<b>(3.4)</b>
<b>At 31 March 2010</b>	<b>52.1</b>	<b>21.1</b>	<b>8.1</b>	<b>6.7</b>	<b>4.5</b>	<b>3.0</b>	<b>95.5</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 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, and the restructuring of the Property business, which are expected to crystallise over a period of two years.

The contract and other provisions comprise uncertain warranty and certification costs of £1.2 million (2009: £1.3 million), which are expected to crystallise over a period of approximately two years and £3.3 million (2009: £3.1 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 (2009: none).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**21. Deferred tax**

**The group**

The total tax charge 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 £54.2 million.

	<b>£m</b>
At 1 April 2009	<b>52.7</b>
Deferred tax credited to the profit and loss account	<b>(5.6)</b>
ACT utilised in the year	<b>5.0</b>
<b>At 31 March 2010</b>	<b>52.1</b>

	<b>2010</b>	2009
	<b>£m</b>	£m
Accelerated capital allowances	<b>932.3</b>	920.8
Short-term timing differences	<b>(135.2)</b>	(137.6)
Surplus ACT asset	<b>(137.5)</b>	(142.5)
Undiscounted provision for deferred tax	<b>659.6</b>	640.7
Discount	<b>(607.5)</b>	(588.0)
Discounted provision for deferred tax	<b>52.1</b>	52.7
Deferred tax asset on pension liability (see note 22)	<b>(56.3)</b>	(28.6)
Total deferred tax (asset)/liability included in the balance sheet	<b>(4.2)</b>	24.1

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 of £22.8 million 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 (2009: none).



Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2010

**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 2010. For all three of the group's main schemes the latest valuations were at 31 March 2008.

The group contributed 16.0 per cent (2009: 15.3 per cent) of pensionable pay plus £20.8 million (2009: £10.7 million) per annum to AWGPS during the year. The group's contributions to MPLAP were £7.1 million (2009: £15.1 million) during the year and to MFPS were 20.3 per cent (2009: 20.3 per cent) of pensionable salaries plus £117,000 (2009: £117,000) per month. In the year to 31 March 2011, contributions are expected to be £51.5 million for employers' contributions and £5.4 million for members' contributions.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £5.7 million (2009: £5.5 million).

**a) Principal actuarial assumptions**

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

	<b>2010</b> <b>% pa</b>	2009 <b>% pa</b>
Discount rate	<b>5.6</b>	6.3
Inflation rate	<b>3.5</b>	3.0
Increase to deferred benefits during deferment	<b>3.5</b>	3.0
Increases to inflation related pensions in payment	<b>3.5<sup>(1)</sup></b>	3.0
General salary increases	<b>4.5</b>	4.0
	<b>2010</b> <b>years</b>	2009 <b>years</b>
Longevity at age 65 for current pensioners		
– Men	<b>23.3</b>	23.2
– Women	<b>25.8</b>	25.7
Longevity at age 65 for future pensioners <sup>(2)</sup>		
– Men	<b>25.4</b>	25.3
– Women	<b>27.7</b>	27.6

<sup>(1)</sup> For MFPS, the assumption for inflationary pension increases capped at 5 per cent is 3.4 per cent (2009: 2.8 per cent). Additionally, heavier mortality is assumed for this scheme, with life expectancy at age 65 for current pensioners being 20.2 years (2009: 18.5 years) for males and 22.8 years (2009: 20.6 years) for females. For members reaching 65 in 2030, the life expectancy at age 65 is 21.6 years (2009: 19.5 years) for males and 24.3 years (2009: 21.5 years) for females.

<sup>(2)</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 2010

**22. Pension commitments** (continued)

**b) Amounts recognised in profit or loss**

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2010</b>				
<b>Analysis of amount charged to staff costs within operating profit</b> (see note 9)				
Current service cost	(7.8)	(4.5)	-	<b>(12.3)</b>
Past service cost	(1.1)	-	-	<b>(1.1)</b>
<b>Total operating charge</b>	<b>(8.9)</b>	<b>(4.5)</b>	<b>-</b>	<b>(13.4)</b>
<b>Analysis of amount (charged)/credited to other finance income</b> (see note 6)				
Expected return on pension scheme assets	35.2	13.3	-	<b>48.5</b>
Interest on pension scheme liabilities	(47.2)	(14.6)	(2.6)	<b>(64.4)</b>
<b>Net return</b>	<b>(12.0)</b>	<b>(1.3)</b>	<b>(2.6)</b>	<b>(15.9)</b>
<b>Total charge to profit on ordinary activities before taxation</b>	<b>(20.9)</b>	<b>(5.8)</b>	<b>(2.6)</b>	<b>(29.3)</b>
<b>2009</b>				
Analysis of amount charged to staff costs within operating profit				
Current service cost	(13.1)	(5.2)	(0.1)	(18.4)
Past service cost	(1.3)	(0.2)	-	(1.5)
<b>Total operating charge</b>	<b>(14.4)</b>	<b>(5.4)</b>	<b>(0.1)</b>	<b>(19.9)</b>
Analysis of amount (charged)/credited to other finance income				
Expected return on pension scheme assets	47.1	16.7	-	63.8
Interest on pension scheme liabilities	(51.5)	(15.3)	(2.7)	(69.5)
<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>

The actual return on scheme assets was a gain of £206.8 million (2009: loss of £118.4 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**22. Pension commitments** (continued)

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

	<b>AWGPS £m</b>	<b>Total other funded schemes £m</b>	<b>Unfunded pensions £m</b>	<b>Total £m</b>
<b>2010</b>				
Actual return on pension scheme assets less expected return	101.7	56.6	-	<b>158.3</b>
Experience gains and losses arising on the scheme liabilities	(20.1)	(1.2)	-	<b>(21.3)</b>
Changes in assumptions underlying the present value of the scheme liabilities	(186.7)	(60.4)	(6.2)	<b>(253.3)</b>
Decrease in unrecognised asset	-	(1.6)	-	<b>(1.6)</b>
<b>Total loss recognised</b>	<b>(105.1)</b>	<b>(6.6)</b>	<b>(6.2)</b>	<b>(117.9)</b>
<b>2009</b>				
Actual return on pension scheme assets less expected return	(130.0)	(52.2)	-	(182.2)
Experience gains and losses arising on the scheme liabilities	13.2	11.3	(1.4)	23.1
Changes in assumptions underlying the present value of the scheme liabilities	94.3	13.9	3.9	112.1
Increase in unrecognised asset	-	4.0	-	4.0
Total loss recognised	(22.5)	(23.0)	2.5	(43.0)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £221.3 million (2009: £103.4 million).

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

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>2010</b>					
Equities	7.5	305.3	204.4	-	<b>509.7</b>
Corporate bonds	5.6	119.9	20.8	-	<b>140.7</b>
Government bonds	4.5	313.9	40.3	-	<b>354.2</b>
Property	6.5	41.1	6.2	-	<b>47.3</b>
Alternatives	6.5	33.4	20.5	-	<b>53.9</b>
Other	0.5	37.8	14.9	-	<b>52.7</b>
Total assets		851.4	307.1	-	<b>1,158.5</b>
Fair value of scheme liabilities		(997.6)	(314.9)	(48.9)	<b>(1,361.4)</b>
Amounts not recognised <sup>(1)</sup>		-	2.0	-	<b>2.0</b>
Deficit in the scheme		(146.2)	(5.8)	(48.9)	<b>(200.9)</b>
Related deferred tax asset		40.9	1.7	13.7	<b>56.3</b>
Net pension liability		<b>(105.3)</b>	<b>(4.1)</b>	<b>(35.2)</b>	<b>(144.6)</b>
Comprising:					
Pension schemes with net assets		-	1.4	-	<b>1.4</b>
Pension schemes with net liabilities		(105.3)	(5.5)	(35.2)	<b>(146.0)</b>
		<b>(105.3)</b>	<b>(4.1)</b>	<b>(35.2)</b>	<b>(144.6)</b>
<b>2009</b>					
Equities	7.0	223.0	106.9	-	329.9
Corporate bonds	6.3	50.2	36.9	-	87.1
Government bonds	4.0	333.1	48.8	-	381.9
Property	6.0	13.7	4.7	-	18.4
Alternatives	6.0	34.3	5.6	-	39.9
Other	0.5	53.1	18.6	-	71.7
Total assets		707.4	221.5	-	928.9
Fair value of scheme liabilities		(759.3)	(232.6)	(42.7)	(1,034.6)
Amounts not recognised <sup>(1)</sup>		-	3.6	-	3.6
Deficit in the scheme		(51.9)	(7.5)	(42.7)	(102.1)
Related deferred tax asset		14.5	2.1	12.0	28.6
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	-	3.5
Pension schemes with net liabilities		(37.4)	(8.9)	(30.7)	(77.0)
		<b>(37.4)</b>	<b>(5.4)</b>	<b>(30.7)</b>	<b>(73.5)</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 2010

**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>2010</b>				
At 1 April 2009	707.4	221.5	-	<b>928.9</b>
Expected return on scheme assets	35.2	13.3	-	<b>48.5</b>
Employers' contributions	31.7	14.1	2.6	<b>48.4</b>
Members' contributions	3.9	1.6	-	<b>5.5</b>
Benefits paid	(28.5)	(7.8)	(2.6)	<b>(38.9)</b>
Bulk transfer	-	7.8	-	<b>7.8</b>
Actuarial gain	101.7	56.6	-	<b>158.3</b>
<b>At 31 March 2010</b>	<b>851.4</b>	<b>307.1</b>	<b>-</b>	<b>1,158.5</b>
<b>2009</b>				
At 1 April 2008	790.6	243.6	-	1,034.2
Expected return on scheme assets	47.1	16.7	-	63.8
Employers' contributions	23.0	22.1	2.5	47.6
Members' contributions	4.0	1.5	-	5.5
Benefits paid	(27.3)	(7.2)	(2.5)	(37.0)
Actuarial loss	(130.0)	(52.2)	-	(182.2)
Disposal of subsidiary undertakings	-	(3.0)	-	(3.0)
At 31 March 2009	707.4	221.5	-	928.9

**f) Reconciliation of scheme liabilities**

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
<b>2010</b>				
At 1 April 2009	(759.3)	(232.6)	(42.7)	<b>(1,034.6)</b>
Current service cost	(7.8)	(4.5)	-	<b>(12.3)</b>
Past service cost	(1.1)	-	-	<b>(1.1)</b>
Interest cost	(47.2)	(14.6)	(2.6)	<b>(64.4)</b>
Members' contributions	(3.9)	(1.6)	-	<b>(5.5)</b>
Benefits paid	28.5	7.8	2.6	<b>38.9</b>
Bulk transfer	-	(7.8)	-	<b>(7.8)</b>
Actuarial loss	(206.8)	(61.6)	(6.2)	<b>(274.6)</b>
<b>At 31 March 2010</b>	<b>(997.6)</b>	<b>(314.9)</b>	<b>(48.9)</b>	<b>(1,361.4)</b>
<b>2009</b>				
At 1 April 2008	(824.2)	(246.8)	(44.9)	(1,115.9)
Current service cost	(13.1)	(5.2)	(0.1)	(18.4)
Past service cost	(1.3)	(0.2)	-	(1.5)
Interest cost	(51.5)	(15.3)	(2.7)	(69.5)
Members' contributions	(4.0)	(1.5)	-	(5.5)
Benefits paid	27.3	7.2	2.5	37.0
Actuarial gain	107.5	25.2	2.5	135.2
Disposal of subsidiary undertakings	-	4.0	-	4.0
At 31 March 2009	(759.3)	(232.6)	(42.7)	(1,034.6)

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**22. Pension commitments** (continued)

**g) History of schemes**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Deficit at 31 March</b>				
Fair value of scheme assets	<b>1,158.5</b>	928.9	1,034.2	999.3
Present value of scheme liabilities	<b>(1,361.4)</b>	(1,034.6)	(1,115.9)	(1,022.3)
Amounts not recognised	<b>2.0</b>	3.6	(0.4)	(3.4)
Deficit in the scheme	<b>(200.9)</b>	(102.1)	(82.1)	(26.4)
Related deferred tax asset	<b>56.3</b>	28.6	23.0	8.0
Net pension liability	<b>(144.6)</b>	(73.5)	(59.1)	(18.4)
<b>History of experience gains and losses</b>				
Actual return on pension scheme assets less expected return	<b>158.3</b>	(182.2)	(60.6)	(10.6)
Experience gains and losses arising on scheme liabilities	<b>(21.3)</b>	23.1	(43.9)	(3.3)
Changes in assumptions underlying the present value of the scheme liabilities	<b>(253.3)</b>	112.1	9.6	47.0
Movement in amounts not recognised	<b>(1.6)</b>	4.0	2.5	(1.1)
Amount recognised in the statement of total recognised gains and losses	<b>(117.9)</b>	(43.0)	(92.4)	32.0

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

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**23. Share capital**

	2010 £m	2009 £m
<b>Allotted, issued and fully paid</b>		
14,843,754 (2009: 15,000,000) A ordinary no par value shares	-	-
656,246 (2009: 500,000) B ordinary no par value shares	-	-
109,631,487,794 (2009: 109,631,487,794) redeemable preference no par value shares	-	-
	<u>-</u>	<u>-</u>

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.

During the year, 156,246 A ordinary shares were converted into B ordinary shares.

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 to receive in priority to any holder of any other class of shares, an amount equal to the aggregate of the capital paid up on their preference shares and participate in any surplus arising. 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.

The senior preference shares (see note 18) were redeemed on 15 February 2010.

**24. Movement in shareholders' funds**

**The group**

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2009	-	1,096.2	(259.6)	<b>836.6</b>
Profit for the financial year	-	-	31.6	<b>31.6</b>
Actuarial loss recognised on the pension schemes	-	-	(119.4)	<b>(119.4)</b>
Current tax relating to the actuarial loss on the pension schemes	-	-	5.4	<b>5.4</b>
Deferred tax relating to the actuarial loss on the pension schemes	-	-	28.0	<b>28.0</b>
Currency translation differences on foreign currency net investments	-	-	(0.2)	<b>(0.2)</b>
Total recognised gains and losses relating to the year	-	-	(54.6)	<b>(54.6)</b>
Dividends paid	-	-	(16.9)	<b>(16.9)</b>
<b>At 31 March 2010</b>	<b>-</b>	<b>1,096.2</b>	<b>(331.1)</b>	<b>765.1</b>

**The company**

	Share capital £m	Share premium account £m	Profit and loss reserve £m	Total £m
At 1 April 2009	-	1,096.2	0.5	<b>1,096.7</b>
Profit for the financial year	-	-	132.0	<b>132.0</b>
Dividends paid	-	-	(16.9)	<b>(16.9)</b>
<b>At 31 March 2010</b>	<b>-</b>	<b>1,096.2</b>	<b>115.6</b>	<b>1,211.8</b>

Anglian Water Group Limited  
**Notes to the group financial statements (continued)**  
for the year ended 31 March 2010

**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 2010.

	<b>2010</b>	2009
	<b>£m</b>	£m
Contracted for but not provided in the financial statements	<b>111.8</b>	122.2

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

**The company**

The company has no such commitments (2009: none).

**26. Commitment under operating leases**

At 31 March 2010 the group had annual commitments under non-cancellable operating leases expiring:

	<b>2010</b>		2009	
	<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>0.5</b>	<b>0.6</b>	0.1	0.3
Within two and five years	<b>2.9</b>	<b>2.3</b>	1.6	3.7
After five years	<b>9.9</b>	-	9.9	-
	<b>13.3</b>	<b>2.9</b>	11.6	4.0

**The company**

The company has no such commitments (2009: 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 financial obligations of joint ventures totalling £10.0 million (2009: £11.2 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 2010, the group had £137.5 million (2009: £142.5 million), before discounting, of recoverable ACT 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 2010

**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, Colonial First State Global Asset Management, Industry Funds Management (IFM), and 3i.

**29. 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 £115.0 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. These preference shares were redeemed at £1 per share, together with the related dividend of £25.7 million, on 15 February 2010. At 31 March 2010 the amount outstanding in relation to these preference shares, including the related dividend, was £nil (2009: £115.3 million).

During the period to 31 March 2007 the group issued £462.0 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 2010 the amount outstanding was £462.0 million (2009: £462.0 million). Interest of £11.0 million (2009: £11.3 million) has been accrued but not paid on these loan notes.

During the year to 31 March 2010 there were no other transactions, other than £16.9 million of dividends, (2009: none other than £160.8 million of dividends) with the shareholders of the ultimate parent undertaking.

**b) Transactions with Key Management**

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year the group repaid £2.4 million (2009: £nil) to Key Management as part of this scheme, and a return of £0.5 million (2009: £0.1million) was earned. At 31 March 2010 £1.4 million (2009: £3.3 million) was loaned to the group by Key Management under this scheme.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**29. Related party transactions** (continued)

**c) Other related party transactions**

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

	<b>2010</b>	2009
	<b>£m</b>	£m
Sale of goods/services	<b>0.4</b>	1.0
Purchase of goods/services	<b>(0.2)</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>2010</b>		2009	
	<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>2.7</b>	-	1.3	-
Joint ventures with AWG Property	<b>0.8</b>	<b>(0.5)</b>	1.2	(0.9)
	<b>3.5</b>	<b>(0.5)</b>	2.5	(0.9)

**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 2010</b>			
Joint ventures with AWG Property	13.5	(2.9)	<b>10.6</b>
Amounts provided	-	(1.5)	<b>(1.5)</b>
	<b>13.5</b>	<b>(4.4)</b>	<b>9.1</b>
<b>Year ended 31 March 2009</b>			
Joint ventures with AWG Property	26.5	(13.0)	13.5
Amounts provided	(6.8)	6.8	-
	19.7	(6.2)	13.5

Loans to related parties were made to fund the ongoing development activities of joint venture companies.

Anglian Water Group Limited  
Notes to the group financial statements (continued)  
for the year ended 31 March 2010

**30. Principal group companies**

The principal subsidiary undertakings at 31 March 2010 are shown below. A full list of the group's subsidiaries, joint ventures and associates will be delivered to the registrar with the next annual return.

	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 Parent Co Limited (formerly 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 Facilities Services</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 2010 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 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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

## Basis of audit opinion

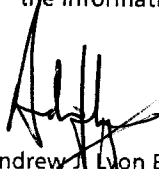
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the group's and the parent company's affairs as at 31 March 2010 and of the 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.

  
Andrew J. Lyon BSc FCA  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants  
Birmingham, England

17 June 2010