Anglian Water Services Limited

Annual Report for the year ended 31 March 2007

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Annual Report and Accounts 2007

Drinking Water Quality Summary Report 2006

Community and Environment Report 2007

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Front cover GPS PE Pipe Systems Limited, Huntingdon

Anglian Water provides water and wastewater services under licence from the Government. The quality of our service and the prices we are able to charge our customers are regulated by the Water Services Regulation Authority (WSRA) or Ofwat as it is more commonly known.

Key performance indicators

Drinking water[1] – overall zonal compliance

2006	99 95%
2005	99 96%

Leakage[2]

2006/7	5 5m³ per km/day (provisional)
2005/6	5 8m³ per km/day
2004/5	5 8m³ per km/day
Industry average 2005/6	10 6m³ per km/day

Overall Performance Assessment (OPA) results[2]

2006/7	412 (provisional)
2005/6	388
2004/5	408

Accident Frequency Rate[3]

2006/7	0 39
2005/6	0 39

Operating expenditure[4] £m

2006/7	324 7
2005/6	314 4

Capital expenditure[5] £m

2 years to 31 March 2007	721 8 determination
2 years to 31 March 2007	727 2 actual

[1] Drinking Water results published in 2006 for calendar year 2005
[2] 2006/7 results subject to formal confirmation from Ofwat in autumn 2007
[3] Number of accidents per 100,000 hours worked
[4] For the appointed and non-appointed businesses
[5] Cumulative spend from 1 April 2005 to 31 March 2007 inflated by Construction Outputs Price Index (COPI)

The Anglian Water region

The Anglian Water region extends from the Humber to the Thames estuary and from Buckinghamshire to the east coast It also serves Hartlepool The map shows the services Anglian Water provides to different areas of its region Anglian Water's head office is in Huntingdon, Cambridgeshire

Source of supply
- groundwater aquifer

Surface water
- reservoir
- bankside storage
- abstraction point

Areas in which we provide wastewater services only
1 Severn Trent Water
2 Thames Water
3 Cambridge Water
4 Three Valleys Water
5 Essex and Suffolk Water
6 Tendring Hundred Water

Water

We provide more than one billion litres of high quality drinking water to 4 2 million customers every day The water comes from reservoirs, underground reserves (aquifers) and via abstraction from rivers

Wastewater services

We receive approximately 980 million litres of wastewater a day from 5 5 million customers, including 1 2 million customers who receive their water from other companies The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets The organic waste is treated, dried and used in agriculture as a natural, high quality fertiliser.

Objective

Our aspiration is to become a frontier company within the water industry We want to be known by our customers principally for the reliability of our service We also want to be recognised as a leading company in terms of managing growth in the region and the impact of climate change

Chief Executive's statement
We are pleased to report another strong operational and financial performance by Anglian Water and success in maintaining unrestricted supplies to our customers despite challenging conditions.

Water resources

We are pleased to report another strong operational and financial performance by Anglian Water and success in maintaining unrestricted supplies to our customers despite challenging conditions

This position was achieved primarily as a result of maximising the amount of water pumped for storage, our focus on leakage and having almost 60 per cent of our customers using a water meter

These measures, combined with the support of our customers in reducing their water consumption, helped ensure that restrictions seen in other parts of the country were avoided Although we serve the driest part of the UK, there has not been a hosepipe ban since 1991

Groundwater in the south of the region fell below average levels during the early part of the year, but returned to normal levels in the autumn and winter as rainfall increased This has provided confidence that water levels at our reservoirs and underground resources are secure to meet forecast demand for 2007/8

Additional investment

Our customers used more water than expected last year As a result, we will be investing an additional £50 million beyond the 2005-10 regulatory determination in schemes to improve the security of supply to customers across our region

Of this, £40 million is in recognition of the higher revenues generated as a result of the hot, dry summer weather during the last two years In addition, Anglian Water will invest £10 million generated from efficiencies

This additional investment will improve the security of the water supply for customers in a number of towns across the Anglian Water region, including Norwich, Peterborough, Bedford, Wisbech, Ipswich, Newmarket and King's Lynn It will also fund extensions to the existing metering programme, particularly in parts of Suffolk, one of the fastest-growing and driest parts of our region

Operational performance

Our focus on health and safety continued during the year to good effect, and we were pleased to be recognised by the Royal Society for Prevention of Accidents, which presented us with a gold award

Anglian Water has consistently met Ofwat's leakage targets and had another very good year at tackling leakage in 2006/7 At 5 5 cubic metres per kilometre of main per day, Anglian Water's leakage is one of the lowest in the UK

Drinking water quality for the calendar year remained high, with 99 95 per cent of all water quality tests performed complying with regulatory standards Overall microbiological compliance for the period remains at a high level

All 47 designated bathing waters in Anglian Water's region passed the mandatory coliform standards of the Bathing Water Directive This is the eighth time in the past 10 years that 100 per cent compliance has been achieved Thirty-four of the bathing waters (72 per cent) also passed the guideline standard of the Directive (2005 83 per cent) This reduction was largely due to adverse weather conditions during the summer season

The Environment Agency published its latest assessment of river water quality in the region in August 2006, relating to the 2005 calendar year The assessment showed that 98 7 per cent of rivers' biological quality was classed as 'very good' to 'fair' (2004 98 1 per cent) In 89 4 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2004 90 4 per cent)

August and September 2006 saw significant flooding in parts of the region, as intense summer storms overwhelmed drainage systems in some areas Great Yarmouth was flooded by two extreme storms, one of which equated to half of the

Financial highlights

	2007 £m	2006 £m	Change %
Turnover	919 0	865 7	+6 2
Operating profit	404 8	359 6	+12 6
Operating cash flow	558 5	528 8	+5 6

average winter rainfall falling in approximately six hours We expect that the region will see more of these erratic weather conditions, which we believe are further evidence of climate change

This represents a particular challenge for us due to our low rainfall, low-lying coastline and the extensive, ecologically sensitive wetlands in the region

Focus on customers

Our aim is to deliver a service that goes beyond what the Regulator requires of us, to delivering a standard of service that compares well with any major service provider We aim to treat customers as if they have a choice of water supplier

This year we have implemented a number of initiatives to enhance the level of service we provide to our customers These include the creation of the Incident Service Manager role and the introduction of a new Customer Support Vehicle, which acts as a focal point for customers during events such as floods and bursts

This report is one of three we have produced this year We have also produced a Drinking Water Quality Summary Report and a Community and Environment Report Please see inside front cover for more information

Financial performance

Turnover for the year increased by 6 2 per cent as a result of the regulatory pricing formula, higher than normal revenues due to the increase in demand during last summer's dry weather and growth in customer numbers This increase in revenue, together with the realisation of cost efficiencies, contributed to operating profit increasing by £45 2 million (12 6 per cent) to £404 8 million

Capital expenditure

Gross capital expenditure for the year was £426 0 million, £169 0 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water The total capital investment in the first two years of the period was approximately £727 0 million (at 2006/7 prices), slightly higher than that assumed in the final determination

New ownership

On 23 November 2006, AWG Plc, the owner of Anglian Water, was acquired by Osprey Acquisitions Limited (Osprey), a consortium of pension funds and long-term infrastructure investors and fund managers

These investors are committed and responsible owners who have strong reputational and ethical standards The investors have affirmed their support for the management and strategy of Anglian Water

Outlook

It has been a demanding year for Anglian Water and the industry in general However, I believe that we have performed well in the face of these demands and I would like to take this opportunity to thank all of my colleagues for their hard work and commitment

Looking ahead to 2007/8, we remain focused on improving customer service, increasing our efficiency and delivering the remainder of our capital investment programme for this asset management period

We will also continue to develop our approach towards the forthcoming regulatory review, which will determine delivery requirements and charges for 2010-2015

As part of the review, Ofwat has requested that all companies submit strategic direction statements covering their objectives for the next 25 years We welcome the increased regulatory emphasis on long-term strategy and look forward to talking to our customers and other stakeholders as we develop our plans

Jonson Cox
Chief Executive and Chairman, Anglian Water Services Limited

Operating and Financial Review
Anglian Water provides water and wastewater services to more than five million domestic and commercial customers in the east of England and Hartlepool.

The Anglian Water region, the largest of any water company in England and Wales, stretches from the Humber to the Thames estuary and from Buckinghamshire to the east coast

The company aims to provide a high quality, cost-effective service to all its customers, whilst working to comply with, or exceed, all relevant public health and environmental standards

General overview

Company structure and financing

Anglian Water is the principal subsidiary of Anglian Water Group Limited (AWG) AWG became the ultimate parent company of the group following the acquisition of AWG Plc by Osprey Acquisitions Limited (Osprey)

Anglian Water Plc was first listed on the London Stock Exchange in 1989 when the water industry in England and Wales was privatised AWG Plc was subsequently delisted from the Stock Exchange on 21 December 2006

Before the acquisition by Osprey the proportion of Anglian Water's financing provided by debt was 79 per cent Following the acquisition, the decision was taken to increase the gearing at the water company level to 83 per cent, which remains comfortably within the covenant levels established to protect lenders

Overview of the Osprey consortium

% ownership	32 3%	32 3%	19 3%	16 1%
Origin	Australia	Canada	Australia	UK
Assets(a)	A$124bn	C$98bn	A$10bn	£5 7bn
Brief description	Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group	CPP Investment Board is an investment management firm established to invest funds received from the Canadian Pension Plan	IFM (International Infrastructure) Wholesale Trust is a fund that holds investments in international infrastructure assets Ultimately owned by Members Equity Bank Pty Ltd	A world leader in private equity and venture capital with a growing presence in infrastructure Listed on the London Stock Exchange

(a) Assets under management as at September 2006

Market operations

Drinking water

Every day Anglian Water supplies more than one billion litres of high quality drinking water to 4 2 million water customers via 132 water treatment works and 37,000 kilometres of water mains

The water in the west of the region is primarily sourced from reservoirs, the largest of which is Rutland Water The east of the region relies principally on groundwater reserves, known as aquifers

Two-thirds of the annual supply is used by households, of which around 60 per cent are metered

Wastewater

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

Approximately 980 million litres of wastewater are collected each day from 5 5 million customers, including customers who receive their water from other companies Anglian Water's sewerage network includes approximately 43,400 kilometres of pipes connected to 1,081 wastewater treatment works During the year we achieved certification of our wastewater management system to the standard required by ISO 9001

The Anglian Water region

Anglian Water serves an area of 27,500 square kilometres, the largest region served by any water company in England and Wales Employing approximately 3,600 people in 2006/7, Anglian Water is one of the region's biggest employers

As well as being the largest and driest region, it is also one of the country's fastest-growing regions in terms of housing growth Nearly a million new homes are planned to be built in our region over the next 25 years, partly accelerated by the Community and Local Government Office plans aimed at addressing housing shortages in the Southeast Meeting this growing demand is a key priority for Anglian Water

Corporate responsibility

Anglian Water treats corporate responsibility as an inherent part of the way we do business We support and actively encourage strategies and behaviours that demonstrate our commitment to the long-term viability of our business This reinforces our belief that business decisions should take into account social and environmental issues, as well as economic ones

We have incorporated our corporate responsibility objectives into the business strategy and this year we have focused our activities principally on five broad aims

=> To understand climate change, what it means to the Anglian Water region and contribute to reducing our impact on the environment
=> Seek to have a sustainable impact on our environment
=> Reduce our dependency on fossil fuels and achieve energy and fuel efficiency
=> To be recognised by our stakeholders and customers for our contribution to the communities we serve
=> To engage our employees and supply chain

For more information about our corporate responsibility priorities and performance, please refer to our separate Community and Environment Report (see inside front cover)

Eight out of 25 of the results of our employee opinion survey placed us among the top 10 companies in MORI's data set

The chart opposite shows Employee Engagement Index, derived from key questions from the survey

Management

Structure

Anglian Water has its own board of directors, which, as at June 2007, consisted of five Executive Directors and three independent Non-Executive Directors Two of the Executive Directors, the Group Chief Executive and Group Finance Director, are also directors of the ultimate parent company of Anglian Water, Anglian Water Group Limited (AWG)

During the year, Roger Witcomb, a former Non-Executive Director of the Anglian Water board resigned to become a director of AWG We welcomed Christopher Garnett to the Anglian Water board as a Non-Executive Director in December 2006 A former Chief Executive Officer of Great North Eastern Railways, he brings valuable experience of public service businesses David Hipple resigned as an Executive Director on 12 June 2007, following which Scott Longhurst assumed the responsibilities of the company Finance Director A full list of board directors is on page 29

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

People

Employee survey

We seek the opinion of our employees through an annual opinion survey, conducted by Ipsos MORI, which enables us to benchmark ourselves against other leading companies In eight of our top 25 measures, our results for 2007 placed us among the top 10 companies in MORI's data set (see opposite) We use some of the results to compile an overall Employee Engagement Index, which tests the overall motivation and commitment of our workforce We are pleased that our Index score for 2007 showed a statistically significant two per cent rise over the previous year

Occupational Health and Safety

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

We have made good progress in OH&S performance over the past four years and were awarded a prestigious Royal Society for the Prevention of Accidents (RoSPA) Gold Award for OH&S in 2007

Employee engagement index

	2007	Trend
Anglian Water	68%	+2
% positive		
Anglian Water interested in employee well-being	59%	+8
Anglian Water provides good value for money	58%	+6
Job satisfaction	64%	-2
Acts in a way consistent with what the company wants to be	61%	+5
Understands contribution to team aims	87%	-1
Has a responsibility in delivering outstanding customer service	83%	+1
Plays a part in company s success	66%	-1

Sample 2 121 employees (57 per cent)
Note Two per cent change is very significant

A key area for the future is our determination to achieve OHSAS 18001 (the internationally recognised quality assurance system for OH&S) certification of our OH&S management system In order to do so we must demonstrate that our policies and procedures meet the required standards by OHSAS 18001, achieve continuous improvement and pass the regular audits required to maintain certification

This year we completely reviewed our approach to risk assessment and recently launched a new, simpler approach to risk assessment

We remain committed to reducing work-related injuries and ill health Comprehensive occupational health support, including private health care and an employee assistance programme, is available to all our employees

Health and safety performance

Measure	2003/4	2004/5	2005/6	2006/7	Target 2007/8
Accident Frequency Rate*	0 48	0 42	0 39	0 39	0 34
Days lost per employee	9 93	8 29	7 20	7 00	7 00

*Accident Frequency Rate – number of reportable accidents per 100,000 hours worked

We will continue setting challenging targets for the future to reduce accidents, injuries and ill health During the year we put in place a detailed health and safety action plan, an annual statement of intent to target key improvement areas

Competitive environment

Water companies are able to offer water to large industrial or commercial customers outside their regional boundaries through the creation of what is known as inset appointments

In December 2005, Ofwat announced a new water supply licensing regime in England and Wales, whereby licensees will be able to supply water to business customers who use at least 50 megalitres of water a year

To date, seven licences have been granted by Ofwat, including one to Osprey Water, previously known as Hartlepool Water Limited

Since the new licensing regime came into effect, no business customers have opted to switch supplier Ofwat conducted a review that identified some legislative changes were required to overcome some of the restraints to competition Subsequently, Ofwat will be launching a consultation in the summer of 2007 As part of this consultation process, Ofwat plans to seek stakeholders' views on the future of competition in the water and sewerage industry

We have sought to support the water supply licensing regime through active engagement with Ofwat and licensees

Relationships with domestic customers

Customer surveys

The latest results from our customer survey conducted in March 2007 showed 83 per cent of customers were 'very' or 'fairly' satisfied with Anglian Water's overall service for the last quarter period of 2007 The average overall satisfaction for the year was 86 per cent, while 64 per cent of customers said they were satisfied with overall value for money

In addition we carry out weekly customer experience surveys of around 500 customers in order to measure customer satisfaction following customer contact with us, the results of which are used to improve customer service

Customer overall satisfaction from service provided

2006/7	**86%**
2005/6	85%
2004/5	85%
2003/4	87%
2002/3	88%

Source Millward Brown

Customer Service Index

The focus on customer service has been supported by a new 'Customer Service Index' (CSI), which combines a number of key measurements into a single measure The CSI performance is communicated to all staff every month During the first year of the CSI we outperformed our own stretching target by 8 3 per cent

A major step forward in relation to improving customer service was the replacement of our existing billing system See page 11 for further information

More information on our approach to customer service and our customer service initiatives are detailed in our separate Community and Environment Report

This year we won a Business in the Community 'Big Tick' award for excellence in promoting our corporate responsibility agenda with our supply chain partners

Bad debts
The level of bad debt within the water industry has continued to rise and is a problem faced by all water companies Anglian Water has looked at various initiatives to reduce the amount of money owed by customers

For those customers who are willing but unable to pay, we have introduced a number of tariffs designed for vulnerable customers Anglian Water also funds the Anglian Water Trust to help those customers keep up their payments with utility bills During the year the company made a payment of £1 0 million (2006 £1 0 million) to the fund

For customers who are able to pay but choose not to, we have a comprehensive range of debt recovery procedures

Relationships with business customers
As part of our commitment to business customers we offer a service called Optimiser The Optimiser Team consists of Industrial Process Engineers and Water Efficiency Assessors who are available to provide specialist advice to assist our business customers to maximise water efficiency, assess and refine on-site wastewater treatment processes and minimise water and wastewater services costs

The Optimiser Team helps businesses investigate the impact of any product changes, advises on process problems, recommend actions to improve water and wastewater process and helps implement the changes This work often brings operational and capacity benefits to our networks

In one example, through the Optimiser Team's study and recommendations, a potato processing plant client was able to reduce its water charges by £8,000 per annum In addition, the team identified that the company could reduce its trade effluent charges by around £48,000 if it could improve the compliance of its effluent against consents In doing so, the company improved its environmental performance and reduced its risk of prosecution due to a breach of its trade effluent consent

To date the team has helped more than 100 businesses optimise their water and wastewater processes and comply with their trade effluent consents

Relationships with suppliers
Prior to 2000, Anglian Water had a supplier base thought to be around 15,000 companies Since 2000, we have been actively reducing this number and as at the end of March 2007, had 2,500 suppliers

Anglian Water subscribes to the Achilles Utilities Vendor Database, which is used as the basis of our supplier selection process Anglian Water is also a Patron Member of the Verify scheme, a utility sector accreditation scheme aimed at improving the health and safety and environmental standards of the supply chain, and has a stated policy to use only Verify-accredited suppliers for high-risk activities

During the past year, we launched a Supplier Relationship Management Programme with eight of our top 50 suppliers The programme is aimed at ensuring alignment of suppliers' agendas with ours, as well as generating additional value from existing relationships through the elimination of waste and improved collaboration This has proven to be very successful and we plan to extend the initiative with other partners in 2007/8

In 2006, Anglian Water won an HBOS/BITC Big Tick Award for Excellence in promoting corporate responsibility with its supply chain partners

The '@One' Alliance formed in 2004 between Anglian Water and six partners, is now well-established and last year delivered a £169 0 million programme of more than 140 individual projects

In addition to the Alliance, we currently have additional delivery partners who are focusing on carrying out a £90 million Biosolids Programme and a programme to replace 243,000 water meters by 2010

Regulatory environment
Anglian Water supplies water and wastewater services under licence from the Government's economic regulator, Ofwat

On 1 April 2006 the role of the Director General of Ofwat was replaced by a board, the Water Services Regulation Authority, which is now responsible for the economic regulation of the water and sewerage industry in England and Wales The new Chief Executive of the Authority, Regina Finn, assumed responsibilities in October 2006

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

Between 2005 and 2010, Anglian Water is investing a further £1 5 billion (at 2002/3 prices) in our services, in addition to the £4 6 billion that we have invested since privatisation in 1989

Ofwat makes decisions independently of the Government, but it works closely with other regulators, see table below

Price Review 2009 (PR09)
In the coming year, Anglian Water will be engaging with customers and other key stakeholders to help set the company's long-term strategic vision We will publish our Strategic Direction Statement by December 2007 outlining our 25-year strategic plan This will be an important document for Anglian Water's customers, regulators and stakeholders and will provide a foundation for the company's next five-year business plan

Quality regulators

The Drinking Water Inspectorate (DWI) is the regulator with responsibility for drinking water quality, which is part of Defra (Department of Environment Food and Rural Affairs)

Defra evaluates and sets quality and environmental standards according to both UK Government and EU Directives, using quality regulators for expert opinion and consultation

The Environment Agency oversees environmental performance and in particular regulates the way in which water is abstracted from rivers and reservoirs and then returned to rivers or the sea after it has been cleaned

Natural England[1] works to enhance biodiversity landscapes and wildlife in rural urban coastal and marine areas It promotes access, recreation and public well-being and contributes to the way natural resources are managed

[1] comprising English Nature and elements of the Countryside Agency and Rural Development Service

All water companies in England and Wales operate within a special regulatory framework prescribed by the Water Industry Act 1991

The economic regulator Ofwat is responsible for setting limits on prices that water companies can charge and for overseeing overall performance

In April 2006, Ofwat was changed to the Water Services Regulation Authority The Authority consists of a Chairman and at least two other members

Water companies

Customer representatives

The Consumer Council for Water (CCWater) replaced WaterVoice in October 2005

CCWater represents the interests of customers in respect of price service and value for money It also investigates complaints from customers

CCWater is an independent body funded by the Department for Environment, Food and Rural Affairs

Other customer groups

Achievements during the year

Operational Management Centre

During 2005, we made a significant change in the way we manage our operations by creating an Operational Management Centre (OMC), which is located alongside our customer service department In simple terms the OMC is a central point of operational control for scheduling work for field staff, improving efficiency, managing risk and improving customer service We have already seen how the OMC improved our service levels and capacity to handle major incidents, for example during the floods in Great Yarmouth and a major supply interruption in Scunthorpe

The OMC has enabled a number of critical strategic developments Under the new operating model we are better able to integrate asset operations and management, understand the risks of non-intervention, make whole-life costing decisions and increase the ratio of planned to reactive work

Implementation of new customer billing system

Another major achievement in 2006/7 was the introduction of a new IT software system, a module of SAP, for managing customer information The SAP-ISU project has brought together customer and billing data which had previously been held on 14 separate systems This consolidation process has enabled us to improve the service we offer customers while improving the efficiency of our customer management processes

Installation of the new system was challenging and involved many teams across the business However, we were pleased that the implementation of the new system had minimal impact on customers and no significant impact on the timeliness or quality of billing

Delivery of the regulated capital programme and re-investing efficiencies

We are making good progress in delivering the outputs of our capital programme for the current five-year period

To improve water quality for customers we completed the mains replacement scheme at Harleston, Norfolk, six more nitrate removal projects and two schemes to reduce nickel concentrations For sewerage customers we have completed the scheme to provide secondary treatment at Aldeburgh, Suffolk, removed 142 properties from the sewer flooding register and provided first-time sewerage services to 1,232 properties at 10 locations

We have achieved efficiencies in the AMP4 capital programme to date and these have been invested in additional capital outputs Total capital expenditure over the first two years of the programme is 101 per cent of the assumed spend (based on 2006/7 prices)

We experienced significant upward operating cost pressures during 2006/7 These arose from a number of factors, including rises in rates, fuel and power costs We succeeded in offsetting these cost pressures through a number of initiatives, outperforming the operating expenditure assumptions of the determination by more than two per cent We spent more than assumed in the determination in sewerage services, partly as a result of our efforts to improve wastewater treatment compliance, but offset this with efficiencies in the water service

John Whittingdale, MP for Maldon and Chelmsford, attending the launch of a joint Anglian Water/Water Research Centre trial of new and different ways in which restaurants can dispose of fats, oils and greases

Picture shows a typical build up of fats, oils and grease in the sewerage network

Additional investment to improve the resilience of our networks

The ability to satisfy increased demand from our large measured customer base, largely during the summer of 2006, resulted in significant additional revenue This became apparent in the first half of the year and we shared this knowledge with Ofwat We believe the benefits of our water resource management, through metering and leakage detection investment should be reflected in shareholder returns, but it is equally important to protect the company's ability to deliver high levels of customer service

As a result, we decided that the most responsible course of action would be to use the additional revenue, in part, to put forward and implement plans to increase the resilience of the supply delivery system and a £40 0 million programme is now under way This action will contribute to ensuring that future generations will be able to enjoy the same resilience in our network that our future customers expect of a responsible utility

Treatment of sewage sludge (biosolids)

Sewage sludge is a by-product of the wastewater treatment process, and is also known as biosolids Anglian Water uses a number of methods for managing sludge, the most important and sustainable of which is recycling it to land Around 90 per cent of treated biosolid is used as a high quality fertiliser on agricultural land

A proportion of the biosolid is further treated and dried before being sold as a fertiliser Nutri-bio is Anglian Water's trademark name for this fertiliser Anglian Water offers the Nutri-bio product and service to farmers throughout its region

Anglian Water has received ISO 9001 and 14001 accreditation for our biosolids recycling activities, supporting the delivery of a high quality and sustainable service to our farming customers The biosolids recycling operation also achieved a (Silver) Green Apple award during the 2006/7 year for our biosolids recycling operation

The Anglian Water team accepting three Green Apple awards for their work on the reintroduction of the osprey, improvements in bathing water quality and biosolids

Water quality

Bathing water quality – mandatory standard

2006	100%
2005	100%

River water quality* – biological quality ('very good' to 'fair')

2005	98 7%
2004	98 1%

River water quality* – chemical quality ('very good' to 'fair')

2005	89 4%
2004	90 4%

*River quality results published in August 2006 for 2005 calendar year

Operational performance

Overall Performance Assessment

An Overall Performance Assessment (OPA) score is calculated each year by Ofwat and provides a comparative overview of water company performance It covers measures of water supply, sewerage service, customer service and environmental performance

Separately, Ofwat makes annual assessments of the serviceability of companies' assets In 2005/6 Anglian Water's sewerage assets were assessed as 'deteriorating' During 2006/7 we made good progress in returning our sewerage assets to 'stable' serviceability The key changes were a marked improvement in the compliance of wastewater treatment works with discharge consents and a continued reduction in sewer collapses due to a sewer renovation programme

Anglian Water's OPA score for 2005/6 was 388, ranking it fifth We anticipate a score of around 412 for 2006/7 on the basis of better wastewater treatment works compliance and faster response to water supply interruptions The final OPA score will be published in autumn 2007

We are committed to providing our customers with a high level of service and a consistent supply of wholesome drinking water This is demonstrated by excellent compliance in 2006 with the water quality standards of the Drinking Water Regulations Drinking water quality remained high throughout the year, with an overall mean zonal compliance of 99 95 per cent for 2006 Overall microbiological compliance remained high, with 99 91 per cent of samples in 2006 complying with mandatory standards

In Hartlepool, water quality compliance figures also continued to remain excellent in 2006, with an overall mean zonal compliance of 100 per cent Overall microbiological compliance for 2006 was also 100 per cent

Continuous monitoring is carried out at our treatment works and other key sites to complement the extensive laboratory sampling and analysis, which includes water from customers' taps

All water companies have a duty to inform the Drinking Water Inspectorate (DWI) of any events that have affected, or are likely to affect, drinking water quality The regulator then assesses the information provided to determine whether the event is significant or not If it is deemed significant then it is classified as an incident and enforcement action against the company concerned may also be considered Of the events notified by Anglian Water to the Regulator in 2006, eight were classified as incidents This information is detailed in the Chief Inspector's Report, which is available at www dwi gov uk

We invest continually to ensure that the high standard of drinking water quality is maintained Ofwat reviews proposals and determines the level of investment During AMP4, Anglian Water is investing almost £100 0 million on drinking water quality improvements This programme of work consists of 31 separate schemes, 10 of which were completed in 2006/7 Anglian Water is set to deliver the remainder of the schemes through to 2010

The completed schemes included the installation of new treatment processes at a number of water treatment works to ensure compliance with the standards for nitrate, nickel and, at one site, for the pesticide trietazine, along with a programme of water mains refurbishment in Harleston, Norfolk

Anglian Water is now planning for the next investment period (AMP5) covering the period from 2010 to 2015

Further details of the way in which investment by water companies is regulated can be obtained from the Ofwat website at www ofwat gov uk

Anglian Water has translated all of the regulatory requirements, as well as internal standards, into a set of detailed policies, standards and procedures for maintaining water supply hygiene These documents provide a robust risk management framework to ensure drinking water quality is assured A web-based tool has been developed to support our risk assessment, management and control process, available throughout Anglian Water via our intranet

To assist in providing drinking water quality information to customers, the Anglian Water website has been updated A post code search function provides both a drinking water summary and a detailed report for each supply zone In a recent Drinking Water Inspectorate anonymous customer service survey, Anglian Water was judged to have provided a 'full and comprehensive' response, which included information available on the internet at www anglianwater co uk

Anglian Water leakage performance – cubic metres per kilometre of main per day, compared to other water companies

Source Ofwat Security of supply, leakage and water efficiency report, 2005-06

Water resources

The Anglian Water region receives only two-thirds of the long-term average rainfall of England and Wales, making it the driest region in the UK

The 2005/6 winter was characterised by low rainfall, adding to the rainfall deficit that began in November 2004 As a result reservoir levels and groundwater levels were below average in spring 2006 We implemented our Drought Plan to ensure that appropriate measures were taken to maintain secure supplies without the need for restrictions Peak demands during hot dry weather in July 2006 were the highest recorded since 1996 and were met without significant problems A succession of months with above average rainfall from August 2006 to March 2007 marked the end of the drought conditions in the Southeast of England The above-average rainfall over the winter 2006/7 recharged water resources to normal levels

Anglian Water manages the demand for water by a combination of leakage control, metering and the promotion of the efficient use of water through the 'Waterwise' message

Leakage

Anglian Water's leakage target, as agreed by Ofwat, is set at what is known as the economic level of leakage This is the point at which it would cost more to make further reductions in leakage than to produce the water from another source

Anglian Water's economic level of leakage is 215 megalitres per day, around a third of which is estimated to be from customers' pipes Anglian Water's leakage rate in 2005/6, as confirmed by Ofwat, was 214 megalitres per day

As a result of our focus on leakage, we have consistently achieved one of the best records in the industry At 5 8 cubic metres per kilometre of main per day, it is almost half the industry average of 10 6 cubic metres per kilometre of main per day (2005/6 data)

This year we have invested more than £8 million in leakage management, including deploying some 100 leak detection technicians throughout the region to proactively locate leaks in our network This amount also includes an additional £2 million used to target leakage in our more vulnerable areas to the south of the region such as Essex, Suffolk and Milton Keynes

Peak demands during hot dry weather in July 2006 were the highest recorded since 1996 and were met without significant problems

We have also continued to help customers detect and repair leaks on their properties on a one-off basis as part of our Watertight promise

Our provisional leakage figure for 2006/7, due to be announced officially by Ofwat later this year, is 202 megalitres per day (5 5 cubic metres per kilometre of main per day) We believe that this result demonstrates the effectiveness of the approach we have taken, which has been an important factor in avoiding water restrictions for our customers

Waterwise messages
The south of the region, and in particular the Ipswich area, was the focus of the enhanced water efficiency campaign during the spring of 2006 in response to the risk of drought

The campaign used TV personality Bill Oddie to promote water savings through local media of radio, press and bus advertising The campaign was short-listed for the Marketing Initiative of the Year Award at the 2006 Utility Industry Achievement Awards

As part of Anglian Water's Waterwise media campaign, a water float toured the region to demonstrate visually how much water the average family uses in a day

Metering

At almost 60 per cent, Anglian Water has one of the highest proportions of metered customers of any water company in England and Wales

In addition, work has commenced on the installation of up to 40,000 water meters in the Ipswich area to increase measured water supply in an area of water scarcity Customers can choose whether to switch to a metered supply, however by doing so, they can save on average around £100 per year on their water bills

The chart below demonstrates how the combined approach of leakage reduction and the promotion of metering and enhanced water efficiency has meant that Anglian Water supplies roughly the same amount of water to the region as it did at privatisation in 1989 – around 1,200 megalitres per day During this period the number of households supplied has grown by nearly a quarter

A meter being installed at a customer's home More than 24,000 customers switched to using water meters in 2006/7

Bathing water quality

During the 2006 bathing season, Anglian Water once again achieved 100 per cent compliance with the mandatory bathing water standards, the eighth time in 10 years The tighter guideline standards were met at 72 per cent of the beaches (2005 83 per cent, 2004 65 per cent) The lower result was due to wetter weather conditions in August making the coastlines more vulnerable to pollution

River water quality

The Environment Agency published its latest assessment of river water quality in the region in August 2006, relating to the 2005 calendar year The assessment showed that 98 7 per cent of rivers' biological quality was classed as 'very good' to 'fair' (2004 98 1 per cent) In 89 4 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2004 90 4 per cent)

Distribution input versus connected properties

Source Anglian Water data 2007

Biodiversity Action Plan

Anglian Water's Biodiversity Action Plan is aimed at protecting the habitats and species on our sites From a site management perspective, the backbone of the plan is Anglian Water's commitment to the management of our Sites of Special Scientific Interest (SSSI) As the nation's most important conservation sites, SSSIs deserve our focus and Anglian Water is working with partners, such as the Wildlife Trust and Natural England, to get these sites into favourable condition The company's sites have already met the Government's 2010 target for SSSI condition, with 96 per cent being in 'favourable' or 'recovering' status

Anglian Water's most renowned species project is the osprey reintroduction at Rutland Water This year has seen another milestone, with the return from migration of the first Rutland-born ospreys The continuing success of this high-profile project demonstrates the company's long-term commitment to the environment

Long-term water resource planning

We produced our Water Resources Plan in 2004 to describe our strategy for managing water resources during the 25-year period 2005 to 2030 Investment through the supply-demand programme for 2005 to 2010 was approved in the 2004 Periodic Review Major investment to increase the capacity to treat water stored in our Rutland Water reservoir has progressed during 2006 Plans to extend the new water treatment works at Wing in Rutland, and to create habitat at the reservoir to protect its legal status as a European designated conservation site, have been approved by the planning authority, subject to ratification under the Habitats Regulations

Anglian Water is preparing a new draft Water Resources Management Plan during 2007 for publication in April 2008, and consultation as required by the Water Act 2003 The plan will cover the period 2010 to 2035 and will address the challenges of regional economic growth, forecasts for the impact of climate change and the potential reduction of water available for abstraction through the implementation of environmental legislation

Energy management

Energy accounts for 15 per cent of our total operating costs and, therefore, is a target for efficiency savings

Where we use electricity

Wastewater treatment 38%
Water treatment 27%
Wastewater collection 14%
Water distribution 7%
Water sourcing 14%
Offices 1%

In 2006, Anglian Water used 748 gigawatt-hours (GWh) of electricity, nearly two per cent of which (14 1 GWh) was generated from our own renewable sources We have set an ambitious target to reduce energy costs by 20 per cent by 2010 (from the 2006/7 baseline) A new Energy Team was created in 2006

During 2006/7 the Team predicts that it will have achieved

- Savings of £4 1 million in Anglian Water's overall energy costs
- Savings of 13 6 GWh through efficiency measures
- Reductions of 11,945 tonnes of carbon emissions

We are continuing to focus attention on generating renewable power through the capture and use of the gases created in the wastewater treatment process, using Combined Heat and Power (CHP) units

In 2007/8 we will be commissioning five new CHP engines at our wastewater treatment works We are also developing electricity generation using wind power in the long-term More information on our energy management and targets is contained in our separate Community and Environment Report

We are increasing our investment in low-carbon fuels and technologies and increasing our energy efficiency across the business

Principal risks and uncertainties

Anglian Water is exposed to a number of commercial risks and uncertainties that could have a material impact on our operations, financial condition or reputation Where possible, we look at measures to mitigate these risks However, we recognise that some of these factors are beyond our direct control The list below details the principal risks and uncertainties we face as a business

Legislative changes

Changes in law in the areas in which we operate could have an adverse effect on our business and operations

We continue to monitor and seek to influence proposed new European and UK legislation which we believe will have a potential impact on the business

A number of Directives have had or will have a large effect on how we operate In all cases we are working closely with the key regulatory bodies to ensure all investments in this area are cost beneficial to the company and our customers and achieved in a sustainable way These include

Water Framework Directive (WFD)

The WFD is the most substantial piece of EC water legislation to date The WFD (2000/60/EC) came into force in December 2000 and became UK law in December 2003 The WFD requires 'good' status for all bodies of water by 2015

Meeting WFD objectives will require coordinated action and investment by a large number of sectors The cost of meeting the WFD will be funded through periodic review processes as appropriate

Bathing Water Directive
The revised Bathing Water Directive came into force on 24 March 2006 with the overall objective remaining the protection of public health while bathing It now gives more significance to improving beach management practices and the standardisation of the information provided to bathers across Europe

Member states have two years in which to adopt the revised Directive into domestic law

The Directive sets three 'pass' standards, 'Excellent', 'Good' and 'Sufficient' and one 'fail' standard, 'Poor' Member states will be required to meet 'Sufficient' status at all designated waters by the end of the 2015 bathing season

Blue Flags are currently awarded to those resorts with appropriate facilities and which achieve the existing guideline standard for water quality We believe that the Blue Flag water quality requirement will move to the revised Directives highest standard of 'Excellent'

Given the timescales for compliance, accounting for the new Directive will feature in our submissions for the next Periodic Review We are currently undertaking a modelling exercise to assess the expected level of compliance with the new Directive and will be using this to shape our investment strategy

Climate Change Bill
The Climate Change Bill is currently in draft form The Bill will be the first of its kind in any country which sets out a framework for moving the UK to a low-carbon economy

Consequently for Anglian Water this will include increasing our investment in low-carbon fuels, technologies, such as wind and Combined Heat and Power processes, and increasing our energy efficiency across the business

One of the key issues for Anglian Water is how we achieve the quality improvements required by new Directives, such as those outlined above, while reducing our energy use and CO_2 emissions

Climate change
Climate change is a serious challenge for Anglian Water Extreme weather conditions, together with increased demand from customers, will affect our water resources, water quality and biodiversity Many of our treatment works are situated close to the coast or on flood plains Both coastlines and flood plains, and subsequently our assets and infrastructure, will be increasingly vulnerable to rising sea levels, more intense storms and flooding These conditions could affect our ability to provide water and wastewater services We are currently assessing our existing assets and infrastructure to prioritise actions and tackle the most vulnerable sites and infrastructure first

Anglian Water's Climate Change Action Plan includes research into the impact of climate change and measures to adapt to these changes

More information on the impacts of climate change for Anglian Water and the region we serve and how we are adapting to this change, is detailed in our separate Community and Environment Report

Driving through floodwater in Great Yarmouth during a storm, September 2006 Picture courtesy of Archant Norfolk

Energy management

Energy costs represent a key risk to Anglian Water's operating efficiency Anglian Water is one of the largest energy users in the east of England due to the energy required to treat water and wastewater and pump it around the flat region of east Anglia

With the help of Anglian Water's dedicated Energy Team, we continue to focus on improving energy efficiency and increasing renewable power generation through the development of a wind generation programme and Combined Heat and Power (CHP) processes

Regulatory relationships

We strive continually to improve our relationships and understanding of regulatory activities Improving working relationships helps minimise the risk of communication breakdown and threats to our operating licence

Environmental incidents

One of Anglian Water's key objectives is to minimise the impact of our operations on the environment Unfortunately, given the scale of the company's operations, covering an area of 27,500 square kilometres, there can be instances of failure

During the financial year 2006/7, the Environment Agency brought five court actions against Anglian Water for six pollution incidents Anglian Water pleaded guilty in all cases

Fines from the six convictions totalled £58,000 (2005/6 £44,500) Anglian Water works closely with the Environment Agency to learn the lessons from such incidents and to strive to prevent further incidents

Pensions

Anglian Water closed the defined benefit (final salary) pension scheme to new employees in 2002 Employees have subsequently been offered the opportunity to join a defined contribution scheme

The defined benefit (final salary) scheme remains a financial risk, with continued exposure to investment and mortality risk We are working closely with the Trustees, the in-house Treasury Team and our advisers to develop solutions for managing investment risk and to manage the expected improvements in longevity

Examples of communication materials used to raise awareness among employees of the need to be energy efficient and how they can contribute

Bad debts

The level of debt more than one year old continues to rise, which means a further increase in the bad debt provision In response however, the company has augmented its Debt Recovery team and introduced a number of initiatives to reduce the bad debt charge in future

Business continuity

Continuous improvement and testing of business continuity plans aims to ensure that we can effectively manage the challenges of UK and global threats to our business activities Global warming, terrorism and pandemic disease outbreaks remain threats that we must strive to mitigate, through investment in business resilience planning

Asset failure

The failure of a key asset could cause significant disruption to our services and may result in a breach of licence, or incur adverse regulatory action and/or financial consequences While we have stringent contingency plans in place, it may not always be possible to prevent such incidences However, we continue to invest appropriately in the security of our network to prevent such occurrences

Adoption of private drains and sewers

The Government has announced its intention, in principle, to transfer the ownership of private drains and sewers to water companies, although decisions remain to be taken on timing and scope While we welcome such a move for customers to whom it applies, as it will clarify the situation with regard to responsibility and ownership of sewers and drains, it will have a material increase in costs for Anglian Water Through a pilot project we are seeking to obtain better information on private sewers to improve the quality of cost estimates for our PR09 submission

Financial performance

Anglian Water Services Limited is part of the Anglian Water Group The company operates on an arm's-length basis from other companies within the group The financial results for the year ending March 2007 are presented on a consolidated basis for the company and its subsidiary company Anglian Water Services Financing Plc (AWSF)

The financial results have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP)

The company's activities are regulated by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and sewerage) and the conditions of an Instrument of Appointment (the licence) granted to the company by the Secretary of State for the Environment on 1 September 1989

With certain exceptions, the regulatory provisions do not apply to business activities that are not connected with the carrying out of the water and sewerage functions These business activities are referred to as non-appointed businesses (see note 3 on page 70)

Under Condition F of the licence the company is obliged to provide the Water Services Regulation Authority (WSRA) with additional accounting information to that contained in the statutory financial statements This information is presented in the regulatory accounts on pages 62 to 85

Operating results

The consolidated profit and loss account, as presented on page 32, is summarised in Table 1 below

Table 1

	2007 £m	2006 £m	Movement %
Turnover	919 0	865 7	+6 2
Operating profit	404 8	359 6	+12 6
Net interest payable and other finance income	(51 9)	(62 5)	-17 0
Profit before tax	352 9	297 1	+18 8
Taxation	(17 8)	(49 2)	-63 8
Profit after tax	335 1	247 9	+35 2
Dividends	(443 1)	(305 7)	+44 9
Loss for the financial year	(108 0)	(57 8)	+86 9

In order to aid understanding of the accounts, a pro forma profit and loss account is provided in Table 2 right In this profit and loss account, the interest receivable by the group from Anglian Water Services Holdings Ltd (see note 5 on page 41) and the inter-company dividend paid (see note 8 on page 43) by the group and retained within the Anglian Water Services Financing (AWSF) group (see Directors' report on page 28) of £193 1 million (2006 £240 7 million), have been eliminated

Table 2

	2007 £m	2006 £m	Movement %
Turnover	919 0	865 7	+6 2
Operating profit	404 8	359 6	+12 6
Net interest payable and other finance income	(245 0)	(255 6)	-4 1
Profit before tax	159 8	104 0	+53 7
Taxation	(17 8)	(49 2)	-63 8
Profit after tax	142 0	54 8	+159 1
Dividends	(250 0)	(65 0)	+284 6
Loss for the financial year	(108 0)	(10 2)	+958 8

Anglian Water's financial performance showed a continuing improvement in 2006/7 compared to the previous year

Turnover increased by 6 2 per cent as a result of the regulatory pricing formula, higher than normal revenues due to the effect of the dry weather in the early part of the summer in 2006 and growth in customer numbers This net increase in revenue of £53 3 million, together with the realisation of cost efficiencies, contributed to an increase in operating profit of 12 6 per cent (£45 2 million)

Price increases (before RPI*) set by the Regulator for 2005 to 2010

	2005/6	2006/7	2007/8	2008/9	2009/10
Anglian Water	3 8%	0 0%	2 8%	2 7%	2 7%
WaSC** average	9 4%	4 0%	3 4%	2 7%	2 2%

*Retail Price Index
**Water and sewerage company
Source Ofwat data

Anglian Water has adopted a Capital Alliance model for delivering its capital investment programme The Alliance is made up of Anglian Water and six partners in a collaborative and integrated team with common objectives and incentives Its purpose is to deliver programmes of work as quickly and efficiently as possible

Operating expenditure for the year (excluding depreciation) increased by 3 3 per cent to £324 7 million (2006 £314 4 million) This was due to upward pressure from costs associated with flooding in the period, power and rates Included in operating costs are £3 4 million (2006 £nil) of breakage costs associated with the early termination of employee share-based payment schemes, and a further £3 1 million (2006 £0 9 million) of employee share-based payments primarily due to the increase in share price of AWG Plc following the initial offer made by Osprey These costs were mitigated by savings from a number of efficiency initiatives Overall, operating expenditure as a percentage of turnover decreased slightly from 36 3 per cent to 35 3 per cent

Depreciation was down slightly from £191 7 million in 2005/6 to £189 5 million, primarily as a result of there being no charge on assets that came to the end of their depreciation lives in 2005/6 This more than offset the upward effect of new assets commissioned in the year The depreciation charge includes £52 5 million (2006 £51 0 million) of infrastructure renewals charge (IRC), which was up £1 5 million compared with the previous year due to inflation

Taxation costs decreased from £49 2 million in 2006 to £17 8 million in 2007 This was due to favourable movements in discount rates used to calculate the deferred tax charge, and increased capital allowances being available by virtue of prior year disclaimers

Net interest payable and other finance income per Table 2 (excluding interest receivable on an inter-company loan, see note 5 on page 41) reduced from £255 6 million in 2006 to £245 0 million in 2007 This reflects the reduction in the cost of debt achieved through refinancing in the last two years, and the FRS 17 pension credit arising from the difference between interest receivable on pension assets and interest payable on pension liabilities

Capital expenditure
Gross capital expenditure for the year was £426 0 million, £169 0 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water The total capital investment in the first two years of the Asset Management Period was approximately £727 million

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

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

As a first step, the company carried out a restructuring programme in the 2004/5 financial year, saving approximately £10 million per annum in operating costs, beginning in the financial year 2005/6 During 2006/7 further efficiency savings came from a range of projects, including the centralisation of operations, the management of energy purchasing and usage, a four-year agreement on pay and pension costs, re-tendering of IT and telecommunications' contracts, and programmes to reduce customer bad debt

Financial needs and resources
At 31 March 2007 the group had net borrowings of £3,896 2 million, an increase of £358 9 million over the prior year Net borrowings are a mixture of fixed, index-linked and variable rate debt of £4,450 1 million and cash and deposits of £553 9 million The increased net borrowings comprise a net increase of £411 3 million in loans and associated costs and a net increase of £52 4 million in cash and deposits

The business generated a net cash inflow from operating activities of £558 5 million in 2007 (2006 £528 8 million) The group, through its financing subsidiary AWSF, raised £550 million (before debt issue costs) in the current year Of this, £500 0 million was index-linked and the balance of £50 0 million was at floating rate This was used partly to refinance existing, more expensive debt and to achieve a higher level of gearing following the Osprey acquisition

Shareholder returns
Dividends of £443 1 million (2006 £305 7 million) have been paid and committed at 51 52 pence per share (2006 35 55 pence per share)

Of the above, £193 1 million (2006 £240 7 million) is payable to Anglian Water Services Holdings Limited in order for it to service the interest payable to the company on the inter-company loan of £1,609 1 million and £250 0 million (2006 £65 0 million) is payable outside the AWSF group The dividend payable outside the AWSF group equates to 29 07 pence per share (2006 7 56 pence per share)

The directors have proposed a final dividend for the year ended 31 March 2007 of 4 07 pence per share, which is a total of £35 0 million This dividend has not been accounted for within the current year financial statements as it was approved and paid after the year-end

Part of the impact of the Osprey acquisition was that a special dividend of £215 0 million was paid in 2006/7 to increase leverage to around 83 per cent In future the overall amount of our normal dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by Anglian Water and in practice will be limited to a net debt to regulatory capital value gearing ratio of 83 per cent The dividends declared or paid will not impair the ability of the company to finance the Appointed Business, and the dividend policy is compliant with condition F of the licence

Liquidity
The company's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments At 31 March 2007 the company held cash, deposits and current asset investments of £553 9 million (2006 £501 5 million) and had undrawn committed facilities of £225 0 million (2006 £225 0 million) These resources are maintained to ensure liquidity and the continuation of the company's investment programme The maturity profile of the company's borrowings is set out in note 16 on pages 47 to 51 of the accounts

In addition, the company has access to £328 0 million of liquidity facilities (2006 £333 0 million), consisting of £252 0 million to finance debt service costs and £76 0 million to finance operating expenditure and maintenance capital expenditure in the event that the company was in default on its debt obligations and had insufficient liquidity A BBB-rated facility of £50 million was set up during the year and was fully drawn down at 31 March 2007 All facilities are accessed under a loan agreement between the company, AWSF and Deutsche Trustee Company Ltd (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) dated 30 July 2002 This agreement guarantees that any facilities drawn by AWSF will be passed directly on to the company upon utilisation of the facility

Interest rates
The company's policy, as agreed by the board, is to achieve an optimum mix of funding at indexed (to RPI), fixed and floating rates of interest At the year-end, taking into account interest rate swaps, 48 6 per cent (2006 43 3 per cent) of the company's borrowings were at rates indexed to RPI, 42 5 per cent (2006 48 2 per cent) were at fixed rates and 8 9 per cent (2006 8 5 per cent) were at floating rates This includes the use of interest rate swaps to manage the company's exposure to interest rate fluctuations

This year we donated £1 million to the Anglian Water Trust Fund, an independent charity that aims to contribute to the fight against poverty within the Anglian Water region See www awtf org uk.

Credit risk

The company's main credit risk is in relation to trade debtors and is managed by regular review of problem accounts Due to the statutory requirement to provide a service, credit checks are not generally performed on domestic customers, where the risk is spread over a large number of low-value customer accounts

Donations

During the year the company made a payment of £1 0 million (2006 £1 0 million) to the Anglian Water Trust Fund The company also donated £40,000 (2006 £40,000) to WaterAid, and the fundraising committee raised a further £98,000 (2006 £66,000)

Pension funding

Pension scheme funding levels have continued to improve, with the FRS 17 deficit at 31 March 2007 standing at £15 9 million for all schemes, compared to £35 1 million at 31 March 2006 This reflects the improved market conditions since the previous year-end and the favourable movement in discount rates

Regulatory accounts

The regulatory accounts are set out on pages 62 to 85 These show the results of Anglian Water on a non-consolidated basis and provide an analysis of the appointed (regulated) and non-appointed businesses

Turnover of the appointed business

For the 2006/7, the Final Determination assumed turnover of £860 million (expressed at 2006/7 prices) Anglian Water Services' appointed business outturn for the year was £909 million The out-performance of £49 million is attributable to two principal factors as set out below

- => Higher than expected household demand due to a combination of last summer's dry months, and increased usage throughout the year
- => Higher than expected demand from businesses in the region as result of growth above expected levels

In recognition of the higher than anticipated revenues, Anglian Water will be investing an additional £50 million in schemes to improve the security of supply to customers across the region (see page 2)

Atypical costs

Operating costs for the appointed business were £324 0 million (2006 £310 6 million) This includes atypical costs (as defined by Ofwat) of £7 5 million, which comprises primarily costs associated with the acquisition by Osprey and abnormal costs associated with unusual weather conditions such as floods and drought conditions

Current cost depreciation

The current cost depreciation charge – as disclosed in the regulatory accounts – was £236 3 million (2006 £228 1 million)

Anglian Water board of directors

Chief Executive and Chairman
Jonson Cox
Jonson Cox was appointed Group Chief Executive of AWG Plc in January 2004 He gained experience in the water sector as a main Board Director of Kelda Group Plc from 1994 to 2000 He led Kelda's commercial business from 1992 to 1996 He was Managing Director of Yorkshire Water, the principal business of Kelda Plc from 1996 to 2000, delivering a successful turnaround of Yorkshire Water after its well publicised water supply difficulties in 1995

He was Chief Operating Officer of Railtrack Plc from October 2000 to 2001 He was Chief Executive of Valpak Limited from 2002 to 2003, a business service provider to the major UK retailers In his early career he had a number of management roles within Shell from 1979 to 1992

Jonson Cox joined AWG in January 2004 and led a three-year turnaround, culminating in the acquisition of AWG by the Osprey consortium of infrastructure investors in November 2006

In 2005 Jonson Cox was invited to join the Prince of Wales' Corporate Leaders Group, a panel of 12 Chief Executive Officers advising the UK Government on climate change

He serves as a Non-Executive Director of the board of Wincanton Plc, a FTSE 250 logistics company

Executive Directors
Peter Simpson
Chief Operating Officer
Peter Simpson was appointed Chief Operating Officer in November 2004 He previously held positions within the international division of AWG, including Regional Director for Europe based in the Czech Republic and Senior Vice President of Operations based in the USA Peter is a Chartered Water and Environmental Manager and a Chartered Safety and Health Practitioner He also holds an MBA from Warwick Business School

Jean Spencer
Director of Regulation
Jean Spencer was appointed as Director of Regulation in May 2004 Prior to joining Anglian Water, she held a number of positions with Yorkshire Water and Kelda, including Head of Regulation, Head of Internal Audit and Regulatory and Accounting Controller A qualified chartered accountant, Jean began her career at Grant Thornton in 1981 In 1984 she joined the Audit Commission, leaving in 1989 to join Yorkshire Water

Chris Newsome
Director of Asset Management
Chris Newsome was appointed in September 2004 He joined Anglian Water from Yorkshire Water where he held the offices of Network Technology Manager from 1990 to 1991, Water Systems Manager from 1991 to 1993, General Manager – Investment from 1996 to 2000 and more recently Head of Investment He is a chartered civil engineer, a member of the Institute of Civil Engineers and member of the Chartered Institute of Water and Environmental Management He also holds an MBA from Manchester Business School

David Hipple
Finance Director
David Hipple was appointed to the board of Anglian Water in November 2001. He previously held the office of Accounting Manager, Finance and Performance Manager and Head of Performance of Anglian Water. Prior to joining Anglian Water he held a number of finance roles in the Electronics and Retail Sectors. He initially worked in the accounting profession qualifying with Ernst and Young and subsequently worked overseas with Coopers and Lybrand. He became a Member of the Institute of Chartered Accountants in England and Wales in 1981. David Hipple resigned as an Executive Director on 12 June 2007.

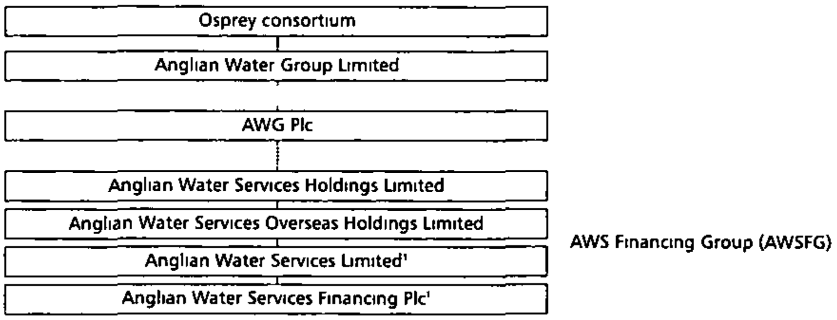
Scott Longhurst
Group Finance Director
Scott Longhurst was appointed Group Finance Director of AWG in November 2004. Before joining AWG, he held a number of positions with TXU Corporation between 2000 and November 2004, including Chief Financial Officer and Senior Vice President, Oncor Group, USA and Group Financial Controller and Chief Accounting Officer, TXU Corporation. Between 1991 and 2000 he held a number of UK and international financial and commercial roles with Royal Dutch/Shell Group including Chief Financial Officer of oil products joint ventures in Saudi Arabia between 1997 and 2000. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Independent Non-Executive Directors
Robert Napier
Robert Napier was appointed in February 2002. He held the offices of Finance Director of Fison Plc's global pharmaceuticals division and Finance Director, Joint Managing Director, Managing Director and Chief Executive of Redland Plc. He is currently Chairman of the Met Office, having recently retired after eight years as Chief Executive of WWF-UK. Robert is also Chairman of Governors of Sedbergh School. He was appointed as a Non-Executive Director of English Partnerships in March 2004.

John Watkinson
John Watkinson was appointed in May 2005. He has more than 20 years' experience in a variety of executive roles, encompassing buying, supply chain and operations, for high-profile, brand-led retail businesses. For most of the 1990s, he held successive Operations Director roles for both Habitat and Wallis. In 1999, he joined Hamleys plc as its Chief Operating Officer. In 2003, John led a successful management buyout of the company and became the Chief Executive of the newly-formed Hamleys Group. In November 2005 he was appointed as Chief Executive of Monsta Group Limited, a retail investment company, which includes the Jones Bootmaker footwear business.

Christopher Garnett
Christopher Garnett was appointed in December 2006. He has more than 20 years' experience in passenger transport and was for 10 years, until August 2006, Chief Executive of Great North Eastern Railways (GNER). Before GNER he was Commercial Director of Eurotunnel from 1991 until 1995 and before that was employed as Sector Director for Sealink British Ferries operating ferry services from the UK to the Continent. Since retiring from GNER he has taken on a number of other responsibilities, including being a Board Member for The Olympic Delivery Authority, Board Member for Transport for London and a Non-Executive Director of Aggregate Industries Ltd. He is also Chairman of the Future York Group and a member of the Advisory Board of the National Railway Museum.

Anglian Water ownership structure



—— Direct subsidiary - - - - Indirect subsidiary

[1] Collectively known as the Anglian Water Services Group for which consolidated accounts are prepared

The directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2007

Business review

On 23 November 2006, the ultimate parent company of Anglian Water Services Limited, being AWG Plc, was acquired by Osprey Acquisitions Limited As a consequence of this, the ultimate parent company of Anglian Water Services Limited became Anglian Water Group Limited (formerly Osprey Jersey Holdco Limited), a company registered in Jersey Anglian Water Group Limited is itself owned by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management, and 3i Group Plc The Anglian Water ownership structure is detailed above The information that fulfils the requirement of the business review, and a summary of the group's performance, future prospects and key risk management policies are included in the Chief Executive's statement and the Operating and Financial Review on pages 2 to 25

Common Terms Agreement

The company has a Common Terms Agreement (CTA) with its debt investors

The CTA sets out the terms and conditions of the company's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN

Under the CTA, the following companies are collectively known as the Anglian Water Services Financing Group (AWSFG)

=> Anglian Water Services Holdings Limited
=> Anglian Water Services Overseas Holdings Limited
=> Anglian Water Services Limited
=> Anglian Water Services Financing Plc

Corporate governance

The corporate governance measures put in place at the time of the financial restructuring in 2002 are designed to ensure that the company has the means to conduct its regulated business separately from other companies within the Anglian Water Group, and that all dealings between other companies within the Anglian Water Group and the company are on an arm's-length basis

The company is required to maintain at least three independent Non-Executive Directors, except for periods where a temporary vacancy exists The board may include directors who are also directors of other Anglian Water Group companies However, the CTA requires that Executive Directors in this category do not constitute a majority of the Executive Directors The constitutional documents of each company within the AWSFG provide that all conflicts of interest of directors must be disclosed and that no director may vote on any contracts or arrangements between the company and any other Anglian Water Group company if he/she is also a director of that Anglian Water Group company

The processes for identifying, evaluating and managing the significant risks to the company and the company's internal control systems are regularly reviewed by the Audit Committee, which reports its findings for consideration by the board of Anglian Water Services

The Audit Committee is comprised of Non-Executive Directors and has written terms of reference The terms of reference deal clearly with the committee's authority and duties

The processes used by the committee to carry out its duties include

- => A review of plans and reports prepared by internal and external auditors
- => A review of reports arising from the work of the Risk Management Committee on the effectiveness of risk management
- => Discussions with management on significant risk areas
- => The review of any significant issues highlighted by the Executive Directors, internal and external auditors

Financial instruments disclosures
Details are included on page 24 of the operating and financial review and in note 16 of the financial statements

Principal activities
The company provides more than one billion litres of drinking water to 4 2 million customers every day The water comes from a variety of sources reservoirs, underground reserves (aquifers) and abstraction from rivers The company receives approximately 980 million litres of wastewater per day from 5 5 million customers, including customers who receive their water from other companies The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets The organic waste is treated, dried and used in agriculture as a natural fertiliser

Results and dividends
The profit and loss account on page 32 shows the group's results and profit for the year Details of dividends paid during the year and proposed dividends can be found on page 24

Health and safety
Details are included on pages 6 and 7

Directors
The current directors of the company are listed below

Jonson Cox	–	Chief Executive and Chairman
Peter Simpson	–	Executive Director
Chris Newsome	–	Executive Director
Jean Spencer	–	Executive Director
Scott Longhurst	–	Executive Director
Robert Napier	–	Independent Non-Executive Director
John Watkinson	–	Independent Non-Executive Director
Christopher Garnett	–	Independent Non-Executive Director

All of the directors served throughout the year, except for Christopher Garnett, who was appointed as an Independent Non-Executive Director on 1 December 2006 Roger Witcomb resigned as an Independent Non-Executive Director on 26 April 2006 David Hipple resigned as an Executive Director on 12 June 2007 Following Mr Hipple's resignation Scott Longhurst has assumed the responsibilities of the company's Finance Director

Charitable and political donations
During the year the company made a payment of £1 0 million (2006 £1 0 million) to the Anglian Water Trust Fund This amount is included as an operating cost for statutory and regulatory accounts

The AWG Community Investment Scheme *give me five* - has given more than 11,000 hours (2006 6,000 hours) of employee time, for the year ended 31 March 2007 to support local community activities The scheme offers employees the opportunity to take 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

Following its acquisition by Osprey, Anglian Water Group has introduced a loyalty savings scheme, which enables employees to potentially benefit from the company's future performance

During the year, Anglian Water donated £40,000 to WaterAid, its recognised charity Individual requests for sponsorship were declined on the basis that the company's policy is to encourage community involvement rather than charitable donations

No political donations were made during the year

Research and development

The company has a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment and other water and wastewater-related matters

Employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the company This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations, electronic mailings and the company magazine The company's intranet is also widely used as a source of information

The company values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them The company has a series of policies that both inform and guide all employees on the company'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 company also has a series of family friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks

Before the takeover of AWG Plc by Osprey Acquisitions Limited, a Sharesave Scheme and a Sharebuy Plan were in place To replace these schemes the AWG loyalty savings scheme has been introduced to enable employees to potentially benefit from the company's future performance

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

Policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract This document 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 company abides by the terms of payment The company's average creditor payment period at 31 March 2007 was 40 days (2006 35 days)

Directors' disclosures to auditors

In the case of each of the persons who are directors at the time when the report is approved under Section 234ZA of the Companies Act the following applies

a) So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
b) He/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

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

Annual General Meeting

Pursuant to Section 366A of the Companies Act 1985, Anglian Water Services Limited has dispensed with the obligation to hold an Annual General Meeting and, pursuant to Section 252, the company has dispensed with the requirement to lay the annual report and accounts before the company in general meeting

By order of the board

Claire Russell
Joint Company Secretary
15 June 2007
Registered Office Anglian House,
Ambury Road, Huntington,
Cambridgeshire PE29 3NZ
Registered in England and Wales No 2366656

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit of the group for that period The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company and group will continue in business

The directors confirm that suitable accounting policies have been used and applied consistently as set out in note 1 to the financial statements (Accounting policies) They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2007 and the applicable accounting standards have been followed

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Group profit and loss account
for the year ended 31 March

Notes		2007 £m	2006 £m
2	**Turnover**	919 0	865 7
	Operating costs		
	– Operating costs before depreciation	(324 7)	(314 4)
	– Depreciation net of amortisation of grants and contributions	(189 5)	(191 7)
3	**Total operating costs**	(514 2)	(506 1)
4	**Operating profit**	404 8	359 6
5	Net interest payable	(59 3)	(62 4)
6	Other finance income/(charges)	7 4	(0 1)
	Profit on ordinary activities before taxation	352 9	297 1
7	Tax on profit on ordinary activities	(17 8)	(49 2)
	Profit for the financial year	335 1	247 9

Notes 1 to 27 are an integral part of these consolidated 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

Group statement of total recognised gains and losses
for the year ended 31 March

Notes		2007 £m	2006 £m
	Profit on ordinary activities after taxation	335 1	247 9
20	Actuarial gains recognised in the pension scheme	14 8	88 0
19 20	Movement on deferred tax relating to the actuarial gain in the pension scheme	(5 1)	(26 5)
	Deferred tax on share based payments	–	3 8
	Total recognised gains and losses relating to the year	344 8	313 2

Notes 1 to 27 are an integral part of these consolidated financial statements

Group and company balance sheets

at 31 March

Notes		Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
	Fixed assets				
11	Tangible assets	4,207 1	3,992 9	4,207 1	3,992 9
12	Investments	1,609 2	1,609 2	1,609 2	1,609 2
		5,816 3	5,602 1	5,816 3	5,602 1
	Current assets				
13	Stocks	11 7	10 6	11 7	10 6
14	Debtors	215 7	169 6	406 5	169 6
	Investments – money market deposits	242 0	–	40 0	–
	Cash at bank and in hand (including short-term deposits)	311 9	501 5	310 3	501 5
		781 3	681 7	768 5	681 7
	Creditors amounts falling due within one year				
15,16	Short-term borrowings	(78 6)	(202 4)	(78 6)	(202 4)
15	Other creditors	(406 8)	(376 9)	(406 8)	(383 2)
		(485 4)	(579 3)	(485 4)	(585 6)
	Net current assets	295 9	102 4	283 1	96 1
	Total assets less current liabilities	6,112 2	5,704 5	6,099 4	5,698 2
	Creditors amounts falling due after more than one year				
16	Loans and other borrowings	(4,371 5)	(3,836 4)	(4,371 5)	(3,836 4)
17	Other creditors	(112 3)	(102 6)	(112 3)	(102 6)
18	**Provisions for liabilities and charges**	(119 6)	(139 2)	(119 6)	(139 2)
20	**Defined benefit pension liabilities**	(31 7)	(35 1)	(31 7)	(35 1)
20	**Defined benefit pension assets**	15 8	–	15 8	–
	Net assets including pension deficit	1,492 9	1,591 2	1,480 1	1,584 9
	Capital and reserves				
22	Called up share capital	860 0	860 0	860 0	860 0
23	Profit and loss reserve	632 9	731 2	620 1	724 9
	Total shareholders' funds	1,492 9	1,591 2	1,480 1	1,584 9

Notes 1 to 27 are an integral part of these consolidated financial statements

The financial statements on pages 32 to 60 were approved by the board of directors on 15 June 2007 and were signed on its behalf by

Pete Si

Peter Simpson
Chief Operating Officer

Scott Longhurst
Group Finance Director

Group cash flow statement
for the year ended 31 March

Notes		2007 £m	2006 £m
(a)	**Net cash inflow from operating activities**	558 5	528 8
	Returns on investments and servicing of finance		
	Interest received	223 6	282 5
	Interest paid	(217 2)	(244 9)
(d)	Issue costs of new bank loans	(0 4)	–
	Interest element of finance lease rental payments	(5 9)	(6 5)
	Net cash inflow from returns on investments and servicing of finance	0 1	31 1
	Taxation		
	Corporation tax paid	(10 1)	(2 0)
	Payments to other AWG Plc group undertakings	(24 3)	(5 4)
		(34 4)	(7 4)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(416 0)	(264 0)
	Grants and contributions received	33 0	24 1
	Disposal of tangible fixed assets	5 6	2 0
	Net cash outflow for capital expenditure and financial investment	(377 4)	(237 9)
	Equity dividends paid to shareholders	(442 6)	(305 7)
	Net cash (outflow)/inflow before management of liquid resources and financing	(295 8)	8 9
(c)	**Management of liquid resources**		
(d)	(Increase)/decrease in short-term deposits and investments	(23 7)	311 2
	Net cash (outflow)/inflow from management of liquid resources	(23 7)	311 2
	Financing		
(d)	Increase in loans	550 0	399 9
(d)	Repayment of amounts borrowed	(177 9)	(726 6)
(d)	Capital element of finance lease rental payments	(23 9)	(20 5)
	Net cash inflow/(outflow) from financing	348 2	(347 2)
(d)	**Increase/(decrease) in cash**	28 7	(27 1)

Notes (a) to (d) form part of this consolidated cash flow statement

Notes 1 to 27 are an integral part of these consolidated financial statements

Notes to the group cash flow statement
for the year ended 31 March

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

	2007 £m	2006 £m
Operating profit	404 8	359 6
Depreciation (net of amortisation of deferred grants and contributions)	189 5	191 7
Profit on sale of fixed assets	(5 1)	(1 8)
Other non-cash movements	–	(6 2)
Net movement in provisions	(4 8)	0 8
	584 4	544 1
Working capital		
Increase in stocks	(1 1)	(3 7)
Increase in debtors	(46 1)	(21 0)
Increase in creditors	21 3	9 4
	(25 9)	(15 3)
Net cash inflow from operating activities	558 5	528 8

(b) Analysis of net debt

	1 April 2006 £m	Cash flows £m	Non cash movements £m	31 March 2007 £m
Cash at bank and in hand	40 3	28 7	–	69 0
Deposits and investments	461 2	23 7	–	484 9
Debt due within one year	(202 4)	148 7	(24 9)	(78 6)
Debt due after one year	(3,836 4)	(496 5)	(38 6)	(4,371 5)
	(3,537 3)	(295 4)	(63 5)	(3,896 2)

Non-cash movements comprise indexation of index linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, repayments made by Anglian Water Services Financing Plc, amortisation of discounts and expenses relating to debt issues and amortisation of 'mark to market' adjustments Included within deposits and investments above are £242 9 million (2006 £461 2 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

(c) Management of liquid resources

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

(d) Movement in net debt

	2007 £m	2006 £m
At beginning of year	(3,537 3)	(3,499 4)
Net increase/(decrease) in cash	28 7	(27 1)
Increase/(decrease) in short-term bank deposits and investments	23 7	(311 2)
Increase in loans	(550 0)	(399 9)
Repayment of amounts borrowed	177 9	726 6
Issue costs of new bank loans	0 4	–
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	0 7	(0 9)
Indexation of loan stock and RPI swaps	(64 2)	(45 9)
Capital element of finance lease rental payments	23 9	20 5
At end of year	(3,896 2)	(3,537 3)

1 Accounting policies

These consolidated financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice and with the Companies Act 1985, except as disclosed in note 1(d) below as relating to grants and contributions

a) **Basis of consolidation**

The Anglian Water Services group (the group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March Intra-group sales and profit are eliminated fully on consolidation

In accordance with Section 230(4) of the Companies Act 1985, Anglian Water Services Limited is exempt from the requirement to present its own profit and loss account The amount of the profit for the financial year dealt with in the financial statements of Anglian Water Services Limited is disclosed in note 10 to the accounts

b) **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

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information The calculation is sensitive to estimated consumption for domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £2 4 million)

c) **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 the company's Asset Management Plan, which is independently certified by the Reporter to Ofwat

(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, mobile 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 cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows

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

Fixed assets are assessed for impairment in accordance with Financial Reporting Standard (FRS) 11 'Impairment of fixed assets and goodwill', if an appropriate trigger arises

1 Accounting policies continued

d) Grants and contributions

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

Grants and contributions to capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 1985

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets This policy is not in accordance with Schedule 4 of the Companies Act 1985, which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view as, in the opinion of the directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income The financial effect of this departure is disclosed in note 11

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

e) 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

f) Investments

Investments held as fixed assets are stated at cost less any provision for impairment

g) Stocks

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence

h) Pension costs

Defined Benefit Schemes

For the defined benefit schemes and unfunded pension arrangements, 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 company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities arising from the passage of time are included in other finance charges Actuarial gains and losses are recognised in the statement of total recognised gains and losses

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

Defined Contribution Scheme

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

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

j) **Foreign currencies**
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transactions or, if hedged forward, at the rate of exchange under the related forward currency contract Assets and liabilities denominated in foreign currencies are translated into sterling at the financial year-end exchange rates or, if hedged forward, at the rate of exchange under the related forward currency contract

k) **Current and deferred taxation**
Current taxation is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

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

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

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

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(c)) 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

l) **Bad debts**
The bad debt provision is calculated based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile

m) **Related party transactions**
The group has taken advantage of the exemption not to disclose transactions with other members of the Anglian Water Group Limited group under FRS 8 'Related party disclosures' as it is a wholly-owned subsidiary

n) **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

1 Accounting policies continued

o) **Financial instruments**

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

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

Gains and losses on derivative instruments used for hedging are recognised on maturity of the underlying transactions Gains and losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to the profit and loss account immediately

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

The group has not adopted FRS 26 'Financial instruments recognition and measurement' and therefore the disclosure requirements of paragraphs 51 to 95 of FRS 25 'Financial instruments disclosure and presentation' are not applicable The disclosure requirements of FRS 13 'Derivatives and other financial instruments disclosure' have been applied

p) **Capitalisation of finance costs**

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

q) **Provisions**

Provisions are recognised when the group has a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation

Provisions of a long-term nature are discounted to reflect the time value of money in the estimated period over which the provision will be utilised A risk-free rate of discount has been used

r) **Redundancy costs**

Redundancy costs are charged to the profit and loss account in the period 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

s) **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

t) **Share based remuneration**

For grants made under the AWG Plc group's share based remuneration scheme, amounts that reflect the fair value of options awarded as at the time of grant are charged to the profit and loss account The valuation of options utilises a binomial option pricing model which forms the basis for the charge from AWG Plc for the group's element of the charge under these schemes During the year all group share based schemes ended as a consequence of the change in ownership and delisting of AWG Plc

u) **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

2 Segmental analysis

The directors believe that the whole of the group's activities constitute a single class of business

The group's turnover is wholly generated from within the United Kingdom

3 Operating costs

	2007 £m	2006 restated[1] £m
Operating costs before depreciation		
Raw materials and consumables	11 2	25 7
Other operating costs	234 4	213 4
Staff costs (see note 9)	138 9	121 1
Own work capitalised	(55 7)	(45 0)
Contribution to Anglian Water Trust Fund	1 0	1 0
Profit on sale of fixed assets	(5 1)	(1 8)
Total operating costs before depreciation	324 7	314 4
Depreciation of tangible fixed assets	198 9	199 7
Amortisation of deferred grants and contributions	(9 4)	(8 0)
Depreciation net of amortisation of deferred grants and contributions	189 5	191 7
Total operating costs	514 2	506 1

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

[1] The prior year comparative for staff costs has been restated by £9 2 million to include benefits in kind, cash for car payments and other staff costs which were previously categorised within other operating costs (see note 9)

4 Operating profit

	2007 £m	2006 £m
Operating profit is stated after charging		
Audit services		
– fees payable to the company auditors for the audit of the parent company and the consolidated accounts	0 2	0 1
Non audit services		
– other services pursuant to regulatory requirements	0 2	0 1
– other services	0 1	0 1
Total fees paid to the auditors	0 5	0 3
Hire of plant and machinery	1 0	1 1
Other operating lease rentals payable	7 9	8 7
Research and development expenditure	0 6	1 1

The fees paid to auditors for other non audit services largely relate to the review of the offering circular under IFRS and the guaranteed standards scheme reporting to Ofwat

5 Net interest payable

	2007 £m	2006 £m
Other loans including financing expenses	212 7	244 2
Indexation	64 3	45 9
Finance leases	5 7	6 9
Interest receivable from Anglian Water Services Holdings Limited	(193 1)	(193 1)
Other interest receivable	(30 3)	(41 5)
Net interest payable and similar items	59 3	62 4

6 Other finance (income)/charges

	2007 £m	2006 £m
Unwinding of discount on provisions (see note 18)	1 0	0 9
Defined benefit pension scheme (see note 20(c))	(8 4)	(0 8)
Other finance (income)/charge	(7 4)	0 1

7 Taxation

	2007 £m	2006 £m
a) Analysis of tax charge in the year		
Current tax		
UK corporation tax	23 0	22 6
Adjustments in respect of previous periods	7 7	–
Total current tax charge	30 7	22 6
Deferred tax		
Charge for timing differences arising in year	21 1	11 5
Impact of discounting on deferred tax liability	(22 2)	(9 6)
Impact of decrease in discount rates	(12 2)	20 9
Discounted effect of movements in Advance Corporation Tax (ACT)	4 1	5 0
Reversal of prior year asset on share scheme	3 8	–
Adjustments in respect of previous periods	(7 5)	(1 2)
Total deferred tax (credit)/charge	(12 9)	26 6
Total tax charge on profit on ordinary activities	17 8	49 2

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 £12 2 million (2006 charge of £20 9 million) in the year If all UK gilt rates moved by 0 25 per cent a change in the tax charge of between £10 0 million to £15 0 million would occur

The current tax charge includes a charge of £6 7 million (2006 £12 0 million) from another AWG Plc group undertaking for the utilisation of ACT

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited

b) Factors affecting tax charge for the period

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

	2007 £m	2006 £m
Profit on ordinary activities before tax	352 9	297 1
Profit on ordinary activities at the standard UK rate of corporation tax (30 per cent)	105 9	89 1
Effects of		
Items not deductible for tax purposes	0 1	(0 5)
Group relief utilised	(57 9)	(55 2)
Tax relief on employee exercise of share options	(4 2)	–
Accounting for depreciation not eligible for tax purposes	0 7	0 7
Capital allowances for the year in excess of depreciation	(19 6)	(11 9)
Short-term timing differences	(2 0)	0 4
Adjustment to tax charge in respect of previous periods	7 7	–
Current tax charge for the year	30 7	22 6

8 Dividends

	2007 £m	2006 £m
Previous year final dividend	35 0	30 0
Current year interim dividend	–	35 0
Special distribution	215 0	–
Dividend paid by the company and retained within the Anglian Water Services Financing group	192 6	240 7
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	0 5	–
	443 1	305 7

A dividend of £192 6 million (2006 £240 7 million) was paid to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609 1 million (see note 12) The remaining £0 5 million which has been committed to be paid will be settled in June 2007

The special distribution of £215 0 million was paid on 7 March 2007 as a financial restructuring dividend to increase gearing in the company

The directors have proposed a final dividend for the year ended 31 March 2007 of 4 07 pence per share, which is a total of £35 0 million This dividend has not been accounted for within the current year financial statements as it has been approved and paid subsequent to the year-end

9 Employee information and directors' emoluments

a) Employee information

	2007 £m	2006 restated[1] £m
Staff costs		
Wages and salaries	106 7	95 3
Social security costs	9 6	8 0
Pension costs – defined contribution (see note 20)	1 6	0 8
Pension costs – defined benefit (see note 20)	14 5	16 1
Share scheme costs[2]		
– Regular cost	3 1	0 9
– Employee share scheme early vesting breakage costs	3 4	–
	138 9	121 1

[1] The prior year comparative has been restated to include benefits in kind cash for car payments and other staff costs amounting to £9 2 million which were previously categorised within other operating costs

[2] The company participated in a number of share incentive schemes that were operated by the AWG Group on behalf of its employees up to 23 November 2006 when they vested early as a result of the takeover of AWG Plc by Osprey Acquisitions Limited The regular cost of the schemes was calculated with reference to the anticipated number and value of options that would have vested at the end of the vesting period and this amount was charged to the company by AWG Plc with reference to the number of options that the employees of the company were entitled to As a result of the acquisition of AWG Plc by Osprey Acquisitions Limited all share incentive schemes vested early, and an early vesting breakage charge of £3 4 million was made to the company by AWG Plc for the amount that otherwise would have been recognised for services received over the remainder of the vesting period

Any employer s national insurance that is chargeable on the gain between the option price and the actual share price at the period end has also been charged to the profit and loss account

The regular cost for employee share schemes has increased significantly compared to the prior year and approximately 60 per cent of the increase relates to the increase in the share price of AWG Plc following the initial offer made by Osprey Acquisitions Limited to purchase the entire share capital of AWG Plc on 14 September 2006

Staff costs for the year ended 31 March 2007 includes £55 7 million (2006 £45 0 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs of £1 3 million (£0 6 million of wages and salaries and £0 7 million of pension costs) wholly relating to a reorganisation undertaken by the business (2006 £1 3 million of which £0 5 million represented wages and salaries and £0 8 million represented pension costs)

9 Employee information and directors' emoluments continued

a) Employee information continued

	2007	2006
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	654	631
Wastewater Services	1,187	1,133
Customer Services	637	495
Asset Management and Other	1,133	1,063
	3,611	3,322

b) Directors' emoluments

	2007 £000	2006 £000
Aggregate emoluments	1,567	1,373
Aggregate compensation for loss of office	780	-
Total emoluments	2,347	1,373
Company contributions to money purchase pension schemes	203	180

Aggregate emoluments of the directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes Retirement benefits are accruing to two directors (2006 two directors) under a defined benefit scheme Retirement benefits are accruing to three directors (2006 three directors) under a defined contribution scheme The aggregate amount of compensation for loss of office includes a sum of £550,000 in respect of pension arrangements

c) Share options and long-term incentive schemes

During the year five directors (2006 nil directors) including the highest paid director, exercised share options and six directors (2006 nil directors) including the highest paid director, received shares in AWG Plc under long-term incentive schemes

d) Highest paid director

	2007 £000	2006 £000
Aggregate highest paid director's emoluments	497	408

The company's contribution in respect of the highest paid director into defined contribution pension schemes was £136,100 (2006 £112,500)

10 Profit for the financial year

The group profit for the financial year includes a profit of £328 6 million (2006 £246 9 million), which has been dealt with in the financial statements of the parent undertaking

11 Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Group and company Assets under construction £m	Total £m
Cost						
At 1 April 2006	29 0	2,431 0	3,026 0	618 9	240 1	6,345 0
Additions	–	–	–	–	426 0	426 0
Transfers on commissioning	1 7	125 9	131 5	100 1	(359 2)	–
Disposals	(0 1)	(0 3)	(0 1)	(0 5)	–	(1 0)
At 31 March 2007	30 6	2,556 6	3,157 4	718 5	306 9	6,770 0
Grants and contributions						
At 1 April 2006	–	(188 9)	–	–	(1 7)	(190 6)
Additions	–	(11 8)	–	–	(0 6)	(12 4)
At 31 March 2007	–	(200 7)	–	–	(2 3)	(203 0)
Depreciation						
At 1 April 2006	(2 2)	(535 1)	(1,141 3)	(482 9)	–	(2,161 5)
Charge for the year	(0 4)	(52 5)	(102 4)	(43 6)	–	(198 9)
Disposals	–	–	–	0 5	–	0 5
At 31 March 2007	(2 6)	(587 6)	(1,243 7)	(526 0)	–	(2,359 9)
Net book amount						
At 31 March 2007	28 0	1,768 3	1,913 7	192 5	304 6	4,207 1
At 31 March 2006	26 8	1,707 0	1,884 7	136 0	238 4	3,992 9

Tangible fixed assets at 31 March 2007 include land of £18 4 million (2006 £17 7 million) which is not subject to depreciation The group's interests in land and buildings are almost entirely freehold

Assets held under finance leases and capitalised in vehicles, plant and equipment

	2007 £m	2006 £m
Cost	251 0	251 0
Aggregate depreciation	(144 7)	(136 8)
Net book amount	106 3	114 2

Capital commitments

The group has a substantial long-term investment programme 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 2007

	2007 £m	2006 £m
Contracted for but not provided in the financial statements	139 4	113 6

12 Fıxed asset ınvestments

	Group and company 2007 £m	2006 £m
Other ınvestments – shares at cost	0 1	0 1
Loan to Anglıan Water Servıces Holdıngs Lımıted	1,609 1	1,609 1
	1,609 2	1,609 2

The loan of £1,609 1 mıllıon, made by the company to Anglıan Water Servıces Holdıngs Lımıted, ıs repayable on the later of 30 July 2038 and another date beıng the next ınterest payment date followıng a date whıch ıs two years and one day after the fınal maturıty date of the longest dated bond ıssued from tıme to tıme by Anglıan Water Servıces Fınancıng Plc Interest on the loan ıs calculated at 12 per cent per annum Anglıan Water Servıces Fınancıng Plc, whose prıncıpal actıvıty ıs that of a fınancıng company, ıs the sole subsıdıary of the group It ıs 100 per cent owned, and ıs regıstered, ıncorporated and operatıng ın the UK at 31 March 2007

On 30 March 2007, the company acquıred the trade of Anglıan Water Dırect Lımıted for a consıderatıon of £1 from another AWG Plc group company Thıs has no ımpact on the company's tradıng results for the year

13 Stocks

	Group and company 2007 £m	2006 £m
Raw materıals and consumables	11 7	10 6

The current replacement value of stocks does not materıally exceed the hıstorıcal costs stated above

14 Debtors

	Group 2007 £m	2006 £m	Company 2007 £m	2006 £m
Amounts fallıng due wıthın one year				
Trade debtors	107 2	119 1	107 2	119 1
Amounts owed by other AWG Plc group undertakıng	0 5	–	192 3	-
Other debtors	17 7	18 2	16 7	18 2
Prepayments and accrued ıncome	90 3	32 3	90 3	32 3
	215 7	169 6	406 5	169 6

Prepayments and accrued ıncome as at 31 March 2007 ıncludes water and wastewater ıncome not yet bılled of £83 6 mıllıon (2006 £26 1 mıllıon)

15 Credıtors amounts fallıng due wıthın one year

	Group 2007 £m	2006 £m	Company 2007 £m	2006 £m
Current portıon of long-term loans	51 4	178 5	51 4	178 5
Oblıgatıons under fınance leases	27 2	23 9	27 2	23 9
Short-term borrowıngs (see note 16)	78 6	202 4	78 6	202 4
Trade credıtors	137 7	107 5	137 7	107 5
Amounts owed to other AWG Plc group undertakıngs	7 2	19 7	93 5	113 0
Receıpts ın advance	114 3	104 4	114 3	104 4
Corporatıon tax	37 9	41 6	37 9	41 6
Other taxatıon and socıal securıty	3 6	3 4	3 6	3 4
Deferred grants and contrıbutıons	9 3	7 7	9 3	7 7
Accruals	96 8	92 6	10 5	5 6
Other credıtors	406 8	376 9	406 8	383 2

Receipts in advance includes £90 8 million (2006 £81 7 million) relating to amounts received from customers for water and wastewater charges in respect of the following year

The current portion of long-term loans for the company relates to amounts owed to Anglian Water Services Financing Plc

16 Loans, other borrowings and financial instruments

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Loans and other borrowings				
£150 million 8 25% fixed rate 2006 (d), (g)	–	150 0	–	150 0
£150 million 'mark to market' adjustment (e)	–	2 0	–	2 0
£100 million 5 5% index linked 2008 (c), (d), (g)	168 2	162 7	168 2	162 7
£100 million 12 375% fixed rate 2014 (d), (g)	100 0	100 0	100 0	100 0
£250 million 5 837% fixed rate 2022 (d), (g)	246 9	246 7	246 9	246 7
£200 million 6 875% fixed rate 2023 (d), (g)	199 9	199 9	199 9	199 9
£200 million 6 625% fixed rate 2029 (d), (g)	199 9	199 9	199 9	199 9
£246 million 6 293% fixed rate 2030 (d), (g)	243 7	243 6	243 7	243 6
£275 million 7 882% fixed rate 2012/2037 (d), (g), (h)	273 1	272 7	273 1	272 7
£250 million 5 25% fixed rate 2015 (d), (g)	249 5	249 4	249 5	249 4
£150 million 5 5% fixed rate 2017/2040 (d), (g), (h)	148 5	148 3	148 5	148 3
£150 million 4 125% index linked 2020 (c), (d), (g)	180 2	174 5	180 2	174 5
£75 million 3 666% index linked 2024 (c), (d), (g)	85 2	82 5	85 2	82 5
£200 million 3 07% index linked 2032 (c), (d), (g)	225 8	218 4	225 8	218 4
£60 million 3 07% index linked 2032 (c), (d), (g)	67 7	65 6	67 7	65 6
Finance leases (d)	92 5	116 4	92 5	116 4
Other fixed rate loans	–	0 1	–	0 1
£150 million index linked swap 2024 (f)	21 8	16 1	21 8	16 1
£175 million index linked swap 2030 (f)	25 4	18 7	25 4	18 7
£258 million index linked swap 2013 (f)	27 5	18 8	27 5	18 8
€350 million 5 375% fixed rate 2009 (a), (d), (g)	229 2	229 2	229 2	229 2
€650 million 4 625% fixed rate 2013 (a), (d), (g)	452 7	452 5	452 7	452 5
US$4 million 7 21% private placements 2006 (a), (g)	–	0 3	–	0 3
US$35 million 6 62% private placements 2006 (a), (d), (g)	–	24 9	–	24 9
US$100 million 7 01% private placements 2008 (a), (d), (g)	70 9	70 9	70 9	70 9
US$25 million 7 07% private placements 2009 (a), (g)	8 0	10 6	8 0	10 6
US$25 million 'mark to market' adjustment	0 3	0 4	0 3	0 4
US$23 million 7 13% private placements 2009 (a), (d), (g)	16 3	16 3	16 3	16 3
US$195 million 7 23% private placements 2011 (a), (d), (g)	138 2	138 1	138 2	138 1
£402 million 2 40% index linked 2035 (c), (d), (g)	424 9	409 3	424 9	409 3
£50 million 1 7% index linked 2046 (c), (d), (g)	51 0	–	51 0	–
£50 million 1 7% index linked 2046 (c), (d), (g)	51 2	–	51 2	–
£40 million 1 7146% indexation bond 2056 (c), (d), (g)	41 2	–	41 2	–
£50 million 1 6777% indexation bond 2056 (c), (d), (g)	51 5	–	51 5	–
£60 million 1 7903% indexation bond 2049 (c), (d), (g)	61 7	–	61 7	–
£60 million index linked swap 2008 (f)	(1 7)	–	(1 7)	–
£90 million index linked swap 2008 (f)	(2 7)	–	(2 7)	–
£100 million 1 3784% indexation bond 2057 (c), (d), (g)	101 0	–	101 0	–
£50 million 1 3825% indexation bond 2056 (c), (d), (g)	50 5	–	50 5	–
£50 million RBS Class B authorised loan facility (g)	50 0	–	50 0	–
£100 million Class A wrapped floating rate bonds (g)	100 0	–	100 0	–
£100 million index linked swap 2057 (f)	0 1	–	0 1	–
Total loans and other borrowings	4,450 1	4,038 8	4,450 1	4,038 8
Less amounts included in creditors falling due within one year	(78 6)	(202 4)	(78 6)	(202 4)
Loans and other borrowings due after more than one year	4,371 5	3,836 4	4,371 5	3,836 4

LIBOR is the London Inter Bank Offer Rate

16 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 and Euro loans The adjustment to the US dollar loans is £65 9 million (2006 £48 7 million) and the adjustment to the Euro loans is £3 7 million (2006 £(14 8) million)

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index linked debt in accordance with the group's hedging policy (see page 40)

(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 £47 5 million (2006 £28 4 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) 'Mark to market' adjustments relate to back-to-back debt reassigned from AWG Group Limited to Anglian Water Services Financing Plc in July 2002 at fair value rather than book value The difference between the book value and fair value is being amortised at a constant rate based on the carrying amount of debt over the remainder of its life

(f) The group has entered into 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 £16 8 million (2006 £17 5 million) has been taken to the profit and loss account as part of interest payable

(g) These loans are 'back-to-back' inter-group loans from Anglian Water Services Financing Plc to the company Under the company/Anglian Water Services Financing Plc loan agreement, Anglian Water Services Financing Plc onlends an equal amount to the sterling equivalent of each bond to the company on identical terms Therefore each individual 'back-to-back' inter-group loan has been separately disclosed Anglian Water Services Financing Plc charges the company an annual management fee in respect of entering into the company/Anglian Water Services Financing Plc loan agreement

(h) Legal maturity of these instruments is the second of the years quoted Coupon 'step-up' is in the first of the years quoted

(i) Under a security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, the company, 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) a fixed and floating charge was created over the assets of the company 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, the company and Anglian Water Services Overseas Holdings Limited At 31 March 2007 this charge applies to £4,450 1 million (2006 £4,038 8 million) of the debt listed above

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

	2007 Creditors <1 year £m	2007 Creditors >1 year £m	2006 Creditors <1 year £m	2006 Creditors > 1year £m
Amounts owed to group undertakings ('back-to-back' inter-group loans)	52 8	4,322 9	180 0	3,761 4
Debt issue costs	(1 4)	(16 7)	(1 5)	(17 6)
Obligations under finance leases	27 2	65 3	23 9	92 5
Other loans	–	–	–	0 1
	78 6	4,371 5	202 4	3,836 4

Maturity analysis of financial liabilities

	Group and company 2007 £m	Group and company 2006 £m
Less than one year	81 4	205 6
Between one and two years	241 4	31 2
Between two and five years	395 8	493 7
After five years	3,753 9	3,334 3
	4,472 5	4,064 8

Included above are amounts due under finance leases of £27 2 million (2006 £23 9 million) payable within one year, £3 0 million (2006 £27 2 million) payable between one and two years, £7 4 million (2006 £7 6 million) payable between two and five years and £54 8 million (2006 £57 7 million) payable after five years The above maturity profile is determined by reference to the fixed dates on which the liability falls due

In addition to loans and finance leases the above analysis includes other financial liabilities (including overdrafts, long-term creditors, accruals and provisions) totalling £22 4 million (2006 £26 0 million), of which £2 8 million falls due in less than one year (2006 £3 2 million) This analysis is net of issue costs totalling £18 1 million (2006 £19 1 million)

Borrowing facilities

	2007 £m	Group 2006 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	328 0	333 0
Expiring between one and two years	–	–
Expiring between two and five years	225 0	225 0
Expiring in more than five years	–	–
	553 0	558 0

Control of treasury

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

- => Ensure that lenders covenants are met
- => Secure funds through a balanced approach to financial markets and maturities
- => Manage interest rates to minimise financial exposures and minimise interest costs
- => Invest temporary surplus cash to best advantage at minimal financial risk
- => Maintain an excellent reputation with providers of finance and rating agencies
- => Promote management techniques and systems
- => Enhance control of financial resources

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual and currency risks The board regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks The last review was in March 2007 and treasury matters are reported to the board each month

A Treasury Advisory Group (TAG), comprising the group Finance Director, the group Treasurer, together with the same position holders and a Non-Executive Director of the ultimate shareholder Anglian Water Group Limited, meets monthly with the specific remit of reviewing treasury matters

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

The group, via its financing subsidiary AWSF, also enters into derivative transactions (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the treasury policy

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

Borrowing covenants

With the exception of asset-based funding, all the group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing group (see Directors' report on page 28) 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

Foreign currency

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

Financial instruments disclosures

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

16 Loans, other borrowings and financial instruments continued

Currency exposures

The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the company

Fair value of financial assets and financial liabilities

	2007 Book value £m	2007 Fair value[1] £m	2006 Book value £m	2006 Fair value[1] £m
The fair value of the group's financial instruments at 31 March was				
Cash at bank and in hand	311 9	311 9	501 5	501 5
Current asset investments	242 0	242 0	–	–
Short-term borrowings	(78 1)	(79 1)	(197 4)	(201 2)
Long-term borrowings	(4,232 0)	(4,587 0)	(3,753 7)	(4,269 3)
Interest rate swaps	(69 6)	(83 3)	(34 0)	(39 5)
Index linked swaps	(70 4)	(131 3)	(53 7)	(139 3)
	(3,896 2)	(4,326 8)	(3,537 3)	(4,147 8)
Fixed asset investments	1,609 2	1,930 8	1,609 2	1,930 8
Provisions excluding deferred tax and pension obligations	(22 4)	(22 4)	(26 0)	(26 0)
	(2,309 4)	(2,418 4)	(1,954 1)	(2,243 0)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £86 0 million (2006 £86 8 million) The book value excludes accrued interest which is shown separately in the balance sheet within creditors amounts falling due within one year

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of private debt, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates 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 2007 The value at that date was determined by market interest rates, which fluctuate over time The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved

Derivative transactions and placements of cash on deposit expose the group to credit risk against the counterparties concerned Anglian Water has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default The group only enters into derivative transactions and 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

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

	2007 Gains £m	2007 Losses £m	2007 Net £m	2006 Gains £m	2006 Losses £m	2006 Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	15 5	(160 3)	(144 8)	18 8	(104 1)	(85 3)
Reversal of items unrecognised at 1 April	(5 6)	11 6	6 0	(4 3)	6 2	1 9
Recognised during the year	(3 4)	17 2	13 8	(5 2)	8 1	2 9
Arising during the year	7 7	(27 7)	(20 0)	6 2	(70 5)	(64 3)
Unrecognised at 31 March	14 2	(159 2)	(145 0)	15 5	(160 3)	(144 8)

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 £145 0 million (2006 net loss £144 8 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 2007

Of the unrecognised gains and losses at 31 March 2007, a net gain of £5 2 million (2006 net loss of £0 5 million) is expected to be included in the profit and loss account for the year ended 31 March 2008 and the balance in future years

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedge of transactions or positions Foreign currency borrowings are swapped into sterling and translated at the contracted rates Consequently, the carrying value of the relevant borrowing effectively includes the gain or loss on the hedging instrument

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2007

	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
Total borrowings (all sterling)	(4,450 1)	(2,162 0)	(395 0)	(1,893 1)	–	6 9%	15 2
Cash, deposits and current asset investments (all sterling)	553 9	–	553 9	–	–		
Net debt	(3,896 2)	(2,162 0)	158 9	(1,893 1)	–		
Fixed asset investments	1,609 2	–	–	1,609 1	0 1		
Provisions	(22 4)	–	–	–	(22 4)		
Net financial liabilities	(2,309 4)	(2,162 0)	158 9	(284 0)	(22 3)		

Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2006

	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
Total borrowings (all sterling)	(4,038 8)	(1,748 7)	(344 0)	(1,946 1)	–	6 7%	12 3
Cash, deposits and current asset investments (all sterling)	501 5	–	501 5	–	–		
Net debt	(3,537 3)	(1,748 7)	157 5	(1,946 1)	–		
Fixed asset investments	1,609 2	–	–	1,609 1	0 1		
Provisions	(26 0)	–	–	–	(26 0)		
Net financial liabilities	(1,954 1)	(1,748 7)	157 5	(337 0)	(25 9)		

Floating rate cash and investments earn interest based on the London Inter Bank Bid rate (LIBID) for the relevant currency Floating rate borrowings incur interest based on LIBOR

17 Other creditors fallings due after more than one year

	Group and company 2007 £m	Group and company 2006 £m
Deferred grants and contributions	112 3	102 6

18 Provisions for liabilities and charges

	Onerous lease obligation £m	Coupon enhance-ment provision £m	Deferred tax provision £m	Total £m
				Group and company
At 1 April 2006	4 0	22 0	113 2	139 2
Credit for the year	(0 4)	–	(16 0)	(16 4)
Unwinding of discount (note 6)	–	1 0	–	1 0
Utilised in the year	(0 3)	(3 9)	–	(4 2)
At 31 March 2007	3 3	19 1	97 2	119 6

The onerous lease provision relates to office space vacated by the group as part of the cost cutting programme to achieve efficiency targets set by Ofwat The provision is discounted and is expected to be utilised over the next 15 years

The coupon enhancement provision of £19 1 million relates to coupon enhancement and other related costs incurred on the transfer of debt from AWG Group Limited to Anglian Water Services Financing Plc at the end of the refinancing exercise in 2002 The provision relates to several instruments with varying maturity dates It is expected to be utilised in varying amounts over the next 22 years and has been discounted

The net deferred tax credit to the profit and loss account comprises the £16 0 million credit above offset by a £3 1 million charge from the defined benefit pension liability

The deferred tax provision and the effect of discounting is analysed in note 19

19 Deferred tax

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

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £58 6 million

	Group and company 2007 £m	2006 £m
Accelerated capital allowances	762 0	754 2
Short-term timing differences	(16 1)	(19 4)
Surplus ACT asset	(130 3)	(137 0)
Undiscounted provision for deferred tax	615 6	597 8
Discount	(518 4)	(484 6)
Discounted provision for deferred tax	97 2	113 2
Deferred tax asset on pension liability (see note 20(b))	(6 8)	(15 0)
Total deferred tax included in the balance sheet	90 4	98 2

As at 1 April 2006	98 2
Deferred tax credited to the profit and loss account (see note 7(a))	(12 9)
Deferred tax charged to the statement of total recognised gains and losses	5 1
At 31 March 2007	90 4

20 Pension commitments

Pension arrangements for the majority of the group's employees are of the funded defined benefit type through the AWG Pension Scheme (AWGPS) The group's actuary is Aon Consulting The defined benefit arrangements are closed to new employees, who are eligible instead for entry to AWG's defined contribution schemes For the AWGPS, as a closed scheme, under the projected unit method, the current service cost will increase as the members approach retirement The administration and investment of the pension funds are maintained separately from the finances of the group

The group also manages an unfunded pension arrangement which has been valued by independent actuaries to take account of the requirements of FRS 17 as at 31 March 2007 The provision for unfunded pension obligations relates to the cost of enhancements to the pension entitlements of former employees, over and above their entitlements in the group's pension schemes The majority of these employees ceased their employment following redundancy programmes principally between seven and 16 years ago These pension enhancements are payable until the death of the employees (or their dependents), and payments are expected to be made over approximately 27 years

In addition, the group operates a defined benefit scheme for the employees of the former Hartlepool Water Limited acquired on 1 April 2000 and a defined contribution scheme which commenced on 1 April 2002

Contributions to the defined contribution pension scheme in the year were £1 6 million (2006 £0 8 million)

(a) Financial assumptions

The valuation used has been based on the informal valuation for AWGPS carried out as at 1 April 2006 (summarised below), updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2007 The group contributed 14 9 per cent of pensionable pay in the year and for the year ending 31 March 2008 the expected contribution rate is 15 3 per cent In addition, the group paid £3 1 million in deficit reduction payments in the year A further £10 7 million relating to the year ending 31 March 2007 was paid on 5 April 2007

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

	2007 % pa	2006 % pa	2005 % pa
Discount rate	5 3	4 9	5 4
Inflation rate	3 1	2 8	2 8
Increase to deferred benefits during deferment	3 1	2 8	2 8
Increases to inflation related pensions in payment	3 1	2 8	2 8
General salary increases	3 1[1]	2 8[1]	3 8
Longevity at age 65 for current pensioners (years)			
Men	18 7	18 6	18 5
Women	21 6	21 5	21 4
Longevity at age 65 for future pensioners (years)			
Men	20 5	19 9	19 3
Women	23 4	22 8	22 2

[1] The salary increase assumption has been restated in 2007 and 2006 to RPI for the remainder of the current AMP (see glossary of terms on page 88) which ends in 2009/10

20 Pension commitments continued

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

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2007 are

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return %pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7 7	383 4	n/a	2 2	385 6
Corporate bonds	5 1	185 3	n/a	–	185 3
Gilts	4 7	86 6	n/a	9 0	95 6
Property	6 7	21 2	n/a	–	21 2
Other	5 0	60 9	n/a	–	60 9
Total assets		737 4	n/a	11 2	748 6
Fair value of scheme liabilities		(714 8)	(42 0)	(14 5)	(771 3)
Surplus/(deficit) in the scheme		22 6	(42 0)	(3 3)	(22 7)
Related deferred tax (liability)/asset		(6 8)	12 6	1 0	6 8
Net pension asset/(liability)		15 8	(29 4)	(2 3)	(15 9)

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2006 are

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return %pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7 3	471 9	n/a	2 2	474 1
Corporate bonds	4 7	114 6	n/a	–	114 6
Gilts	4 3	78 0	n/a	8 6	86 6
Property	6 3	18 4	n/a	–	18 4
Other	4 4	14 5	n/a	–	14 5
Total assets		697 4	n/a	10 8	708 2
Fair value of scheme liabilities		(702 4)	(42 0)	(13 9)	(758 3)
Deficit in the scheme		(5 0)	(42 0)	(3 1)	(50 1)
Related deferred tax asset		1 5	12 6	0 9	15 0
Net pension liability		(3 5)	(29 4)	(2 2)	(35 1)

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2005 are

		AWGPS	Unfunded pensions	Hartlepool	Total
	Expected rate of return %pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7 7	352 4	n/a	1 9	354 3
Corporate bonds	5 1	37 0	n/a	–	37 0
Gilts	4 7	132 1	n/a	7 9	140 0
Property	6 7	16 0	n/a	0 3	16 3
Other	4 8	41 2	n/a	0 1	41 3
Total assets		578 7	n/a	10 2	588 9
Fair value of scheme liabilities		(682 2)	(40 2)	(13 8)	(736 2)
Deficit in the scheme		(103 5)	(40 2)	(3 6)	(147 3)
Related deferred tax asset		31 1	12 1	1 1	44 3
Net pension liability		(72 4)	(28 1)	(2 5)	(103 0)

(c) **Analysis of amounts charged against profits**

The group's pension expense for its defined benefit schemes, in accordance with FRS 17, is set out below

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2007 profit and loss account				
Current service cost	(13 4)	–	(0 4)	(13 8)
Past service cost	(0 7)	–	–	(0 7)
Charge to operating profit	(14 1)	–	(0 4)	(14 5)
Expected return on pension scheme assets	44 7	–	0 6	45 3
Interest on pension scheme liabilities	(34 3)	(2 0)	(0 6)	(36 9)
Amount credited/(charged) to other finance charges	10 4	(2 0)	–	8 4
Charge to profit on ordinary activities before taxation	(3 7)	(2 0)	(0 4)	(6 1)

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2006 profit and loss account				
Current service cost	(15 0)	–	(0 3)	(15 3)
Past service cost	–	–	–	–
Charge to operating profit	(15 0)	–	(0 3)	(15 3)
Expected return on pension scheme assets	39 1	–	0 5	39 6
Interest on pension scheme liabilities	(36 0)	(2 1)	(0 7)	(38 8)
Amount credited/(charged) to other finance charges	3 1	(2 1)	(0 2)	0 8
Charge to profit on ordinary activities before taxation	(11 9)	(2 1)	(0 5)	(14 5)

20 Pension commitments continued

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

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2007 statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	(1 4)	–	(0 3)	(1 7)
Experience gains and losses arising on the scheme liabilities	(2 7)	(0 2)	–	(2 9)
Changes in assumptions underlying the present value of the scheme liabilities	19 6	(0 2)	–	19 4
Gain/(loss) recognised	15 5	(0 4)	(0 3)	14 8

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2006 statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	76 8	–	0 2	77 0
Experience gains and losses arising on the scheme liabilities	27 5	–	2 0	29 5
Changes in assumptions underlying the present value of the scheme liabilities	(14 9)	(2 0)	(1 6)	(18 5)
Gain/(loss) recognised	89 4	(2 0)	0 6	88 0

(e) Movement in liability during the year

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2007 movement in scheme deficit (before related deferred tax asset)				
Deficit at 1 April 2006	(5 0)	(42 0)	(3 1)	(50 1)
Current service cost	(13 4)	–	(0 4)	(13 8)
Past service cost	(0 7)	–	–	(0 7)
Prior year prepayment	2 2	–	–	2 2
Contributions	13 6	2 4	0 5	16 5
Net interest	10 4	(2 0)	–	8 4
Actuarial gain/(loss)	15 5	(0 4)	(0 3)	14 8
Surplus/(deficit) at 31 March 2007	22 6	(42 0)	(3 3)	(22 7)

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2006 movement in scheme deficit (before related deferred tax asset)				
Deficit at 1 April 2005	(103 5)	(40 2)	(3 6)	(147 3)
Current service costs	(15 0)	–	(0 3)	(15 3)
Contributions	21 3	2 3	0 4	24 0
Bulk transfers	(0 3)	–	–	(0 3)
Net interest	3 1	(2 1)	(0 2)	0 8
Actuarial gain/(loss)	89 4	(2 0)	0 6	88 0
Deficit at 31 March 2006	(5 0)	(42 0)	(3 1)	(50 1)

(f) History of experience gains and losses

	AWGPS	Unfunded pensions	Hartlepool	Total
2007 details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount (£ million)	(1 4)	–	(0 3)	(1 7)
Percentage of scheme assets	(0 2)%	–	(2 7)%	(0 2)%
Experience gains and losses on scheme liabilities				
Amount (£ million)	(2 7)	(0 2)	–	(2 9)
Percentage of present value of scheme liabilities	(0 4)%	–	–	(0 4)%
Amount in statement of total recognised gains and losses				
Amount (£ million)	15 5	(0 4)	(0 3)	14 8
Percentage of present value of scheme liabilities	2 2%	(1 0)%	(2 1)%	1 9%

	AWGPS	Unfunded pensions	Hartlepool	Total
2006 details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount (£ million)	76 8	–	0 2	77 0
Percentage of scheme assets	11 0%	–	1 9%	10 9%
Experience gains and losses on scheme liabilities				
Amount (£ million)	27 5	–	2 0	29 5
Percentage of present value of scheme liabilities	3 9%	–	14 4%	3 9%
Amount in statement of total recognised gains and losses				
Amount (£ million)	89 4	(2 0)	0 6	88 0
Percentage of present value of scheme liabilities	12 7%	(4 8)%	4 3%	11 6%

	AWGPS	Unfunded pensions	Hartlepool	Total
2005 details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount (£ million)	8 2	–	0 3	8 5
Percentage of scheme assets	1 4%	–	2 9%	1 4%
Experience gains and losses on scheme liabilities				
Amount (£ million)	8 1	–	(4 2)	3 9
Percentage of present value of scheme liabilities	1 2%	–	(30 4)%	0 5%
Amount in statement of total recognised gains and losses				
Amount (£ million)	22 6	(0 6)	(3 6)	18 4
Percentage of present value of scheme liabilities	3 3%	(1 5)%	(26 1)%	2 5%

20 Pension commitments continued

(f) History of experience gains and losses continued

	AWGPS	Unfunded pensions	Total
2004 details of experience gains and losses			
Difference between expected and actual returns on scheme assets			
Amount (£ million)	75 5	–	75 5
Percentage of scheme assets	14 7%	–	14 7%
Experience gains and losses on scheme liabilities			
Amount (£ million)	–	–	–
Percentage of present value of scheme liabilities	–	–	–
Amount in statement of total recognised gains and losses			
Amount (£ million)	53 3	(2 2)	51 1
Percentage of present value of scheme liabilities	8 1%	(5 5)%	7 3%

	AWGPS	Unfunded pensions	Total
2003 details of experience gains and losses			
Difference between expected and actual returns on scheme assets			
Amount (£ million)	(160 4)	–	(160 4)
Percentage of scheme assets	(39 7)%	–	(39 7)%
Experience gains and losses on scheme liabilities			
Amount (£ million)	–	0 9	0 9
Percentage of present value of scheme liabilities	–	2 4%	0 1%
Amount in statement of total recognised gains and losses			
Amount (£ million)	(201 6)	(0 9)	(202 5)
Percentage of present value of scheme liabilities	(33 6)%	(2 4)%	(31 8)%

21 Commitment under operating leases

At 31 March 2007 the group and company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows

	Group and company 2007		2006	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0 1	1 7	–	1 2
Between two and five years	0 4	4 0	0 2	4 3
After five years	2 4	–	2 7	–
	2 9	5 7	2 9	5 5

22 Share capital – equity shares

	Group and company 2007 £m	2006 £m
Authorised		
860 million ordinary shares of £1 each	860 0	860 0
Allotted, issued and fully paid		
860 million ordinary shares of £1 each	860 0	860 0

23 Movement in shareholders' funds

	Share capital £m	Profit and loss reserve £m	Group Total £m
At 1 April 2006	860 0	731 2	1,591 2
Total recognised gains and losses for the period	–	344 8	344 8
Dividend paid and committed	–	(443 1)	(443 1)
At 31 March 2007	860 0	632 9	1,492 9

The profit and loss reserve includes £15 9 million (2006 £35 1 million) stated net of deferred taxation of £6 8 million (2006 £15 0 million) in respect of pension scheme liabilities

	Share capital £m	Profit and loss reserve £m	Company Total £m
At 1 April 2006	860 0	724 9	1,584 9
Profit on ordinary activities after taxation	–	328 6	328 6
Actuarial gains recognised in the pension scheme	–	14 8	14 8
Movement on deferred tax relating to the actuarial gain in the pension scheme	–	(5 1)	(5 1)
Dividend paid and committed	–	(443 1)	(443 1)
At 31 March 2007	860 0	620 1	1,480 1

24 Share-based payments

Prior to the takeover by Osprey Acquisitions Limited the AWG Plc group operated a SAYE share option scheme for all employees to encourage participation in the group's results The Anglian Water Services group was charged an amount relating to the group's employees participating in the scheme Options were exercisable at a price equal to the quoted market price of the company's shares on the date of invitation less a discount of between 10 and 20 per cent The vesting period was either three years or five years and there was then a further exercise period of six months from when the share options become exercisable after which period the options lapse

Options became exercisable on the Offer from Osprey Acquisitions Limited being declared unconditional on 23 November 2006 As a result of the subsequent acquisition of AWG Plc by Osprey Acquisitions Limited, all share incentive schemes vested early, and an early vesting breakage charge of £3 4 million was made to the company by AWG Plc for the amount that otherwise would have been recognised for services received over the remainder of the vesting period

25 Contingencies

At 31 March 2007 £130 3 million (2006 £137 0 million) of Advance Corporation Tax (ACT) has been surrendered to the company by AWG Group Limited but remains unutilised As part of the financial restructuring in 2002, the company is required to pay AWG Group Limited on utilisation of ACT An amount of £18 7 million has been recognised for payment to AWG Group Limited for ACT expected to be utilised No further provision has been recognised in the group accounts as it is uncertain whether further ACT will be utilised (i e it is not probable that a transfer of economic benefits will be required to settle the obligation)

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, which at 31 March 2007 amounted to £4,327 5 million (2006 £3,948 6 million) The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company Excluding the £1,609 1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2007

There are no other material contingent liabilities at 31 March 2007 for which provision has not been made in these financial statements

26 Events after balance sheet date

The final dividend for 2006/7 of £35 0 million was approved by the board on 17 May 2007

Further to a proposed corporation tax rate change announced in the recent Budget, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28 per cent as opposed to the existing rate of 30 per cent This will result in a decrease in the discounted deferred tax liability and a corresponding credit to the profit and loss account The impact is expected to be material but it is not possible to make a reliable estimate of the magnitude

27 Ultimate parent company

The company's immediate parent undertaking is Anglian Water Services Overseas Holdings Limited, a company registered in the Cayman Islands

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

Copies of the accounts of Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Financing Plc can also be obtained from the Company Secretary at the above address

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

Independent auditors' report to the members of Anglian Water Services Limited
We have audited the group and parent company financial statements (the 'financial statements') of Anglian Water Services Limited for the year ended 31 March 2007 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the group and company balance sheets, the consolidated 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 Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors' report

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements This other information comprises only the Chief Executive's statement, the Operating and Financial Review, the Directors' report and the Statement of directors' responsibilities 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

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

Opinion
In our opinion

=> The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2007 and of the group's profit and cash flows for the year then ended
=> The financial statements have been properly prepared in accordance with the Companies Act 1985
=> The information given in the Directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
15 June 2007

Regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 62 to 85 are provided to comply with Condition F of the Instrument of Appointment of Anglian Water Services Limited as a water and sewerage undertaker under the Water Industry Act 1991

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat

There are differences between UK Generally Accepted Accounting Practice and the Regulatory Accounting Guidelines Where different treatments are specified under each, the Regulatory Accounting Guidelines take precedence

A glossary of regulatory terms is shown on page 88

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat

This additionally requires the directors to

=> Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
=> Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company
=> Confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker
=> Report to Ofwat changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities
=> Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's-length
=> Keep proper accounting records which comply with Condition F

These responsibilities are additional to those already set out in the statutory financial statements

In the case of each of the persons who are directors at the time when the report is approved under Section 234ZA of the Companies Act the following applies

a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Notes on regulatory accounts

1 General

As discussed in the Directors' report in the statutory financial statements, the company's activities are regulated by the conditions of a licence granted to the company by the Secretary of State for the Environment With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage function, these business activities are referred to as non-appointed business (see note 3 on page 70)

An analysis of the regulatory historical cost profit and loss account and regulatory historical cost balance sheet between appointed and non-appointed business is set out on pages 65 and 67 A current cost profit and loss account and current cost balance sheet are shown on pages 74 and 75 Other current cost disclosures appear on pages 76 to 84 Additional information required by the licence is shown on pages 69 to 73

Under the Regulatory Accounting Guidelines the treatment of certain turnover and expenditure items differs from that disclosed in the statutory financial statements

2 Protection of the regulated business

(a) In the opinion of the directors the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)

(b) In the opinion of the directors the company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to carry out the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment)

(c) In the opinion of the directors all contracts entered into with any associate company include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker

3 Arm's-length trading

In the opinion of the directors, the company was in compliance with paragraph 3 1 of Condition F of the licence throughout the year

Regulatory historical cost profit and loss account
for the year ended 31 March

	2007 Appointed £m	2007 Non appointed £m	2007 Total £m	2006 Appointed £m	2006 Non appointed £m	2006 Total £m
Turnover	909 4	9 6	919 0	856 7	9 0	865 7
Operating costs	(513 5)	(5 8)	(519 3)	(502 3)	(5 6)	(507 9)
Profit on sale of fixed assets	5 1	–	5 1	1 8	–	1 8
Operating profit	401 0	3 8	404 8	356 2	3 4	359 6
Net interest payable	(58 3)	(0 1)	(58 4)	(62 5)	–	(62 5)
Profit on ordinary activities before taxation	342 7	3 7	346 4	293 7	3 4	297 1
Taxation						
– current tax	(29 6)	(1 1)	(30 7)	(22 6)	(1 0)	(23 6)
– deferred tax	12 9	–	12 9	(26 6)	–	(26 6)
Profit on ordinary activities after taxation	326 0	2 6	328 6	244 5	2 4	246 9
Dividends	(440 5)	(2 6)	(443 1)	(301 2)	(4 5)	(305 7)
Loss for the year	(114 5)	–	(114 5)	(56 7)	(2 1)	(58 8)

Regulatory historical cost statement of total recognised gains and losses for the appointed business

for the year ended 31 March

	2007 £m	2006 £m
Profit on ordinary activities after taxation	326 0	244 5
Actuarial gains recognised in the pension scheme	14 8	88 0
Movement on deferred tax relating to the actuarial gain in the pension scheme	(5 1)	(26 5)
Deferred tax on share based payments	–	3 8
Total recognised gains and losses for the year	335 7	309 8

Regulatory historical cost balance sheet
at 31 March

	2007			2006		
	Appointed £m	Non appointed £m	Total £m	Appointed restated £m	Non appointed restated £m	Total restated £m
Fixed assets						
Tangible assets	4,153 1	–	4,153 1	3,956 6	–	3,956 6
Investments	1,609 2	–	1,609 2	1,609 2	–	1,609 2
	5,762 3	–	5,762 3	5,565 8	–	5,565 8
Current assets						
Stocks	11 7	–	11 7	10 6	–	10 6
Debtors	406 5	–	406 5	169 6	–	169 6
Cash at bank and in hand	66 3	1 1	67 4	39 3	1 0	40 3
Investments and short-term deposits	282 9	–	282 9	461 2	–	461 2
Infrastructure renewals prepayment	54 1	–	54 1	36 3	–	36 3
	821 5	1 1	822 6	717 0	1 0	718 0
Creditors amounts falling due within one year						
Short-term borrowings	(78 6)	–	(78 6)	(202 4)	–	(202 4)
Other creditors	(369 1)	–	(369 1)	(341 6)	–	(341 6)
Corporation tax payable	(36 7)	(1 1)	(37 8)	(40 6)	(1 0)	(41 6)
	(484 4)	(1 1)	(485 5)	(584 6)	(1 0)	(585 6)
Net current assets	337 1	–	337 1	132 4	–	132 4
Total assets less current liabilities	6,099 4	–	6,099 4	5,698 2	–	5,698 2
Creditors amounts falling due after more than one year						
Loans and other borrowings	(4,371 5)	–	(4,371 5)	(3,836 4)	–	(3,836 4)
Other creditors	(112 3)	–	(112 3)	(102 6)	–	(102 6)
	(4,483 8)	–	(4,483 8)	(3,939 0)	–	(3,939 0)
Provisions for liabilities and charges						
Deferred tax	(97 2)	–	(97 2)	(113 2)	–	(113 2)
Other provisions	(22 4)	–	(22 4)	(26 0)	–	(26 0)
Defined benefit pension scheme liabilities	(31 7)	–	(31 7)	(35 1)	–	(35 1)
Defined benefit pension scheme assets	15 8	–	15 8	–	–	–
	(135 5)	–	(135 5)	(174 3)	–	(174 3)
Net assets employed	1,480 1	–	1,480 1	1,584 9	–	1,584 9
Capital and reserves						
Called up share capital	860 0	–	860 0	860 0	–	860 0
Profit and loss account	620 1	–	620 1	724 9	–	724 9
Capital and reserves	1,480 1	–	1,480 1	1,584 9	–	1,584 9

The prior year comparatives have been restated to reflect the disclosure changes as required by RAG 3 06

Historical cost reconciliation between statutory accounts and regulatory accounts
for the year ended 31 March

Reconciliation between historical cost statutory and regulatory accounts for the appointed and non-appointed business

	2007 £m Statutory	2007 £m Regulatory	Explanation
Profit and loss account			
Operating profit	404 8[1]	404 8	No difference
Profit after taxation	328 6[1]	328 6	No difference
Balance sheet			
Tangible fixed assets (net book value)	4,207 1	4,153 1	The difference of £54 million is attributable to the infrastructure renewals prepayment as this is excluded from the fixed assets net book value in the regulatory accounts This is in line with Regulatory Accounting Guidelines 3 06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes

[1] The statutory figures mentioned above relate to company only and not the consolidated group results

1 **Accounting policies**
The accounting policies are set out in the statutory financial statements, except that, as noted on page 64, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory accounts

Cumulative infrastructure renewals expenditure, net of depreciation, has been included within current assets in the regulatory historical cost balance sheet in accordance with Regulatory Accounting Guidelines 3 06 This represents a departure from the accounting policy adopted in the company's statutory financial statements and Financial Reporting Standard (FRS) 15, which require this amount to be included within fixed assets

The company has adopted the changes to Regulatory Accounting Guidelines set out in RD04/07 in these regulatory accounts The changes encompass the adoption of RAG 1 04 'Guideline for Accounting for Current Costs and Regulatory Capital Values', RAG 3 06 'Guideline for the content of Regulatory Accounts' and RAG 4 03 'Guideline for the analysis of Operating Costs and Assets' that require a number of presentational changes and changes to the basis of the calculation of real financial capital maintenance adjustments

The prior year comparatives have been restated to reflect the disclosure changes as required by RAG 3 06

2 **Link between directors' pay and standards of performance**
Directors' pay comprises a package of base salary together with a performance related bonus and a long-term incentive plan Base salary for the Chief Executive Officer and his direct reports is set by the AWG remuneration committee, advised by independent consultants Certain directors' bonuses are linked to the standards of performance of the company, and therefore in accordance with RAG 3 06 the following disclosures deal with these bonuses only Under the performance bonus scheme, directors have varying percentages of their bonus related to the company's overall performance and to personal performance This ensures that each director is rewarded against the metrics that he or she can most directly influence as well as the overall Anglian Water Services performance targets These directors have at least 55 per cent of their personal bonus linked to the overall company targets (shown in the table below) For the year ended 31 March 2007 the results for the year (financial and non-financial) resulted in the following performance assessment against the overall company targets

	2007 %	2006 %
Financial performance	42 0	50 0
Capital delivery index	20 0	20 0
Overall performance assessment (OPA)	16 0	0 0
Customer service index (CSI)	15 0	7 5
	93 0	77 5

Capital delivery and Customer Service Index targets were exceeded Against the targets set the company partly met its financial performance objectives and OPA target If the OPA outturn is confirmed as being within the top two a small additional payment will be paid in the next payroll following the confirmation The component of the bonus relating to personal performance reflects on individual's achievement of personal targets set for the year

Bonuses paid to directors are as follows

	2007 £000	2006 £000
P Simpson	122 5	108 0
D Hipple	75 6	62 2
J Spencer	63 8	53 9
C Newsome	69 7	50 4

For 2007/8 a similar arrangement exists and will include all Executive Directors

2 Link between directors' pay and standards of performance continued

The element which relates to company performance is made up as follows

	%
Financial performance	60
Capital delivery index	15
Overall performance assessment (OPA)	15
Customer service index (CSI)	10
	100

Stretching targets are set for the company's performance against these four metrics These targets are set at the beginning of the year

The financial performance element covers a number of targets in respect of profitability, costs and cash flow The capital delivery index is a basket of measures which reflects the performance of the capital programme and covers amounts of work completed, regulatory and other outputs delivered, and efficiencies justified The element attributable to OPA measures the company's performance on Ofwat's OPA league table This is an effective way of measuring and rewarding performance on this series of metrics that cover customer service and water and wastewater quality and compliance The customer service index measures the number of jobs the company completes within specified timescales, service delivery failures, customer chase calls and the size of the backlog

3 Information in relation to allocations and apportionments between the appointed and any other business or activity of the appointee or associated company

The non-appointed business relates mainly to legal searches to locate utility infrastructure, recreation services, leisure services and the provision of consultancy services The North Tees water supply agreement to the Huntsman Petrochemical site, which is not in the Anglian Water area, has also been treated as non-appointed business

A proportion of the operating costs relating to these activities is directly incurred and does not require allocation Other relevant costs have been allocated according to time spent on these activities

4 Allocation to principal service

(a) Operating costs are incurred directly by specific service and have not required allocation Indirect costs are allocated on either a causal link basis or according to local managers' assessments The allocation to principal service of the charge for infrastructure renewals is based on the Asset Management Plan (AMP)

(b) Capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation

5 Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (h) below

(a) On 30 July 2002 £1,609 1 million was lent by the company to Anglian Water Services Holdings Limited No other sums were lent by the appointee to associated companies at 31 March 2007

Sums borrowed by the appointee from Anglian Water Services Financing Plc, its financing subsidiary at 31 March 2007, were

Type of loan	Principal amount	Repayment date	Interest rate %
Fixed rate	100 0	2014	12 375
Fixed rate	250 0	2022	5 837
Fixed rate	200 0	2023	6 875
Fixed rate	200 0	2029	6 625
Fixed rate	246 0	2030	6 293
Fixed rate (v)	275 0	2012/2037	7 882
Fixed rate (v)	250 0	2015	5 250
Fixed rate	150 0	2017/2040	5 500
Fixed rate	229 3	2009	5 375
Fixed rate	453 2	2013	4 625
Fixed rate	71 0	2008	7 010
Fixed rate	8 0	2009	7 070
'Mark to market' adjustment (i)	0 3	2009	–
Fixed rate	16 3	2009	7 130
Fixed rate	138 5	2011	7 230
Floating	50 0	2007	LIBOR plus 0 25
Floating	100 0	2057	LIBOR plus 0 34
Index linked (ii)	168 2	2008	5 500
Index linked (ii)	180 2	2020	4 125
Index linked (ii)	85 9	2024	3 666
Index linked (ii)	229 1	2032	3 070
Index linked (ii)	68 7	2032	3 070
Index linked (ii)	426 9	2035	2 400
Index linked (ii)	51 4	2046	1 700
Index linked (ii)	51 3	2046	1 700
Index linked (ii)	41 2	2056	1 715
Index linked (ii)	51 5	2056	1 678
Index linked (ii)	61 7	2049	1 790
Index linked (ii)	(1 7)	2008	–
Index linked (ii)	(2 6)	2008	–
Index linked (ii)	101 0	2057	1 378
Index linked (ii)	50 5	2056	1 383
Index linked (ii)	0 1	2057	–
Index linked swap (iii), (iv)	21 8	2024	–
Index linked swap (iii), (iv)	25 4	2030	–
Index linked swap (iii), (iv)	27 5	2013	–
	4,375 7		

LIBOR is the London Inter Bank Offer Rate

5 Information in respect of transactions with any other business or activity of the appointee or any associated company continued

(i) As part of a financial restructuring of the company in 2002, back-to-back loans to the company from AWG Group Limited were reassigned from AWG Group Limited to Anglian Water Services Financing Plc The 'mark to market' adjustments relate to the reassignment of these loans at fair value rather than book value The difference between the book value and fair value is being amortised at a constant rate on the carrying amount of the debt over the remainder of its life

(ii) The value of the capital and interest elements of the index linked debt is linked to movements in the Retail Price Index (RPI)

(iii) The company, through its financing subsidiary, Anglian Water Services Financing Plc, has entered into swap agreements that convert its debt into either floating rate debt or index linked debt in accordance with the company's hedging policy

(iv) The values of the notional capital on these index linked swaps are linked to movements in RPI The increase in the notional capital value is payable at the final maturity date of the swaps

(v) Legal maturity of these instruments is the second of the years quoted Coupon 'step-up' is in the first of the years quoted

(b) Dividends payable

A dividend of £440 5 million is payable for the year (2006 £301 2 million) Of this dividend, £192 6 million (2006 £240 7 million) was paid to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609 1 million (see note 5 (a) on page 71) The remaining £0 5 million which has been committed to be paid will be settled in June 2007 The special distribution of £215 0 million (appointed £212 4 million and non-appointed £2 6 million) was paid on 7 March 2007 as a financial restructuring dividend to increase gearing in the company The overall amount of the company's normal dividends will not exceed the free cash flow (defined as operating cash flow less interest and capital maintenance payments) generated by AWS and in practice will be limited to a net debt to RCV gearing ratio of 83 per cent The dividends declared or paid will not impair the ability of the company to finance the Appointed Business, and the dividend policy is compliant with Condition F of the Licence

(c) Guarantees/securities

The company, as part of the Anglian Water Services Financing group, guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2007 amounted to £4,327 5 million (2006 £3,948 6 million) The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company Excluding the £1,609 1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2007 (2006 nil)

(d) Supply of services

Recharges by the appointee to associated companies

Nature of transaction	Company	Terms of supply	Value £m
Legal	AWG Central Services Limited	Actual costs	0 5
HR Charges	AWG Central Services Limited	Actual costs	0 6
Corporate Responsibility and Communications	AWG Central Services Limited	Actual costs	0 1
Payroll Services	AWG Central Services Limited	Actual costs	0 1

Services supplied to the appointee by associated companies

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Rental of office accommodation	AWG Central Services Limited	18 6	Space apportionment	0 7
Directors' costs	AWG Central Services Limited	18 6	Time apportionment	0 6
Internal audit services	AWG Central Services Limited	18 6	Negotiated	0 5
Insurance administration	AWG Central Services Limited	18 6	Negotiated	0 3
Taxation services	AWG Central Services Limited	18 6	Negotiated	0 2
External audit services	AWG Central Services Limited	18 6	Pass through	0 2
Sharesave costs	AWG Central Services Limited	18 6	Pass through	1 6
Other pass through costs	AWG Central Services Limited	18 6	Pass through	0 2
Employee communication	AWG Central Services Limited	18 6	Pass through	0 1
Long-term incentive plan (LTIP) & Annual retained bonus scheme (ARBS)	AWG Central Services Limited	18 6	Pass through	3 9
Executive share option scheme (ESOS)	AWG Central Services Limited	18 6	Pass through	0 1
Developer services and network contracts	Morrison Utility Services Limited	471 2	Competitive tendering	14 8
Engineering, construction and fabrication	Purac Limited[1]	20 3	Competitive tendering	0 4
Facilities management services	Morrison Facilities Services Limited	182 9	Other market testing	0 2
Tax[2]	AWG Group Limited	–	Surrender of group tax losses	24 3
				48 1*

* This total includes amounts of £15 0 million that were capitalised by the appointed business

[1] Purac ceased to be an associated company from November 2006

[2] Payment for group relief and ACT utilised to reduce AWS corporation tax liabilities

(e) Charitable and political donations

During the year the company made a payment of £1 0 million (2006 £1 0 million) to the Anglian Water Trust Fund This was treated as an operating cost in the financial statements

No political donations were made during the year

(f) Omissions of rights

No material omissions took place during the year

(g) Waivers

There were no material waivers during the year

(h) Ring-fencing

The company has been compliant with Condition K3 1 of the Licence throughout the year

Current cost profit and loss account for the appointed business

for the year ended 31 March

Notes		2007 Appointed £m	2006 Appointed £m
2	Turnover	909 4	856 7
4	Current cost operating costs	(603 3)	(581 5)
3	Operating income	1 7	0 3
		307 8	275 5
3,9	Working capital adjustment	6 9	(17 9)
	Current cost operating profit	314 7	257 6
	Net interest payable	(58 3)	(62 5)
9	Financing adjustment	(6 9)	69 5
	Current cost profit before taxation	249 5	264 6
	Current tax	(29 6)	(22 6)
	Deferred tax	12 9	(26 6)
	Current cost profit attributable to shareholder	232 8	215 4
	Dividends	(440 5)	(301 2)
8	Current cost loss for the year	(207 7)	(85 8)

The notes on pages 77 to 84 form part of these current cost financial statements

Current cost balance sheet for the appointed business

at 31 March

Notes		2007 £m	2006 Restated £m
	Fixed assets		
5	Tangible assets	22,062 0	20,937 5
	Third party contributions since 31 March 1990	(739 1)	(682 5)
		21,322 9	20,255 0
6	Working capital	(132 2)	(142 8)
	Cash at bank and in hand	66 3	39 3
	Investments and short-term deposits	282 9	461 2
	Infrastructure renewals prepayment	54 1	36 3
	Net operating assets	21,594 0	20,649 0
	Non-operating assets and liabilities		
7	Short-term borrowings	(78 6)	(202 4)
	Non-trade debtors	198 0	18 2
	Non-trade creditors due within one year	(7 4)	(27 5)
	Investments	1,609 2	1,609 2
	Corporation tax payable	(36 7)	(40 6)
	Total non-operating assets	1,684 5	1,356 9
	Creditors amounts falling due after more than one year		
7	Loans and other borrowings	(4,371 5)	(3,836 4)
	Provisions for liabilities and charges		
	Deferred tax	(97 2)	(113 2)
	Defined benefit pension scheme liabilities	(31 7)	(35 1)
	Defined benefit pension scheme assets	15 8	–
	Other provisions	(22 4)	(26 1)
		(135 5)	(174 4)
	Net assets	18,771 5	17,995 1
	Capital and reserves		
	Called up share capital	860 0	860 0
8	Profit and loss account	(114 7)	85 3
9	Current cost reserve at 31 March	18,026 2	17,049 8
	Total capital and reserves	18,771 5	17,995 1

The notes on pages 77 to 84 form part of these current cost financial statements

The prior year comparatives have been restated to reflect the disclosure changes as required by RAG 3 06

The financial statements were approved by the board of directors on 15 June 2007 and signed on its behalf by

Peter Simpson
Chief Operating Officer

Scott Longhurst
Group Finance Director

Current cost cash flow statement

for the year ended 31 March

Notes		Appointed £m	Non Appointed £m	2007 Total £m	Appointed £m	Non Appointed £m	2006 Total £m
10(a)	**Net cash inflow from operating activities**	554 7	3 8	558 5	525 4	3 4	528 8
	Returns on investment and servicing of finance						
	Interest received	218 0	–	218 0	266 9	–	266 9
	Interest paid	(217 5)	(0 1)	(217 6)	(244 7)	–	(244 7)
	Interest element of finance lease rental payments	(5 9)	–	(5 9)	(6 4)	–	(6 4)
	Net cash (outflow)/inflow from returns on investments and servicing of finance	(5 4)	(0 1)	(5 5)	15 8	–	15 8
	Taxation						
	Corporation tax paid	(9 1)	(1 0)	(10 1)	(1 1)	(0 9)	(2 0)
	Payments to other AWG Plc group undertakings	(24 3)	–	(24 3)	(5 4)	–	(5 4)
		(33 4)	(1 0)	(34 4)	(6 5)	(0 9)	(7 4)
	Capital expenditure and financial investment						
	Purchase of tangible fixed assets	(345 7)	–	(345 7)	(220 8)	–	(220 8)
	Grants and contributions received	33 0	–	33 0	24 1	–	24 1
	Infrastructure renewals expenditure	(70 3)	–	(70 3)	(43 2)	–	(43 2)
	Disposal of tangible fixed assets	5 6	–	5 6	2 0	–	2 0
	Net cash outflow for capital expenditure and financial investment	(377 4)	–	(377 4)	(237 9)	–	(237 9)
	Equity dividends paid	(440 0)	(2 6)	(442 6)	(301 2)	(4 5)	(305 7)
	Net cash outflow before management of liquid resources and financing	(301 5)	0 1	(301 4)	(4 4)	(2 0)	(6 4)
	Management of liquid resources						
	Net cash outflow from management of liquid resources	(19 7)	–	(19 7)	(87 1)	–	(87 1)
	Net cash outflow before financing	(321 2)	0 1	(321 1)	(91 5)	(2 0)	(93 5)
	Financing						
	Increase in loans	550 0	–	550 0	399 9	–	399 9
	Repayment of amounts borrowed	(177 9)	–	(177 9)	(292 8)	–	(292 8)
	Capital element of finance lease rental payments	(23 9)	–	(23 9)	(20 5)	–	(20 5)
	Net cash inflow from financing	348 2	–	348 2	86 6	–	86 6
	Increase/(decrease) in cash	27 0	0 1	27 1	(4 9)	(2 0)	(6 9)

The notes on page 84 form part of this cash flow statement

1 Accounting policies

(a) General

These financial statements have been prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat for modified real terms financial statements suitable for regulation in the water industry

They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business

The regulatory accounts are separate from the statutory financial statements of the company There are differences between the United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed

Change in regulatory accounting guidelines

The company has adopted the changes to Regulatory Accounting Guidelines set out in RD04/07 in these regulatory accounts The changes encompass the adoption of RAG 1 04 'Guideline for Accounting for Current Costs and Regulatory Capital Values', RAG 3 06 'Guideline for the content of Regulatory Accounts' and RAG 4 03 'Guideline for the analysis of Operating Costs and Assets' that require a number of presentational changes and changes to the basis of the calculation of real financial capital maintenance adjustments The effect of these changes on the 2006/7 current cost profit and loss account, is a credit of £24 6 million for the working capital adjustment and a charge of £131 6 million for the financing adjustment In accordance with RD04/07 the comparative figures in the current cost profit and loss account have not been restated for the change in the basis of the calculation of real financial capital maintenance adjustments The comparative figures in the current cost accounts have been restated for the presentational changes required by the above RAG's

The accounting policies used are the same as those adopted in the statutory financial statements, except as set out below

(b) Tangible fixed assets

Tangible fixed assets have been valued in accordance with Regulatory Accounting Guideline 1 04 (Guideline for Accounting for Current Costs and Regulatory Capital Values) on a modern equivalent asset (MEA) basis

Depreciation is charged over the estimated remaining economic life of the asset Infrastructure assets are not depreciated

Additions during the year are taken at their historic cost values Disposals are stated at the value of the replacement assets

(i) Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use as part of the periodic Asset Management Plan (AMP) reviews and are expressed in real terms by indexation using the Retail Price Index (RPI) thereafter

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic AMP reviews by adjusting for inflation as measured by changes in the RPI The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below)

(ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, on an MEA basis, determined principally on the basis of data provided by the AMP

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year

(iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement costs Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI

(iv) Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence

1 Accounting policies continued

(c) Modern equivalent asset (MEA) valuation

A review of the MEA valuation and asset stock is undertaken as part of each five-year periodic review The revised values arising from this review, once deemed effective by Ofwat, provide the basis for calculating the MEA in the current cost financial statements

(d) Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward as deferred income to the extent that any balance has not been credited to revenue The balance carried forward is after restatement for the change in the RPI for the year

(e) Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms

Depreciation adjustment – this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit

Disposal of fixed assets adjustment – the difference between the values of realised assets in these current cost financial statements and in the historical cost financial statements

The depreciation adjustment is incorporated within operating costs in the profit and loss account The disposal of fixed assets adjustment is incorporated within operating income in the profit and loss account

Working capital adjustment – this is calculated by applying the changes in the RPI over the year to the opening working capital as set out in note 6

Financing adjustment – this is calculated by applying the changes in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital, deferred tax, dividends payable and index linked debt

2 Turnover for the appointed business

	2007			2006		
	Water service £m	Sewerage service £m	Total £m	Water service Restated £m	Sewerage service Restated £m	Total Restated £m
Measured	209 0	287 4	496 4	183 2	253 9	437 1
Unmeasured	128 9	206 8	335 7	128 7	213 4	342 1
Trade Effluent	–	7 5	7 5	–	7 2	7 2
Large user and special agreement	26 6	23 2	49 8	28 3	25 5	53 8
Non-potable large user and special agreement	7 9	–	7 9	7 0	–	7 0
Rechargeable works	0 4	0 3	0 7	0 4	0 1	0 5
Bulk supplies/inter company payments	8 4	1 6	10 0	6 4	1 6	8 0
Third party services (including non-potable water)	16 7	1 9	18 6	13 8	1 7	15 5
Other sources	0 8	0 6	1 4	0 4	0 6	1 0
Total turnover	382 0	527 4	909 4	354 4	502 3	856 7

The prior year comparatives have been restated to reflect the disclosure changes as required by RAG 3 06

3 Operating income and working capital adjustment for the appointed business

	2007			2006		
	Water service £m	Sewerage service £m	Total £m	Water service £m	Sewerage service £m	Total £m
Current cost profit on disposal of fixed assets	0 9	0 8	1 7	0 2	0 1	0 3
Working capital adjustment	3 5	3 4	6 9	(8 9)	(9 0)	(17 9)

4 Analysis of operating costs and fixed asset net book values by service

2007
Service analysis

	Water service			Sewerage service				
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage T&D subtotal £m	Sewerage service subtotal £m
Direct costs								
Employment costs	6 5	7 7	14 2	10 4	19 6	7 9	27 5	37 9
Power	13 3	8 8	22 1	4 5	17 4	2 5	19 9	24 4
Hired and contracted services	2 8	9 0	11 8	5 0	7 6	13 6	21 2	26 2
Materials and consumables	3 4	1 1	4 5	1 5	6 3	6 6	12 9	14 4
Services charges	8 8	–	8 8	1 1	5 4	–	5 4	6 5
Bulk supply imports	0 9	–	0 9	–	–	–	–	–
Other direct costs	0 1	0 2	0 3	0 1	0 2	0 1	0 3	0 4
Total direct costs	35 8	26 8	62 6	22 6	56 5	30 7	87 2	109 8
General and support expenditure	8 0	12 3	20 3	8 4	15 9	10 3	26 2	34 6
Total functional expenditure	43 8	39 1	82 9	31 0	72 4	41 0	113 4	144 4
Business activities								
Customer services			11 0					12 4
Scientific services			4 7					3 2
Other business activities			2 4					2 6
Total business activities			18 1					18 2
Rates			22 1					17 9
Doubtful debts			6 6					8 7
Total less third party services			129 7					189 2
Third party services			4 5					0 7
Total operating costs			134 2					189 9
Capital costs								
Infrastructure renewals charge	0 4	28 6	29 0	23 4	–	–	–	23 4
Depreciation[1] (allocated)	49 2	19 8	69 0	27 8	115 3	10 6	125 9	153 7
Amortisation of deferred grants			(5 4)					(4 0)
Business activities depreciation[1] (non allocated)			3 6					5 4
Capital maintenance excluding third party services			96 2					178 5
Third party services – capital maintenance			3 5					1 0
Total capital maintenance			99 7					179 5
Total operating costs[2]			233 9					369 4
Current cost accounting (modern equivalent asset values)								
Service activities	1,307 6	5,269 7	6,577 3	13,604 6	1,778 4	101 7	1,880 1	15,484 7
Business activities	–	–	(22 5)	–	–	–	–	(33 7)
Service totals			6,554 8					15,451 0
Service assets for third parties			(62 0)					(10 8)
Total			6,492 8					15,440 2

[1] On a current cost basis
[2] Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £13 3 million
This is split £8 5 million water distribution and £4 8 million sewerage

4 Analysis of operating costs and fixed asset net book values by service continued

2006
Service analysis

	Water service			Sewerage service				
	Resources and treatment £m	Distribution £m	Water service subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage T&D subtotal £m	Sewerage service subtotal £m
Direct costs								
Employment costs	6 1	7 2	13 3	10 5	17 9	6 8	24 7	35 2
Power	11 4	7 4	18 8	3 7	14 5	2 3	16 8	20 5
Hired and contracted services	3 7	11 4	15 1	4 8	8 3	15 7	24 0	28 8
Materials and consumables	3 8	1 2	5 0	1 4	6 2	6 7	12 9	14 3
Services charges	9 1	–	9 1	1 1	5 3	–	5 3	6 4
Bulk supply imports	0 7	–	0 7	–	–	–	–	–
Other direct costs	0 5	1 3	1 8	1 0	1 0	0 5	1 5	2 5
Total direct costs	35 3	28 5	63 8	22 5	53 2	32 0	85 2	107 7
General and support expenditure	8 3	7 8	16 1	5 6	12 3	9 3	21 6	27 2
Total functional expenditure	43 6	36 3	79 9	28 1	65 5	41 3	106 8	134 9
Business activities								
Customer services			11 6					13 8
Scientific services			5 6					3 5
Other business activities			3 2					3 8
Total business activities			20 4					21 1
Rates			19 1					16 2
Doubtful debts			6 9					9 2
Total less third party services			126 3					181 4
Third party services			2 4					0 5
Total operating costs			128 7					181 9
Capital costs								
Infrastructure renewals charge	0 2	23 0	23 2	20 0	–	–	–	20 0
Movement in infrastructure renewal accrual/prepayment	–	4 2	4 2	3 6	–	–	–	3 6
Depreciation[1] (allocated)	48 1	17 9	66 0	26 1	108 9	10 1	119 0	145 1
Amortisation of deferred grants			(4 4)					(3 8)
Business activities depreciation[1] (non allocated)			5 1					7 6
Capital maintenance excluding third party services			94 1					172 5
Third party services – capital maintenance			3 3					1 0
Total capital maintenance			97 4					173 5
Total operating costs[2]			226 1					355 4
Current cost accounting (modern equivalent asset values)								
Service activities	1,223 1	4,928 5	6,151 6	12,914 3	1,688 2	96 5	1,784 7	14,699 0
Business activities	–	–	5 4	–	–	–	–	8 0
Service totals			6,157 0					14,707 0
Service assets for third parties			62 4					11 2
Total			6,219 4					14,718 2

[1] On a current cost basis

[2] Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £13 9 million This is split £10 3 million water distribution and £3 6 million sewerage

5 Fixed assets

	Specialised operational assets £m	Non-specialised operational properties £m	Infra-structure assets £m	Other tangible assets £m	Total £m
(a) Fixed assets by type – water service					
Gross replacement cost					
At 1 April 2006	1,730 7	11 3	5,406 5	221 6	7,370 1
RPI adjustment	83 4	0 5	260 7	10 7	355 3
Disposals	(1 6)	–	(1 9)	(0 2)	(3 7)
Additions	79 7	0 8	35 0	22 3	137 8
At 31 March 2007	1,892 2	12 6	5,700 3	254 4	7,859 5
Depreciation					
At 1 April 2006	942 2	2 9	–	205 9	1,151 0
RPI adjustment	45 4	0 1	–	9 9	55 4
Disposals	(0 2)	–	–	(0 2)	(0 4)
Charge for the year	68 7	0 2	–	7 2	76 1
At 31 March 2007	1,056 1	3 2	–	222 8	1,282 1
Net book amount at 31 March 2007	836 1	9 4	5,700 3	31 6	6,577 4
Net book amount at 1 April 2006	788 5	8 4	5,406 5	15 7	6,219 1
(b) Fixed assets by type – sewerage service					
Gross replacement cost					
At 1 April 2006	4,889 4	13 5	12,359 5	295 1	17,557 5
RPI adjustment	235 7	0 7	595 8	14 2	846 4
Disposals	(0 5)	–	–	(0 4)	(0 9)
Additions	143 1	1 1	39 8	33 4	217 4
At 31 March 2007	5,267 7	15 3	12,995 1	342 3	18,620 4
Depreciation					
At 1 April 2006	2,548 7	3 2	–	287 2	2,839 1
RPI adjustment	122 9	0 2	–	13 8	136 9
Disposals	–	–	–	(0 4)	(0 4)
Charge for the year	152 3	0 2	–	7 7	160 2
At 31 March 2007	2,823 9	3 6	–	308 3	3,135 8
Net book amount at 31 March 2007	2,443 8	11 7	12,995 1	34 0	15,484 6
Net book amount at 1 April 2006	2,340 7	10 3	12,359 5	7 9	14,718 4
(c) Fixed assets by type – total					
Gross replacement cost					
At 1 April 2006	6,620 1	24 8	17,766 0	516 7	24,927 6
RPI adjustment	319 1	1 2	856 5	24 9	1,201 7
Disposals	(2 1)	–	(1 9)	(0 6)	(4 6)
Additions	222 8	1 9	74 8	55 7	355 2
At 31 March 2007	7,159 9	27 9	18,695 4	596 7	26,479 9
Depreciation					
At 1 April 2006	3,490 9	6 1	–	493 1	3,990 1
RPI adjustment	168 3	0 3	–	23 7	192 3
Disposals	(0 2)	–	–	(0 6)	(0 8)
Charge for the year	221 0	0 4	–	14 9	236 3
At 31 March 2007	3,880 0	6 8	–	531 1	4,417 9
Net book amount at 31 March 2007	3,279 9	21 1	18,695 4	65 6	22,062 0
Net book amount at 1 April 2006	3,129 2	18 7	17,766 0	23 6	20,937 5

5 Fixed assets continued

(d) In the preparation of its statutory financial statements, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as required by FRS 15 Tangible fixed assets However, for the purposes of the regulatory financial statements, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years A reconciliation to the tangible fixed assets shown in the statutory financial statements is set out below

	Infrastructure assets £m
Cost	
At 31 March 2007 per regulatory financial statements	18,695 4
Adjustment to opening balance at 31 March	(16,209 1)
Infrastructure renewals expenditure capitalised in the year	70 3
At 31 March 2007 per statutory financial statements	2,556 6
Grants and contributions	
At 31 March 2007 per regulatory financial statements	–
Adjustment to opening balance at 31 March	(200 7)
At 31 March 2007 per statutory financial statements	(200 7)
Depreciation	
At 31 March 2007 per regulatory financial statements	–
Adjustment to opening balance at 31 March	(535 1)
Depreciation charge for infrastructure renewals expenditure	(52 5)
At 31 March 2007 per statutory financial statements	(587 6)
Net book value	
At 31 March 2007 per regulatory financial statements	18,695 4
Adjustment to opening balance at 31 March	(16,944 9)
Infrastructure renewals expenditure capitalised in the year	70 3
Depreciation charge for infrastructure renewals expenditure	(52 5)
At 31 March 2007 per statutory financial statements	1,768 3
Infrastructure renewals prepayment	
At 31 March 2007 per regulatory financial statements	54 1
Less infrastructure renewals prepayment	(54 1)
At 31 March 2007 per statutory financial statements	–

6 Working capital

	2007 £m	2006 restated £m
Stocks	11 7	10 6
Trade debtors – measured household	33 9	–
Trade debtors – unmeasured household	37 7	–
Trade debtors – measured non-household	17 8	–
Trade debtors – unmeasured non-household	5 3	–
Other trade debtors	23 4	119 1
Measured income accrual	83 6	26 1
Prepayments and other debtors	6 6	6 2
Trade creditors	(77 8)	(56 3)
Deferred income – customer advance receipts	(114 2)	(104 4)
Short-term capital creditors	(59 9)	(49 8)
Accruals and other creditors	(100 3)	(94 3)
Total working capital	(132 2)	(142 8)

The prior year comparatives have been restated to reflect the disclosure changes as required by RAG 3 06

7 Net debt analysis

Interest rate risk profile at 31 March 2007

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	(78 6)	0 6	(50 0)	(29 2)
Between one and two years	(239 3)	(13 3)	(150 0)	(76 0)
Between two and five years	(390 2)	1 8	–	(392 0)
Between five and twenty years	(1,764 3)	(894 1)	(195 0)	(675 2)
In more than twenty years	(1,977 7)	(1,257 0)	–	(720 7)
Total borrowings	(4,450 1)	(2,162 0)	(395 0)	(1,893 1)
Cash	66 3			
Short-term deposits	282 9			
Net debt	(4,100 9)			

Interest rate risk profile at 31 March 2006

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	(202 4)	(149 5)	–	(52 9)
Between one and two years	(28 6)	0 5	–	(29 1)
Between two and five years	(488 3)	(161 3)	–	(327 0)
Between five and twenty years	(1,882 1)	(721 5)	(344 0)	(816 6)
In more than twenty years	(1,437 4)	(716 9)	–	(720 5)
Total borrowings	(4,038 8)	(1,748 7)	(344 0)	(1,946 1)
Cash	39 3			
Short-term deposits	461 2			
Net debt	(3,538 3)			

8 Current cost profit and loss account

	2007 £m	2006 £m
At beginning of the year	85 3	105 8
Loss for the year	(207 7)	(85 8)
	(122 4)	20 0
Indexation adjustment[1]	(2 0)	–
Actuarial gains recognised in pension scheme	14 8	88 0
Deferred tax relating to pension scheme	(5 1)	(26 5)
Deferred tax on share based payments	–	3 8
At end of year	(114 7)	85 3

[1] The RPI adjustment relates to a brought forward indexation difference in the opening reserves

9 Movement on current cost reserve

	2007 £m	2006 £m
At beginning of the year	17,049 8	16,634 1
RPI adjustments		
– Fixed assets	1,009 3	482 7
– Working capital	(6 9)	17 9
– Financing	6 9	(69 5)
– Grants and third party contributions	(32 9)	(15 4)
At end of year	18,026 2	17,049 8

10 (a) Reconciliation of current cost operating profit to net cash inflow from operating activities for the appointed business

	2007 £m	2006 £m
Current cost operating profit	314 7	257 6
Working capital adjustment	(6 9)	17 9
Movement in working capital	(26 0)	(14 6)
Current cost depreciation	226 9	219 9
Current cost profit on sale of fixed assets	(1 7)	(0 2)
Infrastructure renewals charge	52 5	51 0
Other non-cash items	–	(6 2)
Movement in provisions	(4 8)	–
Net cash flow from operating activities	554 7	525 4

10 (b) Analysis of net debt

	1 April 2006 £m	Cash flows £m	Non-cash movements £m	31 March 2007 £m
Cash	39 3	27 0	–	66 3
Deposits and investments	461 2	(178 3)	–	282 9
Finance leases due within one year	(23 9)	23 9	(27 2)	(27 2)
Finance leases due after one year	(92 5)	–	27 2	(65 3)
Other debt due within one year	(178 5)	124 8	2 3	(51 4)
Other debt due after one year	(3,743 9)	(496 5)	(65 8)	(4,306 2)
	(3,538 3)	(499 1)	(63 5)	(4,100 9)

Non-cash movements comprise indexation of index linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, repayments made by Anglian Water Services Financing Plc, amortisation of discounts and expenses relating to debt issue costs and amortisation of 'mark to market' adjustments

1 Regulatory capital value (RCV)

	2007 £m
Opening RCV for the year	4,718 0
Capital expenditure (excluding IRE)	326 0
Infrastructure renewals expenditure (IRE)	56 6
Grant and contributions	(16 8)
Depreciation	(208 6)
Infrastructure renewals charge	(49 3)
Outperformance of regulatory assumptions (five years in arrears)	(31 4)
Closing RCV	4,794 5
Average RCV	4,661 6

RCV figures are extracted from those published by Ofwat on 26 April 2006 in their RD08/06 letter at 2005/6 prices These have been indexed upwards to 2006/7 prices using an RPI factor of 204 4/195 0 (RPI at 31 March 2007/RPI at 31 March 2006) to give the current year figures in the table excluding average RCV The average RCV is derived by indexing the average RCV published in RD08/06 by the RPI factor of 200 3/193 1 (average RPI for the year ended 31 March 2007/average RPI for the year ended 31 March 2006) The indices that have been used to inflate the RCV's to 2006/7 prices have been extracted from those published by Ofwat on 26 April 2007 as per RD09/07

We have audited the Regulatory Accounts of Anglian Water Services Limited ('the Company') on pages 65 to 84 which comprise

=> The regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost statement of total recognised gains and losses and the regulatory historical cost balance sheet
=> The regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes including the statement of accounting policies

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ('the WSRA') in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ('the Regulatory Licence') Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed

Basis of preparation
The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company There are differences between United Kingdom Generally Accepted Accounting Principles ('UK GAAP') and the basis of preparation of information provided in the Regulatory Accounts as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985

Respective responsibilities of the WSRA, the directors and auditors
The nature, form and content of Regulatory Accounts are determined by the WSRA It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes Accordingly we make no assessment

The directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the Statement of directors' responsibilities for regulatory information on page 63

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3 06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4 03 (Guideline for the analysis of operating costs and assets), and whether the regulatory current cost accounting statements on pages 74 to 84 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts The other information comprises the performance review, the notes on regulatory information, and the additional information required by the Company's Regulatory Licence

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland)

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose Our audit report in relation to the statutory accounts of the Company (our 'Statutory' audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit

The regulatory historical cost accounting statements on pages 65 to 67 have been drawn up in accordance with Regulatory Accounting Guideline 3 06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 82

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2007 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 77 and 78, the state of the Company's affairs at 31 March 2007 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies

In respect of this information we report that in our opinion

a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument,
b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,
c) the regulatory historical cost accounting statements on pages 65 to 67 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA,
d) the regulatory current cost accounting statements on pages 74 to 84 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
15 June 2007

[1] The maintenance and integrity of the Company web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator the work carried out by the auditors does not involve consideration of these matters and, accordingly the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites

[2] Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information notably in the five-year Asset Management Plan process

Appointed business – The appointed business comprises the regulated activities of the company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991

Arm's-length trading – Arm's-length trading is where the company treats the associate companies on the same basis as external third parties

Asset Management Plan (AMP) – A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets The plan runs for a five-year period AMP3 covered the investment period April 2000 to March 2005 AMP4 covers the investment period April 2005 to March 2010

Associate company – Condition A of the Licence defines an associate company to be any group or related company Condition F of the Licence requires all transactions between the company and its associated companies to be disclosed subject to specified materiality considerations

Final determination – This is the conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year period It is accompanied by a determination of the allowable 'K' factor for the forthcoming five-year period

Financing adjustment – The impact of general inflation (RPI) on the real value of net finance for the business

K factor – The annual increase, set by Ofwat, in charges that companies in the water industry can make The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula RPI + or – 'K' + 'U' RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and 'U' is the amount of 'K' not taken up by a company in previous years

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time

Modern Equivalent Asset (MEA) – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing, or the recoverable amount if it would not The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third party contributions

Non-appointed business – The non-appointed business activities of the company are activities for which the company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the company (for example, the use of underground assets for cable television)

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA) The WSRA acts as the economic regulator of the water industry

Periodic Review – The price determination process undertaken by Ofwat every five years Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the K factor – see above)

Price limit – This is the name given to the combination of the Retail Price Index (RPI), 'K' and 'U'

Regulatory Accounting Guidelines (RAG) – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat

Retail Price Index (RPI) – The RPI is compiled and published monthly by the Office for National Statistics RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom

Regulatory Capital Value (RCV) – The capital base used in setting price limits The value of the appointed business that earns a return on investment It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989 The capital value is calculated using the Ofwat methodology (ie after current cost depreciation and infrastructure renewals accrual)

Third party contributions since 1989/90 – Grants and third party contributions received in respect of infrastructure assets and any deferred income relating to grants and third party contributions for non-infrastructure assets

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material

Working capital adjustment – The impact of general inflation (RPI) on the real value of working capital to the business

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Visit www anglianwater co uk

Anglian Water Services Limited
Anglian House, Ambury Road,
Huntingdon, Cambridgeshire
PE29 3NZ

Tel 01480 323000
Fax 01480 323115
Doc Ref No AW002/06/07

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