This year we have continued to focus on delivering a reliable, high-quality service, while planning for the challenges ahead in the next five and 25 years for **anglianwater**

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Annual Report and Accounts 2008

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CO. NO. 2366656

ANGLIAN WATER SERVICES LIMITED

Business review

Our key performance indicators

Measure	How we define it	How it relates to our strategy	Our performance	Comment
Operational				
Drinking water quality[1]	Our mean zonal compliance performance in the calendar year against the required standards	One of our fundamental public service goals	2007 99 96% 2006 99 95% 2005 99 96%	An excellent performance
Leakage[2]	Cubic metres of water lost per kilometre of main per day	Minimising leaks is vital in a dry region and improves efficiency	2007/8 5 6m³/km/day (provisional) 2006/7 5 5m³/km/day 2005/6 5 8m³/km/day Industry average 2006/7 10 1m³/km/day	We are a leader in leakage control
Overall Performance Assessment (OPA) results[2]	Ofwat's mix of customer-related measures	Measures our operational performance against the rest of the industry	2007/8 420 points (provisional) 2006/7 413 points 2005/6 388 points	Ofwat's highest scoring water and wastewater company
Capital expenditure £m[3]	Total spend from 1 April 2005 to 31 March 2008, increased by construction-related inflation	How much investment we have delivered so far in this five-year Asset Management Plan period (2005–2010)	3 years to March 2008 £1 196m determination 3 years to March 2008 £1,178m actual	Our capital investment plan is on track
Financial				
Operating expenditure £m[4]	Operating costs (excluding depreciation) incurred during the year	The cost of running Anglian Water's operations and achieving our objectives	2007/8 331 2 2006/7 324 7 2005/6 314 4	Up 2 0% due to increasing cost and inflationary pressure partially offset by efficiencies
Employee				
Accident frequency rate	The number of accidents per 100 000 hours worked	An indicator of how safely we work	2007/8 0.37 2006/7 0 39 2005/6 0 39	An improvement towards our target of 0 34
CHaSPI[5]	The Health and Safety Executive (HSE) corporate performance index Scored out of 10	Aims to help assess how well an organisation manages its risks and responsibilities towards its workers, the public and other stakeholders	2007/8 7 4 2006/7 7.3 2005/6 7 1	Above the CHaSPI average of 6 7 for 86 companies
Environmental				
Carbon footprint	CO_2 equivalent emissions in tonnes	Measuring our impact on the climate	2007/8 439 000 2006/7 459 000	A reported 4 4% reduction

[1] Drinking water results published in 2008 for the 2007 calendar year measured as mean zonal compliance with the regulatory quality standards.
[2] 2007/8 result subject to formal confirmat on from Ofwat in autumn 2008
[3] Cumulative spend from 1 April 2005 to 31 March 2008 inflated by Construction Outputs Price Index (COPI) to 2007/8 prices.
[4] For the appoin ed and non-appointed businesses
[5] For more information see www hse gov uk or www chaspi info-exchange com

Our purpose

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

Contents

* The Business Review together with the Key Performance Indicators on the inside front cover form what was previously referred to as the Operating and Financial Review (OFR)

Chief Executive's statement

I am pleased to say that this has been a successful year in, occasionally, difficult circumstances

We have experienced one of the wettest years on record but have remained focused on delivering a reliable, high-quality service to our customers Operationally, we are currently the leading water and wastewater company in terms of Ofwat's overall performance assessment (OPA) I would like to thank my colleagues, and our partners, for their commitment and dedication to help us achieve this

Our long-term vision
We have continued to make good progress on delivering our commitments within the current five-year Asset Management Plan (AMP) period to 2010

"We are committed to a plan that will continue to deliver a reliable supply of safe, clean drinking water and effective wastewater services for the next 25 years and beyond "

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

The SDS involved an unprecedented amount of work with all interested parties in the region As a result, it is an invaluable roadmap for us and provides an excellent framework for our draft business plan relating to 2010–2015

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

Our fundamental business aim:

Our fundamental goal is to deliver a reliable supply of clean, safe drinking water and effective wastewater services at an affordable price

is delivered by seven strategic priorities·

- Increase the resilience and reliability of our water and wastewater services
- Secure and conserve water resources
- Anticipate and invest for growth in our region
- Improve the environment in our region
- Mitigate and adapt to climate change impacts
- Improve our efficiency and flexibility
- Keep bills at current affordability

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

The region in which we operate is particularly vulnerable to the effect of climate change due to its extensive coastline and low-lying land This makes many of our assets vulnerable to flooding We are also seeing extreme storms more regularly In June 2007 for example, north Norfolk experienced a severe storm that overwhelmed our network, causing localised flooding and compromising water quality

The following month the country experienced some of its worst flooding, particularly in Gloucestershire We experienced significant flooding in Lincolnshire and learned from supplying assistance, through the industry's mutual aid scheme, to other companies more badly affected These events highlighted the importance of further investment during 2010–2015 and beyond to improve network resilience

Our other key challenge is the impact of housing growth Our region is already the fastest-growing in the country Around a million new homes are predicted to be built in our region in the next 25 years Despite the current downturn in the housing market, we are planning for very significant growth in the long term

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

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

This year's performance
This is the first full year of trading since Anglian Water's parent company was acquired by the Osprey consortium in November 2006 Financially, Anglian Water continues to perform strongly, with turnover up 5 5 per cent to £969 2 million and operating profit up 4 0 per cent to £421 0 million

Our goal by the end of this AMP period is for Anglian Water to be at, or very near to, the forefront of our industry in a number of key areas, including efficiency customer service, operational performance and capital delivery Our performance this year has proven that this strategy is firmly on track

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

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

Jonson Cox
Chief Executive Anglian Water Group

which are addressed through the following activities:

Understanding our business environment ▶ 04
Ensuring service delivery and performance ▶ 10
Managing our key relationships ▶ 20
Addressing climate change and our environment ▶ 24
Addressing our key stakeholders ▶ 26
Managing risk ▶ 28

Understanding our business environment

Anglian Water operates in a complex business environment Understanding and responding to all the factors that influence, or could influence, the way we work is an essential factor in delivering our strategy

The legal and regulatory standards that we must meet are clearly defined, for example on drinking water quality standards or our performance against wastewater consents The implications of falling short of these standards are equally clear

Other changes, for example the introduction of greater competition, have potentially significant implications for the way we work

Anglian Water ownership structure

Osprey consortium
▽
Anglian Water Group Limited
▽
AWG Plc
▽
Anglian Water Services Holdings Limited
▽
Anglian Water Services Overseas Holdings Limited
▽
Anglian Water Services Limited [1]
▼
Anglian Water Services Financing Plc [1]

▭ AWS Financing Group (AWSFG)
▽ ▼ Direct subsidiary
▽ Indirect subsidiary

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

Our core business

Anglian Water is one of 10 companies in England and Wales that provides both water and wastewater services to its customers There are also a further 16 companies that provide water services only We aim to provide a high-quality, cost-effective service to all our customers, while working to comply with, or exceed, all relevant drinking water and environmental standards Competition within the water industry is increasing As competition is introduced, some domestic customers will be supplied with water from us via third-party companies (see page 8 for more about competition)

Our region

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

Company structure and financing

Anglian Water Services Limited (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 a consortium called Osprey Acquisitions Limited (Osprey) in 2006 (see page 6)

Anglian Water Plc was first listed on the London Stock Exchange in 1989 when the water industry in England and Wales was privatised Its parent company, AWG Plc, was subsequently de-listed from the London Stock Exchange in December 2006 following its acquisition Anglian Water is funded predominantly by debt in the form of long-term bonds and other debt instruments, rather than equity Net debt accounts for approximately 81 per cent of Anglian Water's regulatory capital value

The industry is funded with a common weighted average cost of capital Anglian Water has adopted an efficient capital structure and debt-funding mechanism The financial benefits arising from this structure are shared by our customers in the form of lower bills

The debt-funding structure was established in 2002 This structure has proven to be robust and of particular benefit during periods of economic and financial market uncertainty, such as those currently being experienced globally Anglian Water has continued to access the debt markets during the recent credit squeeze

Our unique region

The Anglian Water region extends from the Humber to the Thames estuary and from Buckinghamshire to the east coast It also includes Hartlepool in the Northeast 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 supply

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

Driest region
Our region receives just 600 millimetres of rain each year a third less than the national average Water efficiency and effective leakage control is therefore vital to Anglian Water

Largest area
Our region covers 27 500 square kilometres representing 18 per cent of the area of England and Wales Our 80 000 kilometre long water and wastewater networks require constant maintenance and investment

Many treatment works
Because of the size of our region we operate 1 246 water and wastewater treatment works This is around a quarter of all those in England and Wales

Flat, low-lying land
Our region is typically flat and low-lying Approximately a quarter of it is below sea level Without the benefit of gravity, we have to rely on pumping which uses a lot of energy

Slow-moving rivers
Our slow-moving rivers can be damaged by excess nutrients which can come from fertilisers and washing products To help combat this we remove specific nutrients such as phosphorus at wastewater treatment works serving a large proportion of our customers

Rapid expansion of housing
Around a million new homes are predicted to be built in our region in the next 25 years[1] Meeting the additional demand from the growth in our region represents a major challenge

Long coastline
Our coastline is approximately 1 240 kilometres long The treated wastewater we return to the sea must pass strict quality standards

Productive agricultural land
Our region has 58 per cent of the most productive agricultural land in England and Wales[2] Our treatment processes are designed to remove the chemicals and pesticides that can enter watercourses via agricultural land

Large reservoirs
Anglian Water owns 18 reservoirs Its largest Rutland Water is approximately 12 6 square kilometres making it one of the largest man-made reservoirs in northern Europe

Most Sites of Special Scientific Interest
Around 20 per cent of the country's Sites of Special Scientific Interest (SSSIs) are in our region These and many of our other environmentally designated sites, require specific care

Biodiverse
Land and reservoirs owned by Anglian Water are home to internationally important numbers of wildlife flora and fauna Our Biodiversity Action Plan aims to protect and enhance the environment in our region

[1] Anglian Water/Regional Assembly forecasts
Environment Agency data

Market operations

What we do

We take water from the environment, store it, treat it to a high standard and deliver it to our customers via an underground distribution network Once the water has been used, a large proportion is returned to us via our network of sewers The water is separated, cleaned and returned to the region's watercourses The organic solids are treated and supplied to farmers for use as a soil conditioner Any inorganic material is sent to landfill

This work requires significant investment Between 2005 and 2010, Anglian Water is investing £1 9 billion (at 2007/8 prices) in our services, in addition to the £4 7 billion that was invested between 1990 and 2005

Drinking water

Every day Anglian Water supplies around 1 2 billion litres of high-quality drinking water to 4 2 million domestic and commercial water customers via 140 water treatment works and more than 37,000 kilometres of water mains

The water in the west of the region is primarily from reservoirs, which are used to store water taken from rivers nearby The east of the region relies principally on natural underground reserves known as aquifers

Because of the geology of our region, the majority of our water is in the 'hard' to 'very hard' range, with very small pockets in the 'slightly' or moderately hard range Two-thirds of the annual supply is used by households, of which around 62 per cent – and rising – are metered This proportion, which is the highest in the water industry, plays an important role in improving customers' water efficiency

Our infrastructure

18 Reservoirs

140 Water treatment works

245 Boreholes

37,232 Km of water mains

1,106 Wastewater treatment works

43,751 Km of sewers

Wastewater

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

Approximately 960 million litres of wastewater are collected each day from 5 5 million customers, including customers who receive their water from other companies Anglian Water's wastewater network includes 43,751 kilometres of pipes connected to 1,106 wastewater treatment works

Overview of the Osprey consortium

Organisation	% ownership	Origin	Assets*	Description
	32 3%	Australia	A$156.3bn	Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia group
	32 3%	Canada	C$122 7bn	CPP Investment Board is an investment management firm established to invest funds received from the Canadian Pension Plan
	19.3%	Australia	A$17 1bn	IFM (International Infrastructure) Wholesale Trust is a fund that holds investments in international infrastructure assets Ultimately owned by Members Equity Bank Pty Ltd
	16.1%	UK	£9 8bn	A world leader in private equity and venture capital with a growing presence in infrastructure Listed on the London Stock Exchange

*Assets under management as at 31 March 2008

Overview of regulators and non-governmental organisations

Organisation	Responsibilities
Economic regulator	
	Ofwat is our principal regulator It is responsible for determining the prices that water companies can charge ensuring that companies have enough money to deliver their services and that customers are protected, monitoring and enforcing performance standards and promoting competition where appropriate
Other regulators	
	Defra (Department for the Environment Food and Rural Affairs) is the Government department responsible for improving the environment, and integrating the environment with other policies
	The Environment Agency (EA) is a non-departmental public body of Defra It oversees environmental performance Regulates the amount of water we take from the environment and the quality of the water we return to it
	The Drinking Water Inspectorate (DWI) is responsible for assessing and enforcing the quality of drinking water in England and Wales
	Natural England was formed from three separate agencies in 2006 English Nature, elements of the Countryside Agency and Rural Development Service It is a public body that works to conserve and enhance the natural environment of the English countryside
Customer representative	
	The Consumer Council for Water is an independent body, funded by water companies through annual licence fees which represents the interests of customers in relation to the price and quality of service from water companies

Regulatory environment

The water industry is highly regulated The quality of our customer service and the prices we are able to charge our customers are regulated by the Water Services Regulation Authority (WSRA) or Ofwat as it is more commonly known

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

The water industry operates on five-yearly cycles called Asset Management Plan (AMP) periods Prices are set by Ofwat at the beginning of each period, following submissions from each company about what it will cost to deliver their plans In August 2008 Anglian Water will be submitting to Ofwat a draft business plan for AMP5, which covers the period 2010–2015

Each year every water company sends Ofwat a detailed breakdown of its performance in a document called the June Return This return is then used to monitor and compare companies' performances

Regulation and performance
One of Ofwat's primary roles is to drive companies to improve their performance, efficiency and customer service

The regulator does this by benchmarking all companies' performances against those of the industry's leading ('frontier') company The frontier companies benefit from doing well Those that perform well against Ofwat s Overall Performance Assessment (OPA) are allowed additional revenue Those that are deemed to be most efficient are set the smallest efficiency targets for the subsequent five years

The other companies are set targets that will improve their efficiency to bring them closer to the frontier company within the next five years The further they are from the frontier, the greater this challenge becomes

Competitive environment
The competitive environment of the water supply and wastewater services market is changing rapidly in England and Wales Anglian Water supports the introduction of competition, as long as it is introduced in a fair and even way and can be proven to benefit customers

Historically, water companies have been able to offer water and wastewater services to large industrial or commercial customers and developers of greenfield sites outside their regional boundaries through the creation of what are known as 'inset appointments'

During the year, Anglian Water became the water supplier to a new business park just outside Hartlepool Water's region because the water company that would normally supply the area did not have sufficient capacity The optimum solution for all parties was for Anglian Water to supply the site through an inset appointment

Also during the year, a number of new companies have entered the market offering to serve large new developments in Anglian Water's area with water and wastewater services, again via inset appointments The supply of these services on two developments, both in Northamptonshire, has been awarded to another company in our region this year
The current approach may provide developers with a choice of which water company to use However, the ultimate domestic customers do not benefit from any choice under the current inset regime

From December 2005, business customers using at least 50 megalitres of water per year were able to choose from a number of different licensed companies, one of which is Anglian Water's non-regulated sister company, Osprey Water

This strategy is contained in the Strategic Direction Statement (SDS) which is available online at **www anglianwater co uk**

Jean Spencer, Director of Regulation, speaking to Mark Simmonds, MP for Boston and Skegness, at an event to brief MPs about our plans for the next Asset Management Plan period (2010–2015)

The future of competition
Ofwat is concerned that competition to date is too limited and has not developed successfully Therefore in 2007 Ofwat launched a public consultation on the future of competition in the water and wastewater industry in England and Wales

In early 2008 the Government also launched an independent review of competition and innovation in the water sector Ofwat has recently published the second part of its consultation and sets out proposals for progressing competition in the water and wastewater markets A number of proposals, if implemented, will require changes to the legislative framework Anglian Water will continue to actively participate in the competition review process

Price Review 2009 (PR09)
This year, Anglian Water has talked to an unprecedented number of interested parties in the region about what they think Anglian Water's priorities should be during the next 25 years

37 senior one-to-one interviews

Survey of **1,000** domestic customers

Survey of **500** non-domestic customers

Up to **15** people on each of five 'expert panels'

Focus groups with **80** domestic customers

The feedback from this process which is ongoing, was a vital part of the thinking that went into creating Anglian Water s 25-year strategy This is contained in the Strategic Direction Statement (SDS) – see above

Our priorities for the next five-year Asset Management Plan period (2010–2015) will be developed within the longer-term framework established by the SDS

Ensuring service delivery and performance

We aim to ensure that we offer a reliable, high-quality service to our customers by constantly reviewing our performance against regulatory requirements and leading service providers, as well as our long-term strategy

In 2004 Anglian Water defined four key areas of the business that it wished to improve, namely customer service, our capability in relation to technology, systems and people, understanding and mitigating risk, and improving our efficiency

We have seen significant improvements in these areas this year Further improvements are anticipated in future years, although we recognise that improvements on this scale will become increasingly difficult as Anglian Water approaches the industry frontier

Performance highlights

Highly ranked performance

Ofwat's Overall Performance Assessment (OPA) includes a range of measures from across water companies' operations, including water and wastewater operations, customer service and the environment

In November 2007 Ofwat announced that Anglian Water was the industry's leading water and wastewater company in terms of its OPA for the financial year 2006/7

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

- We maintained an excellent record of compliance in our wastewater effluent throughout the year, with no test failures in some months
- No wastewater treatment works tracked by Ofwat as part of the OPA were classed as 'failing' during the year (see picture, below)
- The lowest number of significant pollution incidents ever recorded for Anglian Water

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

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

Ian Bowmaker, Wastewater Quality Manager, Steve Birney, Operator, and Tim Twigg, Site Manager of Clifton Wastewater Treatment Works which had no failing samples in 2007

Improved customer service
Anglian Waters focus on customer service has led to a significant improvement in performance in 2007/8, compared with the previous year

We carry out regular surveys of our customers, asking questions relating to 14 aspects of the service we provide The average satisfaction score for overall service in the year was unchanged at 86 per cent but with 92 per cent, the highest score to date, achieved in the third quarter of the year

Four key measures of customer service are incorporated into an index that is tracked on a monthly basis The index includes levels of service, backlogs of work, service delivery failures and the number of chase calls from customers Compared to the end of 2006/7, three out of the four measures in the index have improved markedly, with levels of service improving by 6 6 per cent, backlogs down by 94 per cent and chase calls down by 26 per cent

Service delivery failures, where we have not met customers' expectations, increased by 16 per cent This deterioration was principally due to the installation of our new billing system last year Service levels are on course to return to normal in 2008/9

Consistent delivery of capital investment
One of Anglian Water's strengths in this Asset Management Plan period has been the consistent way in which it has delivered its annual capital investment targets

We have achieved efficiencies in the AMP4 capital programme since it began in 2005 and these have largely been re-invested in additional capital projects Total capital expenditure during the first three years of the programme is two per cent below the assumed spend in Ofwat's Final Determination (based on 2007/8 prices)

In 2007/8 Anglian Water completed a further four nitrate removal schemes and has started the construction of the Wing Water Treatment Works extension in Rutland, which will provide vital additional water supplies by March 2010

We have reduced the number of customers at risk of wastewater flooding by 21 per cent and provided first-time wastewater services to a potential 1,277 properties at 12 locations

We have also commissioned a new sludge treatment plant in King's Lynn, Norfolk (see picture, right) The new plant, which uses the latest technology, has significant financial and environmental benefits It reduces the volume of sludge that has to be treated and transported and also produces biogas as a by-product, from which we can generate our own electricity

▽ 94%
Compared to the end of 2006/7, three out of the four measures in the Customer Service Index have improved markedly, with levels of service improving by 6 6 per cent, backlogs down by 94 per cent and chase calls down by 26 per cent

Increasing surface-water sewer capacity to accommodate new development and reduce the risk of flooding in Cromer, Norfolk

The new biosolids treatment centre at Clenchwarton, Kings Lynn

Improved asset serviceability
One of our key licence obligations is to maintain our assets to ensure they continue to provide services to the required standards Ofwat makes annual assessments of the 'serviceability' of companies' assets and recovers money from those companies that fail to keep them at a 'stable' level

Although the serviceability of our water assets has historically been 'stable', we have been working hard to bring the rating of our wastewater network up from 'deteriorating' to the same standard

Above ground wastewater assets
In 2005/6 Ofwat assessed the serviceability of our above ground ('non-infrastructure') wastewater assets to be 'deteriorating' The reason for this was a marked decline in the compliance of our wastewater treatment works in relation to their discharge consents

Our focus on compliance has continued to deliver results this year, resulting in our best performance to date Having met the standards required of us by Ofwat, we have now returned to 'stable' serviceability

Below ground wastewater assets
In 2001/2 Ofwat assessed the serviceability of our below ground ('infrastructure') wastewater assets to be deteriorating due to a rise in the number of reported sewer collapses

Since then we have increased significantly the investment in our sewer replacement programme Better data about our infrastructure has also enabled us to improve how we prioritise sewer replacement schemes and has resulted in a steady reduction in the number of sewer collapses We again assert that we have returned to 'stable' serviceability in the assessment for the year

Operational performance
Anglian Water measures every aspect of its operational performance in order to provide customers with the highest quality and most reliable service Outlined below are some of the main aspects of this performance

Work began this year on one of our most strategically important water resource projects, the extension of the treatment works near Rutland Water, our largest reservoir This £115 million investment project will allow us to abstract and treat up to 90 million more litres of water per day

Water
Drinking water quality
Drinking water quality is the foremost measure of our performance The quality of our drinking water is tested throughout the treatment process and at other key sites to complement the extensive laboratory sampling and analysis, which includes water from customers' taps (see over) More information about our drinking water quality is contained in a separate report and online (see over for details)

The quality standards for our water are set by the Drinking Water Inspectorate (DWI) All water companies have a duty to inform the DWI of any events that have affected, or are likely to affect, drinking water quality If the event is deemed to be significant, it is classified as an incident and enforcement action may be considered

2007/8 results
Drinking water quality remained excellent throughout the year, resulting in a mean zonal compliance with regulatory standards of 99 96 per cent for 2007 Hartlepool Water achieved 100 per cent

Investment
We invest to ensure that the standard of our drinking water is maintained During AMP4, Anglian Water is investing almost £100 0 million in drinking water quality improvements This programme of work includes 31 schemes, 16 of which have been completed to date, six in 2007/8 The remaining schemes are progressing to plan

Drinking water safety plans
Anglian Water has translated all of the regulatory requirements, as well as our own 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 and is available to employees via our intranet

Keeping water healthy
In a significant proportion of cases, the cause of customers water-quality-related complaints or queries can be traced back to customers homes, in most cases the contamination of taps

In recognition of this, and the cost to Anglian Water in terms of reputation and visits to customers' homes, we developed a customer initiative called 'Keeping Water Healthy', which helps explain to customers the reasons for water-quality-related issues that can be resolved within their homes For more information, please refer to the Drinking Water Quality report (see right)

Sir David Attenborough cut the first sod of the work to protect the habitats in and around Rutland Water as part of the vital capital investment scheme

For more information, please refer to the Drinking Water Quality report which is available online at **www anglianwater co uk**

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 It is also classified as an area of 'serious water stress' by the Environment Agency

Anglian Water manages the demand for water by a combination of leakage control, metering and the promotion of water efficiency to our customers

Following a drought year in 2006, the summer of 2007 was one of the wettest on record Although this was a challenge for our wastewater network in some areas, it meant that water resources remained plentiful all year, with less than average pumping required to keep reservoirs full

Despite the relatively plentiful water resources this year, Anglian Water is implementing long-term water resource plans that are essential to cope not only with peaks in demand for water during dry years, but also the housing growth in the region As announced last year, we have begun 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 than anticipated revenues that have been generated as a result of the hot, dry summer weather in 2005 and 2006 In addition Anglian Water will invest £10 million generated from efficiencies

Work began this year on one of our most strategically important water resource projects, the extension of the treatment works at Rutland Water, our largest reservoir This £115 million investment project will allow us to abstract and treat up to 90 million more litres of water per day

In April 2008, naturalist Sir David Attenborough officially launched the work Anglian Water is doing to protect the sensitive biodiversity of this European designated conservation site (see picture, left)

Demand management

Leakage

In an area of low rainfall, minimising leaks in our network is essential and customers increasingly perceive wasted water as irresponsible, particularly during drought years

Two-thirds of the total water lost due to leaks is within our network The remaining third is lost from customers' pipes, where we will fix leaks on a one-off basis as part of our 'Watertight' promise (see www anglianwater co uk for more information) As a result of our focus on leakage we have consistently achieved one of the best records in the industry

The latest results are for 2006/7 This was a drought year in which we invested an additional £2 6 million in leakage detection and control As a result of this investment, our leakage rate fell by seven per cent from 215 megalitres per day (Ml/d) to 200Ml/d in 2006/7

This equates to 5 5 cubic metres of water per kilometre of main per day (2005/6 5 8m^3 per km/d), which is almost half the industry average of 10 1m^3 per km/d (2006/7 data)

This year, one of the wettest, we reverted to our normal leakage control strategy and expect to meet our mandatory target of 210Ml/d when it is announced in July

Metering

Another approach that helps conserve supplies is to encourage customers to use meters, which also helps many save money On average, each metered customer saves £100 per year and reduces their usage by approximately 10 per cent

At 62 per cent, Anglian Water has one of the highest proportions of metered customers of any water company in England and Wales, and we expect this to continue The designation as an area of 'serious water stress' potentially gives water companies additional powers, for example compulsory metering However, at present, Anglian Water prefers to encourage customers to switch voluntarily

In Ipswich, Suffolk, we are carrying out a unique metering project From experience we know that it can be difficult to meet the demand for water in the Ipswich area, particularly during periods of drought To help reduce demand, we have begun proactively installing up to 40,000 water meters This approach enables us to show customers how much they would have saved if they had been on a metered supply Customers then have the choice of whether they wish to switch permanently to a metered supply

The results of the programme so far have been mixed While the rate of adoption of meters, at around 13 per cent, is high compared to historic trends and should rise further once a full bill cycle has been completed in the areas affected, we believe it will be necessary to go further

The long-term impact of leakage control and metering

The chart below demonstrates how the combined approach of leakage reduction, 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

Distribution input versus connected properties

Wastewater
We put around 1 2 billion litres of water into supply every day We also receive 960 million litres of wastewater via our network of sewers

It is our responsibility to ensure that any non-biodegradable material is removed before the water and organic waste matter is separated Before the water is returned to the environment, it is filtered and treated so that it meets the required standard The organic matter is treated and used in different forms in agriculture as a soil conditioner It can also be used for other purposes, such as landscaping and providing an organic final layer for landfill sites

Bathing water quality
The quality of the water we return to the sea around our region's coastline plays an important role in improving the overall standard of our region's bathing waters In doing so, it improves biodiversity protects health and provides a more pleasurable experience for the millions of people who visit our region's coastline every year

During the 2007 bathing season, Anglian Water once again achieved 100 per cent compliance with the mandatory bathing water standards This is the ninth time in 11 years this has been achieved The tighter guideline standards were met at 68 1 per cent of the beaches (2006 72 3 per cent) This reduction was due to the exceptionally wet summer

For a bathing water beach to achieve Blue Flag status it must achieve guideline water quality standard, as well as pass 27 other tests In 2008 there will be 15 Blue Flag beaches in our region, compared to 18 in 2007 Four Blue Flags were lost due to the bad weather, while another beach regained its accreditation

£2 6 million
2006/7 was a drought year in which we invested an additional £2 6 million in leakage detection and control

▽ 7%
As a result of this investment, our leakage rate fell by 7 per cent from 215 megalitres per day (Ml/d) to 200 ml/d in 2006/7

River water quality
High-quality effluent also protects and helps sustain the regions waterways, an important but delicate ecosystem The Environment Agency tests the water quality of the rivers in our region and publishes the results every year In its latest report, published in August 2007 for the 2006 calendar year, it classed the biological quality of 98 1 per cent of rivers as very good' to 'fair' (2005 98 7 per cent) In 89 4 per cent of the regions rivers, chemical quality was in the 'very good' to 'fair' range (2005 89 4 per cent)

Anglian Water also helps to maintain river water quality via its award-winning RiverCare project, managed on its behalf by ENCAMS (which runs the Keep Britain Tidy campaign) As a result of the project, 36 teams around our region have adopted stretches of river and are carrying out regular litter picks and biodiversity checks (see picture, below)

Members of the Environment Agency/Anglian Water RiverCare team helping to clean a stretch of the River Slea in Lincolnshire

High-quality nutri-bio biosolids at Cotton Valley Wastewater Treatment Works in Milton Keynes The new process has doubled capacity and creates more natural biogas, which is used to generate renewable electricity

Biosolids

Biosolids is the term used for the organic matter that is removed from wastewater during the treatment process

Dealing with the volume of biosolids that is produced on a daily basis is a challenge for all water companies, which dispose of or recycle it in different ways

While some companies use incineration, the vast majority of Anglian Water's biosolids is treated and used by farmers as a soil conditioner Although not technically a fertiliser, biosolids (sold under the brand name *nutri-bio*) is an increasingly highly valued product that can reduce the need for chemical fertilisers and improve soils ability to retain moisture

Anglian Water treats and recycles biosolids to the highest standards All processes are externally certified and controlled using quality systems accepted in the food industry Commissioning is underway at our most technologically advanced treatment plant in Tilbury, Essex, which is due to be fully operational in the summer of 2008

Such is the demand for this high-quality, relatively low-cost product, that three to five-year supply contracts with farmers are now being introduced and are anticipated to become the norm in the future The first seven to eight months' output from Tilbury has already been sold

Customer service

Anglian Water's goal is to provide customer service that compares favourably to any major service provider, not simply other water companies Although we recognise that our customers do not have a choice in who provides their water and wastewater services, we try to behave as if they do

Our focus on improving customer service has yielded significant results this year This is principally due to the continued use of a Customer Service Index (CSI), which measures performance against a range of customer-related metrics from across the business

The CSI goes beyond those aspects of our customer service performance that are measured and benchmarked by Ofwat The overall CSI continued its improving trend this year, increasing by 21 points or 18 4 per cent Within the CSI, there have been a number of areas of notable improvement this year They are

- Levels of service (this represents the jobs completed within our Levels of Service target) were up 6 6 per cent to 87 3 per cent
- Following a concerted effort throughout the year, backlog work (number of jobs outside level of service multiplied by number of weeks late) fell from 26,673 to 1,581
- Chase calls (when customers ring us to say we haven't done what we said we would) fell by 26 per cent

However, complaints about our service have increased by 16 per cent This was principally as a result of our new billing system, which was introduced in December 2006 Targets and actions have been set to ensure significant improvements in this area in 2008/9

Furthermore, in regular surveys we ask customers how they rate the service from our Contact Centre compared to others they have called Fifty-two per cent said Anglian Water was better than other contact centres, 45 per cent said the same and three per cent said worse

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

Anglian Water treats and recycles biosolids to the highest standards All processes are externally certified and controlled using quality systems accepted in the food industry Commissioning is underway at our most technologically advanced treatment plant in Tilbury, Essex, which is due to be fully operational in the summer of 2008

For more information, please see our Community and Environment Report 2008, which is available online at **www anglianwater co uk**

Energy management
Energy accounts for 15 per cent of our total operating costs and is, therefore, a key area of focus to achieve efficiency savings, both for the benefit of cost and reducing our impact on the environment

We have set ourselves the challenging target of reducing our energy costs by 20 per cent by 2010 (from our 2006/7 baseline, this is equivalent to £10 million) So far we have saved £7 6 million of the £10 million

In 2007 we used 734 gigawatt-hours (GWh) of electricity, nearly two per cent of which (13 5 GWh) was generated from our own renewable sources

In 2007/8 we achieved

- 180 energy-saving projects that saved 19 GWh per year of electricity
- Reported reductions in emissions equivalent to 20,000 tonnes of carbon dioxide This is a reduction of 4 4 per cent compared to the previous year

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 This year we commissioned four new units at our wastewater treatment works and plan to commission another one in 2008/9

For more information, please see our Community and Environment Report (see above)

Management and people

Anglian Water's performance and the delivery of its strategy relies on the skill and capability of its employees and the clarity of direction and leadership provided by the management team

Management

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

The Anglian Water board is responsible for the strategy and overall management of the water company Day-to-day operations are led by the Operating Executive of Anglian Water The overall Group is led by an Investor board which has six Non-Executive Directors The investor group has appointed an observer who attends meetings of the Anglian Water board This appointment changes by rotation

Occupational Health and Safety
Anglian Water's most fundamental responsibility is to the health and safety of its employees, contractors and the public

The phrase we use most often in relation to health and safety is that 'nothing is so important that we cannot take the time to do it safely Anglian Water believes that all accidents are preventable

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

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

Safe and Well

Last year, Anglian Water launched a new approach to managing OH&S called 'Safe and Well' Safe and Well is a simple, risk-based approach that records who has been briefed about specific safety-related issues connected with their jobs

This process is an important step towards external verification and the achievement of OHSAS 18001 certification, the internationally recognised quality assurance system

All managers are aware of the new system, which is in daily use across the company Further refinement of the system is underway to reduce the current administrative burden

Health and safety performance

All accidents and incidents, no matter how minor, are reported to the Health and Safety team Reporting a near miss, which could have resulted in an accident, is actively encouraged to identify and prevent potential accidents More serious occurrences are included in the Accident Frequency Rate (AFR) which is the number of accidents per 100,000 hours worked Anglian Water s improving trend continued in 2007, with the AFR falling to 0 37 from 0 39 (see table below)

Measure	**2003/4**	**2004/5**	**2005/6**	**2006/7**	**2007/8**
Accident Frequency Rate[1]	0 48	0 42	0 39	0 39	0 37
Percentage time lost[2]	3 90	3 34	2 85	2 81	2 88
CHaSPI Index			7 1	7 3	7 4

[1] Number of reportable accidents per 100 000 hours worked
[2] Based on 260 working days per year due to accidents injuries and ill health

Although the AFR is a useful guide to the company's OH&S performance, it is a retrospective measure As such, we recognise that it is of limited value in predicting or influencing future performance or changing employees behaviour in itself For the past three years we have chosen to adopt Health and Safety Executive's (HSE) voluntary Corporate Health and Safety Performance Index (CHaSPI) to identify areas for improvement and to track progress

CHaSPI combines measures of outcomes (for example accident rates) and management processes, to better reflect overall performance in health and safety In 2007/8 Anglian Water scored 7 4 overall (out of a possible 10) against an index-wide average of 6 7 (measured for 86 participating companies)

Health and Safety is led by the board and reinforced regularly through the company s internal communications

Employees

In March 2008, Anglian Water had a total of approximately 3,900 employees, making it one of the region's biggest employers

Anglian Water's performance depends on attracting, retaining, developing and motivating employees with the right skills But more than that, we recognise the need to work as a team, which requires employees to be fully engaged with the company and its goals and feel involved and valued

Attracting

Anglian Water has a good record of finding and recruiting candidates Vacancies currently represent less than five per cent of the workforce

We do, however, have an acute need for specific skills The demand for candidates in engineering or scientific disciplines, for example, is outstripping supply and pushing up the market rate This is making it increasingly difficult to find enough people of the right calibre

In response, we are forging close ties with a number of universities to explain the breadth of opportunities within Anglian Water and using programmes such as the Career Transition Partnership, through which we are successfully recruiting former Ministry of Defence employees, into technical roles We are also looking more generally for recruits with the aptitude to be taught the necessary skills on the job

In 2007/8, the commitment and success of individual employees, teams and suppliers was recognised at the second Business Excellence Awards We also presented 241 employees, with a total of 4,670 years of experience between them, with long service awards

Engagement index

Measure	Positive response %	Trend[1]
Engagement index score	**69**	**▲ 1**
Anglian Water is interested in employee well being	56	▼ 3
Anglian Water provides good value for money	58	—
Job satisfaction	62	▼ 2
Anglian Water acts in a way consistent with its values	69	▲ 8
Understands contribution to team aims	89	▲ 2
Responsibility in delivering customer service	84	▲ 1
Plays a part in the company's success	67	▲ 1

[1] A two per cent increase is statistically significant

For more information, please see our Community and Environment Report, which is available online at **www anglianwater co uk**

Listening
We seek the opinion of all our employees through an annual survey conducted by Ipsos MORI In 2008, two-thirds of employees took part in the survey

The results are used to identify areas of focus for us, as well as benchmark ourselves against other leading UK companies An important aspect of the survey is the Engagement Index, which is an average of the results from seven key questions within the survey The index increased by one per cent to 69 per cent in 2008 The target is 70 per cent by 2010

The results of each survey are analysed in detail and action plans are put in place by all business units

Retaining
Anglian Water has relatively low employee turnover The average length of service of an Anglian Water employee is currently 10 6 years

During 2007/8 we presented 241 employees, with a total of 4,670 years of experience between them, with long service awards

The DG3 (Interruptions to supply) team collecting the Team of the Year Award at the annual Business Excellence Awards 2007

Developing
This year our focus has been on looking at the skills we need our employees to have for the challenges that lie ahead for us in AMP5 and beyond This is particularly important for our operational colleagues, upon whom we rely to make important decisions, often under pressure, knowing that an incorrect decision can have significant implications

This year we have carried out a thorough review of all operational job roles and defined the specific skills required for each one in a programme called Licence to Operate This programme, which gives recognised vocational qualifications, sets new standards for competency and has been recognised by our regulators as the way forward in improving customer service standards To date, 124 technicians and 53 managers have been assessed Our target is to assess all 1,200 operational employees by 2010

Anglian Water actively supports individuals through tailored development and education with programmes such as apprenticeship, graduate trainee schemes, Institute of Leadership and Management programmes, and senior and executive development programmes

As part of their development employees are also encouraged to take part in Anglian Water's *give me five* community volunteering scheme The scheme allows employees to claim up to 30 hours per year to work on their specified community project Total hours spent doing community work increased significantly this year to more than 17,000, an increase of 6,000 compared to 2006/7

Recognising
In 2007/8, the commitment and success of individual employees, teams and suppliers was recognised at the second Business Excellence Awards

Managing our key relationships

Our working relationships with customers, suppliers and regulators are critical to the nature and quality of service we provide Anglian Water aims to have a regular, open dialogue with all those that we serve, through which both sides can express their views, needs and expectations This can be useful in raising standards, as well as finding acceptable solutions in difficult situations These relationships are managed through daily contact, as well as a planned programme of discussions, focus groups and surveys

Relationships with domestic customers

The nature and reliability of the service we provide means that the majority of our customers rarely think about Anglian Water Exceptions to this rule are, of course, when there is an interruption to supply or a quality-related issue The awareness of water-related issues also increases during particularly dry or wet years, partly due to their increased profile in the media

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

This year we also carried out an unprecedented amount of research with our domestic customers to help inform our plans for the next five years (2010–2015) and 25 years This included a survey of 1,000 domestic customers, as well as 80 customers in face-to-face focus groups

The research has helped us understand customers perception of Anglian Water, the service we provide and their willingness to pay for a variety of service improvements The results are discussed in detail in our Strategic Direction Statement, which is available online at www anglianwater co uk

Understanding our customers

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

The results show that 92 per cent of customers said they were 'very' or 'fairly' satisfied with Anglian Water's overall service We believe that this result was due to a combination of factors, including the perception of our performance in tackling leaks and that Anglian Water 'does the job right first time'

In addition we carry out weekly customer experience surveys of around 500 customers to measure satisfaction levels and to improve customer service Satisfaction with the quality of drinking water has stayed high at 71 per cent Customer satisfaction for overall service provided for the year remained unchanged at 86 per cent

Working together to be Waterwise

The combination of low rainfall in our region and the challenges of growth and climate change means that we need to use water supplies as efficiently as possible In 2006/7 we were very pleased by the response from our customers to our advertising campaign encouraging them to be Waterwise

Our combined efforts helped maintain our unbroken record of no water restrictions, which we have held continuously since 1991, despite being the driest region in the country Our aim is to build on this partnership to make the Anglian Water region the most water-efficient in the country

More than 24,000 pupils took part in education sessions this year, 13,000 of whom visited one of our centres Our target for visitors next year is 14,000

Working with schoolchildren

In January 2007, we launched our new education programme, opening an Education Centre on the site of our Chelmsford Wastewater Treatment Works in Essex

In May 2007, Chelmsford was joined by another Education Centre in Leighton Buzzard, Bedfordshire and in September we launched our Mobile Education Centre

All three facilities, in addition to school visits by our qualified teachers, are extremely popular with local schools The lessons, which are linked to the National Curriculum, are designed to foster responsible attitudes to water usage, waste disposal, hydration issues and the environment More than 24,000 pupils took part in education sessions this year, 13,000 of whom visited one of our centres Our target for visitors next year is 14,000

Gillian Merron MP for Lincoln and (at the time) Regional Minister for the East Midlands, at the official launch of the Mobile Education Centre at the Ermine Junior School in Lincoln

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 provide specialist advice to assist our business customers maximise water efficiency, assess and refine on-site production and water and wastewater treatment processes and optimise costs This work often brings operational and capacity benefits to our networks

Throughout the past year the Optimiser Team has continued to support a wide range of business customers, helping them lower their water and wastewater bills We have worked with a range of customers, including

- A food processing company, to improve its on-site treatment of effluent
- A manufacturing facility, to recycle water thereby reducing water and wastewater bills
- A brewery, to achieve compliance with its trade effluent consent
- An educational institution, to reduce its maximum daily demand by the provision of a water balancing tank
- A food processing company, to reduce its impact on the water pressure within Anglian Water's distribution system
- Reviewing the production of demineralised water for an industrial customer
- Developing a leakage management strategy for a customer with a large on-site water distribution system

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

This year we also carried out an unprecedented amount of research with our business customers to help inform our plans for the next five years (2010–2015) and 25 years This included telephone surveys and interviews with more than 500 business customers

The results of this research are discussed in detail in our Strategic Direction Statement

This year we carried out an unprecedented amount of research with our business customers to help inform our plans for the next five years (2010–2015) and 25 years. This included telephone surveys and interviews with more than 500 business customers

Relationships with suppliers
Supplier Relationship Management
This year we continued the Supplier Relationship Management Programme, following a successful launch in 2006/7 The programme is aimed at ensuring alignment of suppliers' agendas with ours, as well as generating additional value from existing relationships through elimination of waste and improved collaboration

Climate change The Supply Chain Challenge
In January 2008, Anglian Water held an event designed to enlist the help of our supply chain partners in reducing our collective carbon footprint

The event, hosted by Chief Executive Jonson Cox, outlined the challenge that climate change presents to Anglian Water A total of 500 pledges were made to tackle climate change as a result of the event

Relationships with regulators

We work hard continuously to improve our relationships with our regulators and our understanding of regulatory activities Improving working relationships helps minimise the risk of communication breakdown and threats to our operating licence

Working together with the Environment Agency (EA)

A good example of where this is delivering good results is the Working Together initiative with the EA The joint initiative began in 2006 with the aim of improving the understanding of each other's needs and working together to improve the environment in our region Employees from both organisations meet regularly, both formally and informally, to discuss issues openly

The five-way 'Quinquepartite group

As part of our stakeholder engagement programme for our next asset management plan and the next 25 years, we set up a five-way 'Quinquepartite' in May 2007 The group is chaired by Jean Spencer, Director of Regulation and comprises representatives from Anglian Water, the Consumer Council for Water the Drinking Water Inspectorate, the Environment Agency and Natural England

The Quinquepartite was set up as a forum to share information on each organisation's approach to the PR09 price review process and explore regional issues It has met regularly throughout the process to promote collaborative working, encourage greater understanding of each member's priorities and also allow any issues of concern to be raised and resolved or opportunities for sharing relevant information identified

Residents of The Martin's care home in Bury St Edmunds kindly took part in the pilot study for Anglian Water s Water for Health initiative into the benefits of hydration among the elderly

Addressing climate change and our environment

Introduction
We aim to take responsible business decisions that ensure the long-term viability of our business and that have a positive impact on our employees, communities and the environment for years to come

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

We have been working hard to manage our water resources At 62 per cent, we have the highest number of metered domestic customers in England and Wales On average, metered customers use around 10 per cent less water than non-metered customers Our leakage rate is currently one of the lowest in the UK

Carbon management

22.5%
of our energy is sourced from renewable sources

Energy accounts for around 15 per cent of our total operating costs

Treating and transporting water and wastewater to and from our customers across our large and flat region uses a lot of energy Reducing the amount of energy we use is therefore a priority to make us a more efficient company and to reduce our impact on the climate

We are planning to reduce our carbon emissions by 20 per cent (92,000 tonnes CO_2 equivalent) by 2010 (from 2006/7 baseline) This consists of a 28,000 tonnes reduction from reducing energy use and 64,000 tonnes from generating our own renewable power

Climate change
Flood risk

60
of our major assets are vulnerable to a 0 4 metre rise in sea level

Our region is vulnerable to flooding

Flooding from rivers and surface water runoff during heavy rain is a threat in our region due to our flat, low-lying landscape Our extensive coastline is susceptible to the effects of storm surges and rises in sea level

In 2007, heavy rain caused flooding in Lincolnshire and an autumn storm surge threatened much of our coastline Our assets must be resilient enough to cope with further climate change

We are revising our Business Continuity Plans to ensure that we can continue to provide the services our customers expect, even if water, wastewater or office assets are affected by flooding

Sustaining our environment

Growth

For more information, please see our Community and Environment Report 2008, which is available online at **www.anglianwater co.uk**

30%

is the growth in our customer base expected by 2035

Our region is the fastest-growing in the country

More than 24,000 new connections were made in the 12 months since June 2007, with around a million more homes predicted to be built in the next 25 years Water efficiency in all its forms has been the key to our success in managing drought to date, and we will continue to work with our customers to become the most water-efficient region, while meeting the demand from the additional growth

99%

is the proportion of biosolids we have diverted from landfill

The environment is central to our business

We have a responsibility to protect and enhance the natural environment and biodiversity in our region

This involves ensuring ecologically sensitive watercourses are protected and that the quality of wastewater effluent discharges complies with the required standards

We seek to reduce the amount of waste we generate, to re-use or recycle as much as possible and send the minimum amount of waste to landfill In 2007, 99 per cent of biosolids was diverted from landfill against a target of 95 per cent

We have one of the lowest leakage records in the industry, but we know there is still work to be done Two-thirds of the water lost due to leaks is within our network, the remainder is lost from customers pipes

Addressing our key stakeholders

Introduction
We interact with a wide range of interested parties in the normal course of business We aim to use these interactions as opportunities to improve our understanding, inform our decision-making and determine how we can best work together to build a more sustainable environment in the communities in which we operate

We recognise that most customers do not have a choice in who provides their water and wastewater services Our aim is to behave as if they do

Customers
62 per cent of our domestic customers use water meters For those customers not currently using a water meter we provide advice and suggestions on how to be water-efficient We also promote the benefits and potential savings of moving to a metered supply

Our key issues
We have carefully considered which issues are of most strategic importance to Anglian Water and to our stakeholders, over which we believe we have control or influence This decision was based on our internal risk analysis and feedback from our stakeholders through interviews Mitigating and adapting to the effects of climate change, while meeting the challenges of rapid housing growth, were considered the most important issues

Customers and the community

86%
overall customer satisfaction

Providing safe and problem-free services

We engage with customers directly and indirectly via organisations such as the Consumer Council for Water

We are working with our customers to become the most efficient region in the country More than 62 per cent of our domestic customers currently use a water meter This helps us reduce water usage and that saves customers' money Although we already have twice the number of customers using meters compared to the industry average, we want to increase the proportion to 80 per cent by 2015

Overall, customers' awareness of the company's involvement with various community or environmental projects has increased, particularly for Water for Wildlife, Anglian Water Trust Fund, WaterAid, Water for Health and our education programme

Employees

Suppliers

For more information, please see our Community and Environment Report 2008, which is available online at **www anglianwater co uk**

69%
score on the Employee Engagement Index

We listen to our employees

We place great emphasis on making sure we are investing in the future of our workforce and planning for key events and challenges We listen carefully to our employees' views through performance reviews, consultation, surveys and employee suggestions

We have a dedicated employee intranet site, *hawk*, which covers a wide range of employee and business issues and helps to keep employees up to date with company-wide news and events

We are working with employees to reduce their energy consumption through the 'Think Energy' campaign

95%
completed environmental impact questionnaire

Working with sustainable suppliers

We are midway through our £1 7 billion investment programme for 2005–2010, which we would not be able to deliver without the collaboration of our suppliers

We ensure that their delivery of these programmes is in line with the same sustainability principles we adhere to ourselves

More than 110 supplier delegates attended our first Climate Change Supply Chain Challenge event in January 2008 In excess of 500 pledges were made on tackling climate change issues

Managing risk

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

We identify, analyse and manage these risks using a structured approach, and we maintain a formal Risk Register, which is reviewed by the board

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

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

The following list provides a summary of the principal risks and uncertainties we face and what we are doing to mitigate them

This strategy is contained in the Strategic Direction Statement (SDS), which is available online at **www anglianwater co uk**

Climate change

The issue

Climate change is the biggest risk Anglian Water faces over the next 25 years The risk from climate change takes a number of forms Hotter, drier summers will reduce rainfall and therefore reservoir levels It will also reduce river levels, upon which we rely to help maintain reservoir levels At the same time, the weather and regional growth will significantly increase demand These combined supply and demand issues represent a risk to one of our customers' most important priorities – to ensure an unrestricted supply

Climate change is also leading to more frequent, extreme storms and wetter winters These can, and have, caused localised flooding that overwhelms our sewer network, floods customers' homes and has the potential to disable treatment works More than 85 per cent of the incidents managed by our wastewater team in 2006/7 were weather-related, far more than in previous years

On the coast, our low-lying region is particularly vulnerable to rises in sea level This means that a number of our assets, for example water and wastewater treatment works, are also vulnerable and must be protected or moved Meanwhile, we will also be responsible for mitigating the impact of climate change on the many ecologically sensitive areas we own and manage

Our response

Like growth, climate change has been an area that has required considerable research before action can be taken It also features heavily in our SDS and is being incorporated into our draft business plan During the year we have continued to work with the Corporate Leaders Group on Climate Change to help influence the country's response to the challenge at Government level We have also been identifying and ranking our most vulnerable and strategically important coastal assets in order to assess the investment required to protect or move them in subsequent Asset Management Plans

We gave assistance to Severn Trent during the extreme flooding which affected Gloucestershire in the summer of 2007 We sent 60 bowsers and 100 static tanks of water to the affected area (see picture above, right) In addition, two Media Managers went to Severn Trent to assist its communications team

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

Growth

The issue

Coping with the forecast demand in housing growth and population in the Anglian Water region is one of our most significant long-term risks Our region contains a large part of three of the four growth areas defined by Government and a number of growth points In the 12 months since June 2007 alone, more than 24,000 new connections were made to our network

This growth creates a number of risks and challenges The first is to connect all of the new homes within a relatively short timescale The second is to ensure that there is enough water to supply the homes, particularly in drought years, given that our region is the driest in the country and designated an area of 'serious water stress' by the Environment Agency

Our response

The priority this year has been to better understand the scale of the challenge faced by long-term growth and the actions we must take to mitigate this risk Our long-term approach is outlined in our Strategic Direction Statement

Ways in which we need to respond to this challenge, and the investment required to do so, is included in our draft business plan submission for AMP5 (2010–2015), which will be submitted to Ofwat in August 2008 The plan includes options for increasing water resources, transferring water between rivers within our region and the adoption of Sustainable Urban Drainage Systems (SUDS), a more natural approach to surface water drainage

Sustainable drainage is a concept that includes long-term environmental and social factors in decisions about drainage It takes account of the quantity and quality of runoff, and the amenity value of surface water in the urban environment Many existing urban drainage systems can cause problems of flooding, pollution or damage to the environment and are not proving to be sustainable in the long term

Checking static water tanks bound for customers in the Severn Trent region as part of the industry's Mutual Aid agreement

Severe flooding in Lincolnshire

Bad debt

The issue

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

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

Our response

For customers who find it difficult to pay their bills, Anglian Water has created a range of specially designed tariffs We also fund an independently run Trust Fund, which helps support customers who are having genuine difficulty paying their utility and other household bills During the year we made a payment of £1 0 million (2007 £1 0 million) to the fund

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

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

Competition

The issue

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

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

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

Our response

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

We continue to watch developments, while focusing on improving our business and service to domestic and commercial customers alike

Financial risk

The issue

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

Our response

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

Further details on the management of financial risk are provided in note 16 of the financial statement on page 61

Energy management

The issue

Anglian Water is one of the largest users of electricity in the east of England, due to the power required to treat water and wastewater and pump it around such a geographically flat region Power represents around 15 per cent of our total operating costs The recent volatility and significant price increases in the wholesale power markets will impact significantly on Anglian Water's cost base in 2008/9

Our response

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

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

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

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

Pensions

The issue

Anglian Water closed the defined benefit (final salary) pension scheme to new employees in 2002 This brought our exposure to this risk more into line with the industry as a whole However, the defined benefit (final salary) scheme remains a financial risk, with significant continued exposure on an actuarial basis, particularly in relation to the effect of improved longevity

Our response

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

Traffic Management Act

The issue

The new Traffic Management Act came into force on 1 April 2008 and applies to anyone who carries out excavations in the highway We anticipate significant additional costs in 2008/9 due to the need to purchase additional permits, as well as potential fines

Our response

In preparation for its introduction, Anglian Water has refined its processes and raised awareness of the requirements with employees and contractors

Cost increases above inflation

The issue

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

Our response

Anglian Water aims to offset, as much as possible, rising costs with improvements in efficiency

Employees of Clancy Docwra, one of our framework partners carrying out roadworks

Financial review

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 2008 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 wastewater) 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 wastewater functions These business activities are referred to as non-appointed businesses (see note 3 on page 90)

Under Condition F of its licence, Anglian Water 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 81 to 107

Operating results

The consolidated profit and loss account, as presented on page 42, is summarised in Table 1 below

Table 1 Consolidated profit and loss account

	2008 £m	2007 £m
Turnover	**969 2**	919 0
Operating profit	**421 0**	404 8
Net interest payable and other finance income	**(89 1)**	(51 9)
Profit before tax	**331 9**	352 9
Taxation	**(20 2)**	(17 8)
Profit after tax	**311 7**	335 1
Dividends	**(290 6)**	(443 1)
Retained profit/(loss)	**21 1**	(108 0)

In order to aid understanding of the accounts, a pro forma profit and loss account is provided in Table 2 (below) In this profit and loss account, the interest receivable by the group from Anglian Water Services Holdings Ltd (see note 5 on page 53) and the inter-company dividend paid (see note 8 on page 54) by the group and retained within the Anglian Water Services Financing (AWSF) group (see Directors' report on page 38) of £193 6 million (2007 £193 1 million) have been eliminated

Table 2 Pro forma profit and loss account

	2008 £m	2007 £m
Turnover	**969 2**	919 0
Operating costs before depreciation	**(331 2)**	(324 7)
Depreciation [1]	**(217 0)**	(189 5)
Operating profit	**421 0**	404 8
Net interest payable and other finance income	**(282 7)**	(245 0)
Profit before tax	**138 3**	159 8
Taxation	**(20 2)**	(17 8)
Profit after tax	**118 1**	142 0
Dividends	**(97 0)**	(250 0)
Retained profit/(loss)	**21 1**	(108 0)

[1] Net of amortisation of grants and contributions

Turnover for the year was £969 2 million, an increase of 5 5 per cent over the previous year This reflects the year on year price increase, offset by a slight reduction in demand as the summer of 2007 was wet in contrast with the hot, dry summer of 2006 This net increase in revenue of £50 2 million contributed to an increase in operating profit (before depreciation) of £43 7 million (7 4 per cent)

Operating expenditure for the year (excluding depreciation) increased by 2 0 per cent to £331 2 million (2007 £324 7 million) This was primarily due to inflationary pressures on costs and above-inflation increases in energy costs, commodity prices and bad debt charges This was mitigated to a large extent by continued savings from a number of efficiency initiatives Overall operating expenditure as a percentage of turnover decreased slightly from 35 3 per cent to 34 2 per cent

Depreciation was up from £189 5 million last year to £217 0 million, primarily as a result of an increase in infrastructure renewals charge (IRC) The depreciation charge includes £72 0 million (2007 £52 5 million) of IRC which reflects a more forward-looking view of the high level of investment in below ground infrastructure assets expected for the 15-year period 2005 to 2020 This year's depreciation charge also includes for the first time a full year's charge on the new billing system commissioned in December 2006

Net interest payable and other finance income (excluding interest receivable on an inter-company loan) increased from £245 0 million in 2006/7 to £282 7 million in 2007/8 This is due to the impact of a full year s interest charge on a higher level of debt following the acquisition of the company, the higher RPI in the year increasing the cost of index-linked debt, and the requirement to raise new debt to finance the ongoing capital programme

Taxation costs increased from £17 8 million in 2007 to £20 2 million in 2008 The charge for the year is less than the statutory rate of 30 per cent due to the budget changes resulting in a deferred tax credit and the agreement of a number of prior year returns The combined effect of these two items is an £18 7 million tax credit against a charge for the year, giving a relatively low effective tax rate of 14 6 per cent

Capital expenditure
Gross capital expenditure for the year was £420 2 million £166 0 million of which was delivered by an alliance of six partner companies working in close co-operation with Anglian Water The total capital investment in the first three years of the Asset Management Plan period was approximately £1,178 million (at 2007/8 prices), which is on track for meeting our Final Determination for AMP4 by 2010

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

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

As a first step, the company carried out a restructuring programme in the 2004/5 financial year, saving approximately £10 million per annum in operating costs, beginning in the financial year 2005/6 During 2007/8 further efficiency savings came from a range of initiatives, such as productivity improvements from more centralised management of operations and reductions in energy consumption

Financial needs and resources
At 31 March 2008 the group had net borrowings of £4,124 2 million, an increase of £228 0 million over the prior year Net borrowings are a mixture of fixed, index-linked and variable rate debt of £4,816 5 million and cash and deposits of £692 3 million The increased net borrowings comprise a net increase of £366 4 million in loans and associated costs and a net increase of £138 4 million in cash and deposits

The business generated a net cash inflow from operating activities of £595 7 million in 2008 (2007 £558 5 million) The group, through its financing subsidiary AWSF, raised £301 million (before debt issue costs) in 2007/8 Of this, £241 0 million was index-linked and the balance of £60 0 million was at floating rate This debt has been used largely to finance the capital programme and repay existing debt

Shareholder returns
Dividends of £290 6 million (2007 £443 1 million) have been paid and committed at 33 79 pence per share (2007 51 52 pence per share)

Of the above, £193 6 million (2007 £193 1 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 £97 0 million (2007 £250 0 million) is payable outside the AWSF group The dividend payable outside the AWSF group equates to 11 28 pence per share (2007 29 07 pence per share)

The directors have proposed a final dividend for the year ended 31 March 2008 of 11 63 pence per share, which is a total of £100 0 million This dividend has not been accounted for within 2007/8 financial statements as it was approved and paid after the year end

The dividend policy is to pay normal dividends from free cash flow (defined as operating cash flow less interest, tax and capital maintenance payments) generated by Anglian Water in order to maintain 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 2008 the company held cash, deposits and current asset investments of £692 3 million (2007 £553 9 million) and had undrawn committed facilities of £225 0 million (2007 £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 60 to 66 of the accounts New debt totalling £301 million was raised during the year through Medium Term Notes off the Global Secured Medium Term Note Programme

In addition, the company has access to £330 0 million of liquidity facilities (2007 £328 0 million) These consist of £254 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

All bank facilities and debt capital markets issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the company, Anglian Water Services Financing Plc (AWSF) and Deutsche Trustee Company Ltd (as Agent and Trustee for itself and each of the Finance Parties) This agreement provides 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, 51 9 per cent (2007 48 6 per cent) of the company's borrowings were at rates indexed to RPI, 38 7 per cent (2007 42 5 per cent) was at fixed rates and 9 4 per cent (2007 8 9 per cent) was at floating rates

Pension funding
The pension scheme net valuation has declined this year, with the FRS 17 liability at 31 March 2008 standing at £62 5 million for all schemes, compared to a liability of £15 9 million at 31 March 2007 This is due to a deterioration in market conditions since the previous year end, coupled with a more conservative view of mortality rates partly offset by a favourable movement in discount rates

Regulatory accounts
The regulatory accounts are set out on pages 81 to 107 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 2007/8, the Final Determination (FD) assumed turnover of £912 3 million (expressed at 2007/8 prices) Anglian Water Services' appointed business outturn for the year was £956 9 million The out performance of £44 6 million is attributable to higher domestic usage throughout the year compared to the FD and higher demand from business customers

Atypical costs
Operating costs for the appointed business were £328 5 million, excluding depreciation (2007 £324 0 million) This includes atypical costs (as defined by Ofwat) of £5 1 million which comprises primarily one-off costs and incremental costs associated with unusual weather conditions, such as floods

Current cost depreciation
The current cost depreciation charge – as disclosed in the regulatory accounts – was £253 8 million (2007 £236 3 million)

Board of directors

1 Jonson Cox
Chief Executive and Chairman
Jonson Cox was appointed Group Chief Executive of AWG Plc in January 2004 and, following the acquisition of the group by Osprey Acquisitions Limited, is now Chief Executive of Anglian Water Group Limited 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

In 2005 Jonson Cox was invited to join the Prince of Wales' Corporate Leaders Group, a panel of 12 Chief Executives leading the response from business on climate change He serves as a Non-Executive Director of the board of Wincanton Plc, a FTSE 250 logistics business

Executive Directors

2. 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 and South America, based in the Czech Republic, and Senior Vice President of Operations, based in the USA Peter is a Chartered Water and Environmental Manager, a Chartered Environmentalist and a Chartered Health and Safety Practitioner He also holds an MBA from Warwick Business School

3 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 1980 In 1984 she joined the Audit Commission, leaving in 1989 to join Yorkshire Water

4 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

5 Scott Longhurst
Group Finance Director
Scott Longhurst was appointed Group Finance Director of AWG in November 2004 Prior to joining AWG he spent most of his career with Shell and TXU Corporation Scott moved from Shell in 2000 to TXU and from early 2001 was based in Dallas, USA, undertaking the role of CFO for the Oncor Group (a subsidiary of TXU) Oncor comprised the regulated electric delivery and gas businesses of TXU and Utility Solutions – a non-regulated utility services company In February 2004 he was appointed Group Controller and Chief Accounting Officer of TXU Corporation

Between 1991 and 2000 Scott Longhurst held a number of financial and commercial roles with Shell encompassing corporate operating company and joint venture activities across Europe, the Far East and Middle East He brings operational and corporate experience gained within US and UK quoted Groups He is a Fellow of the Institute of Chartered Accountants in England and Wales

Independent Non-Executive Directors

6 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 and became Chairman of English Partnerships in January 2008 Robert is also Chairman of the Trustees of the Carbon Disclosure Project

7 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

8 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

Directors' report

The directors present their report and the audited financial statements of Anglian Water Services Limited (the company) for the year ended 31 March 2008

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

The Anglian Water ownership structure is detailed on page 4 The information that fulfils the requirement of the business review, and a summary of the group's performance, future prospects and key performance indicators and principal risks and uncertainties are included in the Business Review on pages 1 to 35

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 members of the Audit Committee are the Non-Executive Directors The Audit Committee operates to 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 34 of the business review and in note 16 of the financial statements

Principal activities
The company provides around 1 2 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 960 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 42 shows the group s results and profit for the year Details of dividends paid during the year and proposed dividends can be found on pages 54 and 55

Health and safety
Details are included on pages 17 and 18

Directors
The current directors of the company are listed below

Jonson Cox – Chief Executive (and Chairman of Anglian Water)
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 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 (2007 £1 0 million) to the Anglian Water Trust Fund This amount is included as an operating cost for statutory and regulatory accounts

The Anglian Water Group Community Investment Scheme, *give me five*, has given more than 16,500 hours (2007 11,000 hours) of employee time, for the year ended 31 March 2008, supporting local community activities The scheme offers employees the opportunity to take up to 30 hours of matched work time to support their local communities in such activities as working with schools, being a special constable and working with the Scout and Guiding movements The company's proviso is that participation also contributes to personal development objectives

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

During the year, Anglian Water donated £40,000 (2007 £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 In addition, Anglian Water supports employees getting involved in fundraising activities under the *give me five* programme, and this volunteers' committee has raised a further £247 000 for WaterAid

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 potentially to 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 2008 was 35 days (2007 40 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 and Annual General Meeting
The company has dispensed with the holding of Annual General Meetings, the laying of financial statements before the members and the annual appointment of an auditor Pursuant to the transitional arrangements and saving provisions of the Companies Act 2006, the Company's position in relation to the adoption of the elective regime in prior years and relating to the holding of Annual General Meetings, the laying of financial statements before the members and the annual appointment of an auditor, is preserved

By order of the board

Claire Russell
Joint Company Secretary
29 May 2008

Registered Office
Anglian House
Ambury Road
Huntingdon
Cambridgeshire PE29 3NZ
Registered in England and Wales No 2366656

Statement of directors' responsibilities

Company law requires the directors to prepare the Annual Report and 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 Under that law the directors have elected to prepare the financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable laws) 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 2008 and the applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the company and group and to 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

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

Group profit and loss account
for the year ended 31 March

Notes		2008 £m	2007 £m
2	**Turnover**	**969 2**	919 0
	Operating costs		
	– Operating costs before depreciation	**(331 2)**	(324 7)
	– Depreciation net of amortisation of grants and contributions	**(217.0)**	(189 5)
3	**Total operating costs**	**(548.2)**	(514 2)
4	**Operating profit**	**421 0**	404 8
5	Net interest payable	**(95 9)**	(59 3)
6	Other finance income	**6 8**	7 4
	Profit on ordinary activities before taxation	**331 9**	352 9
7	Tax on profit on ordinary activities	**(20 2)**	(17 8)
	Profit for the financial year	**311.7**	335 1

Notes 1 to 26 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		2008 £m	2007 £m
	Profit on ordinary activities after taxation	**311 7**	335 1
20	Actuarial (losses)/gains recognised in the pension scheme	**(81 9)**	14 8
7	Movement on current tax relating to the actuarial loss/(gain) in the pension scheme	**5.4**	-
19	Movement on deferred tax relating to the actuarial loss/(gain) in the pension scheme	**19.2**	(5 1)
19	Impact of change in tax rate on deferred tax	**0 8**	-
	Total recognised gains and losses relating to the year	**255 2**	344 8

Notes 1 to 26 are an integral part of these consolidated financial statements

Group and company balance sheets
at 31 March

Notes		Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
	Fixed assets				
11	Tangible assets	**4,388 3**	4,207 1	**4,388 3**	4,207 1
12	Investments	**1,609 1**	1,609 2	**1,609 1**	1,609 2
		5,997 4	5,816 3	**5,997.4**	5,816 3
	Current assets				
13	Stocks	**16 6**	11 7	**16.6**	11 7
14	Debtors	**232 7**	215 7	**568 5**	406 5
	Investments – money market deposits	**170 0**	242 0	**-**	40 0
	Cash at bank and in hand (including short-term deposits)	**522 3**	311 9	**330 7**	310 3
		941 6	781 3	**915 8**	768 5
	Creditors amounts falling due within one year				
15 16	Short-term borrowings	**(291.1)**	(78 6)	**(291 1)**	(78 6)
15	Other creditors	**(401 3)**	(406 8)	**(401 3)**	(406 8)
		(692 4)	(485 4)	**(692 4)**	(485 4)
	Net current assets	**249 2**	295 9	**223 4**	283 1
	Total assets less current liabilities	**6,246 6**	6,112 2	**6,220 8**	6,099 4
	Creditors amounts falling due after more than one year				
16	Loans and other borrowings	**(4,525 4)**	(4 371 5)	**(4,525 4)**	(4,371 5)
17	Other creditors	**(123 8)**	(112 3)	**(123 8)**	(112 3)
18	**Provisions for liabilities and charges**	**(77.4)**	(119 6)	**(77 4)**	(119 6)
20	**Defined benefit pension liability**	**(62.5)**	(31 7)	**(62 5)**	(31 7)
20	**Defined benefit pension asset**	**-**	15 8	**-**	15 8
	Net assets including pension deficit	**1,457 5**	1,492 9	**1,431 7**	1,480 1
	Capital and reserves				
22	Called up share capital	**860.0**	860 0	**860 0**	860 0
23	Profit and loss reserve	**597.5**	632 9	**571 7**	620 1
	Total shareholder's funds	**1,457.5**	1,492 9	**1,431 7**	1,480 1

Notes 1 to 26 are an integral part of these consolidated financial statements

The financial statements on pages 42 to 78 were approved by the board of directors on 29 May 2008 and were signed on its behalf by

Jonson Cox
Chief Executive

Scott Longhurst
Group Finance Director

Group cash flow statement

for the year ended 31 March

Notes		2008 £m	2007 £m
(a)	**Net cash inflow from operating activities**	**595 7**	558 5
	Returns on investments and servicing of finance		
	Interest received	**226 0**	223 6
	Interest paid	**(220 5)**	(217 2)
(d)	Issue costs of new bank loans	**(0 4)**	(0 4)
	Interest element of finance lease rental payments	**(4 9)**	(5 9)
	Net cash inflow from returns on investments and servicing of finance	**0 2**	0 1
	Taxation		
	Corporation tax received/(paid)	**3 8**	(10 1)
	Payments to other Anglian Water Group Limited group undertakings	**(29 6)**	(24 3)
		(25 8)	(34 4)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(447 6)**	(416 0)
	Grants and contributions received	**33 5**	33 0
	Disposal of tangible fixed assets	**2 5**	5 6
	Net cash outflow for capital expenditure and financial investment	**(411 6)**	(377 4)
	Equity dividends paid to shareholders	**(291 1)**	(442 6)
	Net cash outflow before management of liquid resources and financing	**(132 6)**	(295 8)
(c)	**Management of liquid resources**		
(d)	Increase in short-term deposits and investments	**(98 8)**	(23 7)
	Net cash outflow from management of liquid resources	**(98 8)**	(23 7)
	Financing		
(d)	Increase in loans	**300 9**	550 0
(d)	Repayment of amounts borrowed	**(2 7)**	(177 9)
(d)	Capital element of finance lease rental payments	**(27 2)**	(23 9)
	Net cash inflow from financing	**271 0**	348 2
(d)	**Increase in cash**	**39 6**	28 7

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

Notes 1 to 26 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

	2008 £m	2007 £m
Operating profit	**421.0**	404 8
Depreciation (net of amortisation of deferred grants and contributions)	**217.0**	189 5
Profit on sale of fixed assets	**(2 5)**	(5 1)
Net movement in provisions	**(10 8)**	(4 8)
	624 7	584 4
Working capital		
Increase in stocks	**(4 9)**	(1 1)
Increase in debtors	**(17 4)**	(46 1)
(Decrease)/increase in creditors	**(6 7)**	21 3
	(29.0)	(25 9)
Net cash inflow from operating activities	**595 7**	558 5

(b) Analysis of net debt

	1 April 2007 £m	Cash flows £m	Non-cash movements £m	31 March 2008 £m
Cash at bank and in hand	69 0	39 6	-	**108 6**
Deposits and investments	484 9	98 8	-	**583 7**
Debt due within one year	(78 6)	29 9	(242 4)	**(291 1)**
Debt due after one year	(4,371 5)	(300 9)	147 0	**(4,525 4)**
	(3,896 2)	(132 6)	(95 4)	**(4,124 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 £413 7 million (2007 £242 9 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

	2008 £m	2007 £m
At beginning of year	**(3,896 2)**	(3,537 3)
Net increase in cash	**39 6**	28 7
Increase in short-term bank deposits and investments	**98 8**	23 7
Increase in loans	**(300 9)**	(550 0)
Repayment of amounts borrowed	**2 7**	177 9
Issue costs of new bank loans	**0 4**	0 4
Amortisation of discount and expenses relating to debt issues and 'mark to market' adjustments	**(1 3)**	0 7
Indexation of loan stock and RPI swaps	**(94 5)**	(64 2)
Capital element of finance lease rental payments	**27 2**	23 9
At end of year	**(4,124.2)**	(3,896 2)

Notes to the financial statements

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 and adjustments are made on consolidation to align the accounting policies of the subsidiary with the group in relation to FRS 26 'Financial instruments recognition and measurement being applied by the subsidiary as required by UK GAAP, but not applied in the group

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 one cubic metre in average annual consumption will reduce turnover by approximately £2 6 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 The approach to the calculation has changed during the year to better reflect the future level of expected expenditure, and this has given rise to an increase of £17 5 million in the charge (in real terms)

(ii) Other assets
Other assets comprise land and non-operational buildings, operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classified as infrastructure) and vehicles, 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	30–100 years
Buildings	30–60 years
Fixed plant	12–40 years
Vehicles, mobile plant and equipment	3–10 years

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

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 arrangement, 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

Notes to the financial statements continued

1 Accounting policies continued

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

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 netted against the liability and amortised at a constant rate over the life of the underlying instrument

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

p) 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

q) 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

r) 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

s) Share based remuneration

For grants made under the Anglian Water Group Limited 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 Limited for the group's element of the charge under these schemes During the year ended 31 March 2007 all group share based schemes ended as a consequence of the change in ownership and delisting of AWG Plc

t) 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

Notes to the financial statements continued

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

	2008 £m	2007 £m
Operating costs/(credits) before depreciation		
Raw materials and consumables	**7 4**	11 2
Other operating costs	**244 8**	234 4
Staff costs (see note 9)	**139 0**	138 9
Own work capitalised	**(58 5)**	(55 7)
Contribution to Anglian Water Trust Fund	**1 0**	1 0
Profit on sale of fixed assets	**(2.5)**	(5 1)
Total operating costs before depreciation	**331.2**	324 7
Depreciation of tangible fixed assets	**227.4**	198 9
Amortisation of deferred grants and contributions	**(10.4)**	(9 4)
Depreciation net of amortisation of deferred grants and contributions	**217.0**	189 5
Total operating costs	**548 2**	514 2

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

4 Operating profit

	2008 £m	2007 £m
Operating profit is stated after charging		
Audit services		
– fees payable to the company's auditor for the audit of the parent company and the consolidated accounts	**0 2**	0 2
Non-audit services		
– other services pursuant to regulatory requirements	**0 1**	0 2
– other services	**0 1**	0 1
Total fees paid to the auditors	**0 4**	0 5
Other operating lease rentals payable	**6.7**	7 9
Research and development expenditure	**0.5**	0 6

The fees paid to auditors for other non-audit services largely relate to the annual offering circular update to enable the ongoing issue of listed debt and regulatory reporting to Ofwat

5 Net interest payable

	2008 £m	2007 £m
Other loans including financing expenses	**222 8**	212 7
Indexation	**94 5**	64 3
Finance leases	**4 3**	5 7
Interest receivable from Anglian Water Services Holdings Limited	**(193 6)**	(193 1)
Other interest receivable	**(32 1)**	(30 3)
Net interest payable and similar items	**95 9**	59 3

6 Other finance (income)/charges

	2008 £m	2007 £m
Unwinding of discount on provisions (see note 18)	**1 0**	1 0
Defined benefit pension scheme (see note 20(c))	**(7.8)**	(8 4)
Other finance income	**(6 8)**	(7 4)

7 Taxation

	2008 £m	2007 £m
a) Analysis of tax charge in the year		
Current tax		
UK corporation tax	**44 0**	23 0
Adjustments in respect of previous periods	**13 0**	7 7
Total current tax charge	**57 0**	30 7
Deferred tax		
(Credit)/charge for timing differences arising in year	**(2.1)**	21 1
Impact of discounting on deferred tax liability	**(12.7)**	(22 2)
Impact of decrease in discount rates	**(0.1)**	(12 2)
Discounted effect of movements in Advance Corporation Tax (ACT)	**-**	4 1
Discounted effect of changes to tax rate and industrial buildings allowances in Budget 2007	**(13 8)**	-
Reversal of prior year asset on share scheme	**-**	3 8
Adjustments in respect of previous periods	**(8 1)**	(7 5)
Total deferred tax credit	**(36 8)**	(12 9)
Total tax charge on profit on ordinary activities	**20 2**	17 8

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group Movements in the discount rates gave rise to a credit of £0 1 million (2007 credit of £12 2 million) in the year If all UK gilt rates moved by 0 25 per cent a change in the tax charge of between £10 0 million to £15 0 million would occur

The 2008 current tax charge includes a £12 2 million credit (2007 a charge of £6 7 million) from another Anglian Water Group Limited group undertaking for the utilisation of ACT

Notes to the financial statements continued

7 Taxation continued

The current tax adjustment for prior years relates to a prior year capital allowances disclaimer partially offset by an increase in the losses surrendered by Anglian Water Services Holdings Limited for which no payment is required In 2007 the prior year tax charge related to a prior year capital allowance disclaimer partially offset by a release upon agreement of historical issues with HMRC

The deferred tax adjustment for previous periods in 2008 includes a £5 5 million credit for the discounted effect of the restatement of the amount of ACT that can be utilised

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

In addition to the current tax charge above a £5 4 million credit for current tax has been recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that are in excess of the pension cost charged to the profit and loss account

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

	2008 £m	2007 £m
Profit on ordinary activities before tax	**331 9**	352 9
Profit on ordinary activities at the standard UK rate of Corporation Tax (30 per cent)	**99 6**	105 9
Effects of		
Items not deductible for tax purposes	**0 4**	0 1
Items not taxable	**(0.7)**	-
Group relief utilised not paid for	**(58.1)**	(57 9)
Tax relief on employee exercise of share options	-	(4 2)
Depreciation not eligible for tax purposes	**0 7**	0 7
Depreciation for the year in excess of/(less than) capital allowances	**1 8**	(19 6)
Short-term timing differences	**0 3**	(2 0)
Adjustment to tax charge in respect of previous periods	**13 0**	7 7
Current tax charge for the year	**57.0**	30 7

8 Dividends

	2008 £m	2007 £m
Previous year final dividend	**35 0**	35 0
Current year interim dividend	**62 0**	-
Special distribution	-	215 0
Dividend paid by the company and retained within the Anglian Water Services Financing group	**194 1**	192 6
Dividend committed to be paid by the company and retained within the Anglian Water Services Financing group	-	0 5
Dividend paid relating to the prior year	**(0 5)**	-
	290 6	443 1

A dividend of £194 1 million (2007 £192 6 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 This included £0 5 million which was committed to be paid in 2007 and was settled in year ended 31 March 2008

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

The Directors have proposed a final dividend for the year ended 31 March 2008 of 11 63 pence per share, which is a total of £100 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

	2008 £m	2007 £m
Staff costs		
Wages and salaries	**113 5**	106 7
Social security costs	**9 5**	9 6
Pension costs – defined contribution (see note 20)	**2 4**	1 6
Pension costs – defined benefit (see note 20)	**13 6**	14 5
Share scheme costs[1]		
- Regular cost	-	3 1
- Employee share scheme early vesting breakage costs	-	3 4
	139.0	138 9

[1] In the prior year 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

Staff costs for the year ended 31 March 2008 includes £58 5 million (2007 £55 7 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs of £0 6 million (£0 1 million of wages and salaries and £0 5 million of pension costs) wholly relating to a reorganisation undertaken by the business (2007 £1 3 million of which £0 6 million represented wages and salaries and £0 7 million represented pension costs)

	2008	2007
Average number of full-time equivalent persons employed (including Executive Directors)		
Water Services	**706**	654
Wastewater Services	**1,264**	1,187
Customer Services	**851**	637
Asset Management and Other	**1,012**	1,133
	3,833	3,611

Notes to the financial statements continued

9 Employee information and Directors' emoluments continued

b) Directors' emoluments

	2008 £'000	2007 £'000
Aggregate emoluments	**1,450**	1,567
Aggregate compensation for loss of office	**-**	780
Total emoluments	**1,450**	2,347
Company contributions to defined contribution pension schemes	**222**	203

Aggregate emoluments of the directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes Retirement benefits are accruing to one director (2007 two directors) under a defined benefit scheme Retirement benefits are accruing to three directors (2007 three directors) under a defined contribution scheme

c) Share options and long-term incentive schemes
During the year nil directors (2007 five directors) including the highest paid director, exercised share options and/or received shares in Anglian Water Group Limited under long term incentive schemes

The aggregate amount of compensation for loss of office in the prior year includes a sum of £550,000 in respect of pension arrangements

d) Highest paid director

	2008 £'000	2007 £ 000
Aggregate highest paid director's emoluments	**581**	497

The company's contribution in respect of the highest paid director into defined contribution pension schemes was £150,000 (2007 £136,100)

10 Profit for the financial year
The group profit for the financial year includes a profit of £298 7 million (2007 £328 6 million), which has been dealt with in the financial statements of the parent undertaking

11 Tangible fixed assets

	Group and Company					
	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 April 2007	30 6	2,556 6	3,157 4	718 5	306 9	6,770 0
Additions	-	-	-	-	420 2	420 2
Transfers on commissioning	0 8	161 4	197 9	50 4	(410 5)	-
Disposals	-	-	(0 7)	(0 5)	-	(1 2)
At 31 March 2008	**31 4**	**2,718 0**	**3,354 6**	**768 4**	**316 6**	**7,189 0**
Grants and contributions						
At 1 April 2007	-	(200 7)	-	-	(2 3)	(203 0)
Additions	-	(13 8)	-	-	2 2	(11 6)
At 31 March 2008	**-**	**(214 5)**	**-**	**-**	**(0 1)**	**(214.6)**
Depreciation						
At 1 April 2007	(2 6)	(587 6)	(1 243 7)	(526 0)	-	(2,359 9)
Charge for the year	(0 4)	(72 0)	(107 7)	(47 3)	-	(227 4)
Disposals	-	-	0 7	0 5	-	1 2
At 31 March 2008	**(3 0)**	**(659 6)**	**(1,350 7)**	**(572 8)**	**-**	**(2,586 1)**
Net book amount						
At 31 March 2008	**28 4**	**1,843 9**	**2,003 9**	**195 6**	**316.5**	**4,388 3**
At 31 March 2007	28 0	1 768 3	1 913 7	192 5	304 6	4,207 1

Tangible fixed assets at 31 March 2008 include land of £19 0 million (2007 £18 4 million) which is not subject to depreciation The group's interests in land and buildings are almost entirely freehold

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

	2008 £m	2007 £m
Cost	**251 0**	251 0
Aggregate depreciation	**(151 7)**	(144 7)
Net book amount	**99 3**	106 3

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 2008

	2008 £m	2007 £m
Contracted for but not provided in the financial statements	**138 9**	139 4

Notes to the financial statements continued

12 Fixed asset investments

	Group and Company	
	2008 £m	2007 £m
Other investments – shares at cost	-	0 1
Loan to Anglian Water Services Holdings Limited	**1,609.1**	1 609 1
	1,609.1	1,609 2

The loan of £1,609 1 million, made by the company to Anglian Water Services Holdings Limited, is repayable on the later of 30 July 2038 and another date being the next interest payment date following a date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Services Financing Plc Interest on the loan is calculated at 12 per cent per annum Anglian Water Services Financing Plc, whose principal activity is that of a financing company, is the sole subsidiary of the group It is 100 per cent owned, and is registered, incorporated and operating in the UK at 31 March 2008

13 Stocks

	Group and Company	
	2008 £m	2007 £m
Raw materials and consumables	**16 6**	11 7

The current replacement value of stocks does not materially exceed the historical costs stated above

14 Debtors

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Amounts falling due within one year				
Trade debtors	**112.3**	107 2	**112 3**	107 2
Amounts owed by other Anglian Water Group Limited group undertakings	**1 2**	0 5	**339 0**	192 3
Other debtors	**11.5**	17 7	**9 5**	16 7
Prepayments and accrued income	**105.7**	90 3	**105.7**	90 3
	230.7	215 7	**566.5**	406 5
Amounts falling due after more than one year				
Amounts owed by other Anglian Water Group Limited group undertakings	**2 0**	-	**2 0**	-
	232.7	215 7	**568 5**	406 5

Prepayments and accrued income as at 31 March 2008 includes water and wastewater income not yet billed of £98 6 million (2007 £83 6 million)

15 Creditors amounts falling due within one year

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Current portion of long-term loans	**288 1**	51 4	**288 1**	51 4
Obligations under finance leases	**3 0**	27 2	**3 0**	27 2
Short-term borrowings (see note 16)	**291 1**	78 6	**291 1**	78 6
Trade creditors	**115 4**	137 7	**115 4**	137 7
Amounts owed to other Anglian Water Group Limited group undertakings	**1 7**	7 2	**89 3**	93 5
Receipts in advance	**107 3**	114 3	**107 3**	114 3
Corporation tax	**63 7**	37 9	**63 7**	37 9
Other taxation and social security	**4 5**	3 6	**4 5**	3 6
Deferred grants and contributions	**9 2**	9 3	**9 2**	9 3
Accruals	**99 5**	96 8	**11 9**	10 5
Other creditors	**401 3**	406 8	**401 3**	406 8

Receipts in advance includes £84 5 million (2007 £90 8 million) relating to amounts received from customers for water and wastewater charges in respect of the following year

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

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Loans and other borrowings				
£100 million 5 5% index linked 2008 (c) (d), (g)	**175 5**	168 2	**175 5**	168 2
£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)	**247 1**	246 9	**247 1**	246 9
£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 8**	243 7	**243 8**	243 7
£275 million 7 882% fixed rate 2012/2037 (d), (g) (h)	**273 4**	273 1	**273 4**	273 1
£250 million 5 25% fixed rate 2015 (d), (g)	**249 5**	249 5	**249 5**	249 5
£150 million 5 5% fixed rate 2017/2040 (d) (g), (h)	**148 6**	148 5	**148 6**	148 5
£150 million 4 125% index linked 2020 (c), (d), (g)	**187 9**	180 2	**187 9**	180 2
£75 million 3 666% index linked 2024 (c) (d), (g)	**89 0**	85 2	**89 0**	85 2
£200 million 3 07% index linked 2032 (c), (d), (g)	**235 9**	225 8	**235 9**	225 8
£60 million 3 07% index linked 2032 (c), (d), (g)	**70 7**	67 7	**70 7**	67 7
Finance leases (d)	**65 2**	92 5	**65 2**	92 5
£150 million index linked swap 2024 (f)	**29 0**	21 8	**29 0**	21 8
£175 million index linked swap 2030 (f)	**33 7**	25 4	**33 7**	25 4
£258 million index linked swap 2013 (f)	**39 1**	27 5	**39 1**	27 5
€350 million 5 375% fixed rate 2009 (a), (d) (g)	**229 4**	229 2	**229 4**	229 2
€650 million 4 625% fixed rate 2013 (a), (d) (g)	**452 7**	452 7	**452 7**	452 7
US$100 million 7 01% private placements 2008 (a) (d), (g)	**71 0**	70 9	**71 0**	70 9
US$25 million 7 07% private placements 2009 (a), (g)	**5 3**	8 0	**5 3**	8 0
US$25 million 'mark to market' adjustment	**0 1**	0 3	**0 1**	0 3
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 2	**138 2**	138 2
£402 million 2 40% index linked 2035 (c), (d), (g)	**443 3**	424 9	**443 3**	424 9
£50 million 1 7% index linked 2046 (c), (d), (g)	**53 2**	51 0	**53 2**	51 0
£50 million 1 7% index linked 2046 (c) (d), (g)	**53 4**	51 2	**53 4**	51 2
£40 million 1 7146% indexation bond 2056 (c), (d), (g)	**42 9**	41 2	**42 9**	41 2
£50 million 1 6777% indexation bond 2056 (c) (d), (g)	**53 7**	51 5	**53 7**	51 5
£60 million 1 7903% indexation bond 2049 (c), (d), (g)	**64 4**	61 7	**64.4**	61 7
£60 million index linked swap 2008 (f)	**(4 4)**	(1 7)	**(4 4)**	(1 7)
£90 million index linked swap 2008 (f)	**(6 6)**	(2 7)	**(6 6)**	(2 7)
£100 million 1 3784% indexation bond 2057 (c), (d), (g)	**104 7**	101 0	**104 7**	101 0
£50 million 1 3825% indexation bond 2056 (c), (d), (g)	**52 3**	50 5	**52 3**	50 5
£50 million RBS Class B authorised loan facility (g)	**50 0**	50 0	**50 0**	50 0
£100 million Class A wrapped floating rate bonds (g)	**99 9**	100 0	**99 9**	100 0
£100 million index linked swap 2057 (f)	**5 8**	0 1	**5 8**	0 1
£75 million 1 449% indexation bond 2062 (c), (d), (g)	**75 7**	-	**75 7**	-
£50 million 1 52% indexation bond 2055 (c), (d), (g)	**50 3**	-	**50.3**	-
JPY 15bn 2 925% bond due 2018/2037 (a), (b), (d), (g)	**65 9**	-	**65.9**	-
£65 931 million index linked swap 2030 (f)	**0 7**	-	**0.7**	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	**110 0**	-	**110 0**	-
£50 million index linked swap 2043 (f)	**0 1**	-	**0.1**	-
Total loans and other borrowings	**4,816.5**	4,450 1	**4,816.5**	4,450 1
Less amounts included in creditors falling due within one year	**(291 1)**	(78 6)	**(291.1)**	(78 6)
Loans and other borrowings due after more than one year	**4,525 4**	4,371 5	**4,525 4**	4,371 5

LIBOR is the London Inter Bank Offer Rate

(a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen loans The adjustment to the US dollar loans is £66 7 million (2007 £65 9 million), the adjustment to the Euro loans is £(112 8) million (2007 £3 7 million) and the adjustment to the Japanese Yen loans is £(9 8) million (2007 £nil)

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index linked debt in accordance with the group's hedging policy (see page 51)

(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 £67 5 million (2007 £47 5 million) has been taken to the profit and loss account as part of interest payable

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

(e) '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 eight index linked interest rate swap agreements The values of the notional capital on these swaps are linked to movements in the Retail Price Index (RPI) The increase in the notional capital value is payable at the final maturity date of the swaps The increase for the current year of £27 0 million (2007 £16 8 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 2008 this charge applies to £4,816 5 million (2007 £4,450 1 million) of the debt listed above

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments continued

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

	2008		2007	
	Creditors < 1 year £m	**Creditors > 1 year £m**	**Creditors < 1 year £m**	**Creditors > 1 year £m**
Amounts owed to group undertakings ('back-to-back' inter-group loans)	**288 1**	**4,480 2**	52 8	4,322 9
Debt issue costs	**-**	**(17 0)**	(1 4)	(16 7)
Obligations under finance leases	**3 0**	**62 2**	27 2	65 3
	291 1	**4,525 4**	78 6	4,371 5

Maturity analysis of financial liabilities

	Group and Company	
	2008 £m	2007 £m
Less than one year	**293 3**	81 4
Between one and two years	**252 4**	241 4
Between two and five years	**152 0**	395 8
After five years	**4,138.3**	3,753 9
	4,836.0	4,472 5

Included above are amounts due under finance leases of £3 0 million (2007 £27 2 million) payable within one year, £2 1 million (2007 £3 0 million) payable between one and two years, £8 5 million (2007 £7 4 million) payable between two and five years and £51 6 million (2007 £54 9 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 £19 5 million (2007 £22 4 million), of which £2 2 million falls due in less than one year (2007 £2 8 million) This analysis is net of issue costs totalling £17 1 million (2007 £18 1 million)

Borrowing facilities

	Group	
	2008 £m	2007 £m
The group has the following unused committed borrowing facilities		
Expiring within one year	**330 0**	328 0
Expiring between one and two years	**-**	-
Expiring between two and five years	**225 0**	225 0
Expiring in more than five years	**-**	-
	555.0	553 0

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

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

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 2008 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 other key finance personnel, meets monthly with the specific remit of reviewing treasury matters

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases Surplus cash is invested in short-term bank deposits, commercial paper 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 38) 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

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

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments continued

Fair value of financial assets and financial liabilities

	2008		2007	
	Book value £m	Fair value[1] £m	Book value £m	Fair value[1] £m
The fair value of the group's financial instruments at 31 March was				
Cash at bank and in hand	**522 3**	**522 3**	311 9	311 9
Current asset investments	**170 0**	**170 0**	242 0	242 0
Short-term borrowings	**(270 0)**	**(284 2)**	(78 1)	(79 1)
Long-term borrowings	**(4,505 0)**	**(4,874 9)**	(4,232 0)	(4,587 0)
Interest rate swaps	**55 9**	**58 0**	(69 6)	(83 3)
Index linked swaps	**(97 4)**	**(273 8)**	(70 4)	(131 3)
	(4,124 2)	**(4,682 6)**	(3,896 2)	(4,326 8)
Fixed asset investments	**1,609 1**	**1,930 9**	1,609 2	1,930 8
Provisions excluding deferred tax and pension obligations	**(19 5)**	**(19 5)**	(22 4)	(22 4)
	(2,534 6)	**(2,771 2)**	(2,309 4)	(2,418 4)

[1] The fair value of the groups financial instruments includes accrued interest on borrowings and swaps of £88 8 million (2007 £86 0 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 2008 The value at that date was determined by market interest rates, which fluctuate over time The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved

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

	2008			2007		
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	**14 2**	**(159 2)**	**(145 0)**	15 5	(160 3)	(144 8)
Reversal of items unrecognised at 1 April	**(0 8)**	**13 1**	**12 3**	(5 6)	11 6	6 0
Recognised during the year	**(10 9)**	**13 4**	**2 5**	(3 4)	17 2	13 8
Arising during the year	**21 4**	**(163 1)**	**(141 7)**	7 7	(27 7)	(20 0)
Unrecognised at 31 March	**23 9**	**(295 8)**	**(271 9)**	14 2	(159 2)	(145 0)

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised The total net unrecognised loss of £271 9 million (2007 net loss £145 0 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2008

Of the unrecognised gains and losses at 31 March 2008, a net gain of £0 8 million (2007 net gain of £5 2 million) is expected to be included in the profit and loss account for the year ended 31 March 2009 and the balance in future years

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged 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 2008

	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)	**(4,816 5)**	**(2,497 5)**	**(455 0)**	**(1,864 0)**	**-**	**6 9%**	**14 6**
Cash, deposits and current asset investments (all sterling)	**692 3**	**-**	**692 3**	**-**	**-**		
Net debt	**(4,124 2)**	**(2,497 5)**	**237 3**	**(1,864 0)**	**-**		
Fixed asset investments	**1,609 1**	**-**	**-**	**1,609 1**	**-**		
Provisions	**(19 5)**	**-**	**-**	**-**	**(19 5)**		
Net financial liabilities	**(2,534 6)**	**(2,497 5)**	**237 3**	**(254 9)**	**(19 5)**		

Notes to the financial statements continued

16 Loans, other borrowings and financial instruments continued

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)		

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	
	2008 £m	2007 £m
Deferred grants and contributions	**123 8**	112 3

18 Provisions for liabilities and charges

	Group and Company			
	Onerous lease obligation £m	Coupon enhancement provision £m	Deferred tax provision £m	Total £m
At 1 April 2007	3 3	19 1	97 2	119 6
Credit for the year	(0 4)	-	(39 3)	(39 7)
Unwinding of discount (note 6)	0 2	0 8	-	1 0
Utilised in the year	(0 3)	(3 2)	-	(3 5)
At 31 March 2008	**2 8**	**16.7**	**57 9**	**77 4**

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 14 years

The coupon enhancement provision of £16 7 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 21 years and has been discounted

The net deferred tax credit to the profit and loss account comprises the £39 3 million credit above offset by a £2 5 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 £59 3 million

The ACT asset has been restated during the year to the amount still recoverable

	Group and Company	
	2008 £m	2007 £m
Accelerated capital allowances	**672 6**	762 0
Short-term timing differences	**(16 4)**	(16 1)
Surplus ACT asset	**(142 5)**	(130 3)
Undiscounted provision for deferred tax	**513 7**	615 6
Discount	**(455 8)**	(518 4)
Discounted provision for deferred tax	**57 9**	97 2
Deferred tax asset on pension liability (see note 20(b))	**(24 3)**	(6 8)
Total deferred tax included in the balance sheet	**33 6**	90 4

As at 1 April 2007	**90 4**
Deferred tax credited to the profit and loss account (see note 7(a))	**(36 8)**
Deferred tax credited to the statement of total recognised gains and losses	**(20 0)**
At 31 March 2008	**33 6**

Notes to the financial statements continued

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 Anglian Water Group'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 2008 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 eight and 17 years ago These pension enhancements are payable until the death of the employees (or their dependants), and payments are expected to be made over approximately 26 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 The assets and liabilities of these arrangements are not material to the company and were excluded from the disclosures for 2004 Since 2005 these disclosures have been included for completeness

Contributions to the defined contribution pension scheme in the year were £2 4 million (2007 £1 6 million)

(a) Financial assumptions
The valuation used has been based on the informal valuation for AWGPS carried out as at 1 April 2007 (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 2008 The group contributed 15 3 per cent of pensionable pay in the year and for the year ending 31 March 2008 the expected contribution rate is 15 6 per cent In addition, the group paid £10 7 million in deficit reduction payments in the year and expects to pay a similar amount in 2008/9

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

	2008 % pa	2007 % pa	2006 % pa
Discount rate	**6 3**	5 3	4 9
Inflation rate	**3 5**	3 1	2 8
Increase to deferred benefits during deferment	**3 5**	3 1	2 8
Increases to inflation related pensions in payment	**3 5**	3 1	2 8
General salary increases	**3 5**[1]	3 1[1]	2 8[1]
Longevity at age 65 for current pensioners (years)			
Men	**23 4**	18 7	18 6
Women	**25 8**	21 6	21 5
Longevity at age 65 for future pensioners (years)			
Men	**24.7**	20 5	19 9
Women	**26.9**	23 4	22 8

[1] The salary increase assumption has been restated in 2008 2007 and 2006 to RPI for the remainder of the current AMP (see glossary of terms on page 111) which ends in 2009/10

(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 2008 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 6**	**281 6**	**n/a**	**2 1**	**283 7**
Corporate bonds	**6 6**	**34 7**	**n/a**	**-**	**34 7**
Gilts	**4 6**	**302 7**	**n/a**	**9 6**	**312 3**
Property	**6 6**	**18 5**	**n/a**	**-**	**18 5**
Alternatives	**6 6**	**9 9**	**n/a**	**-**	**9 9**
Other	**5 0**	**92 1**	**n/a**	**-**	**92 1**
Total assets		**739 5**	**n/a**	**11 7**	**751 2**
Fair value of scheme liabilities		**(778 5)**	**(44 2)**	**(15 3)**	**(838 0)**
Deficit in the scheme		**(39 0)**	**(44.2)**	**(3 6)**	**(86.8)**
Related deferred tax asset		**10 9**	**12 4**	**1 0**	**24 3**
Net pension liability		**(28 1)**	**(31 8)**	**(2 6)**	**(62 5)**

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)

Notes to the financial statements continued

20 Pension commitments continued

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)

(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
2008 profit and loss account				
Current service cost	**(12 6)**	-	**(0 4)**	**(13 0)**
Past service cost	**(0 6)**	-	-	**(0 6)**
Charge to operating profit	**(13 2)**	-	**(0 4)**	**(13 6)**
Expected return on pension scheme assets	**47 8**	-	**0 6**	**48 4**
Interest on pension scheme liabilities	**(37 6)**	**(2 2)**	**(0 8)**	**(40 6)**
Amount credited/(charged) to other finance charges	**10 2**	**(2 2)**	**(0 2)**	**7 8**
Charge to profit on ordinary activities before taxation	**(3 0)**	**(2 2)**	**(0 6)**	**(5 8)**

	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)

Notes to the financial statements continued

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
2008 statement of total recognised gains and losses				
Actual return on pension scheme assets less expected return	**(44 2)**	**-**	**(0 2)**	**(44 4)**
Experience gains and losses arising on the scheme liabilities	**(37 2)**	**-**	**-**	**(37 2)**
Changes in assumptions underlying the present value of the scheme liabilities	**2.1**	**(2.4)**	**-**	**(0 3)**
Loss recognised	**(79 3)**	**(2 4)**	**(0.2)**	**(81 9)**

	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

(e) Movement in liability during the year

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2008 movement in scheme deficit (before related deferred tax asset)				
Surplus/(deficit) at 1 April 2007	**22 6**	**(42 0)**	**(3 3)**	**(22 7)**
Current service cost	**(12 6)**	**-**	**(0 4)**	**(13 0)**
Past service cost	**(0 6)**	**-**	**-**	**(0 6)**
Contributions	**20 7**	**2 4**	**0 5**	**23 6**
Net interest	**10 2**	**(2 2)**	**(0 2)**	**7 8**
Actuarial loss	**(79 3)**	**(2 4)**	**(0.2)**	**(81.9)**
Deficit at 31 March 2008	**(39 0)**	**(44 2)**	**(3 6)**	**(86 8)**

	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)

(f) History of experience gains and losses

	AWGPS	Unfunded pensions	Hartlepool	Total
2008 details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount (£ million)	**(44 2)**	**-**	**(0 2)**	**(44 4)**
Percentage of scheme assets	**(6 0)%**	**-**	**(1 7)%**	**(5 9)%**
Experience gains and losses on scheme liabilities				
Amount (£ million)	**(37 2)**	**-**	**-**	**(37 2)**
Percentage of present value of scheme liabilities	**(4 8)%**	**-**	**-**	**(4 4)%**
Amount in statement of total recognised gains and losses				
Amount (£ million)	**(79 3)**	**(2 4)**	**(0 2)**	**(81 9)**
Percentage of present value of scheme liabilities	**(10 2)%**	**(5 4)%**	**(1.3)%**	**(9 8)%**

Notes to the financial statements continued

20 Pension commitments continued

(f) History of experience gains and losses *continued*

	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%

	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%

Notes to the financial statements continued

21 Commitment under operating leases

At 31 March 2008 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			
	2008		2007	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**0 3**	**0.8**	0 1	1 7
Within two to five years	**0.1**	**1 4**	0 4	4 0
After five years	**2 6**	**-**	2 4	-
	3 0	**2 2**	2 9	5 7

22 Share capital – equity shares

	Group and Company	
	2008 £m	2007 £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 shareholder's funds

Group

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2007	860 0	632 9	**1,492 9**
Total recognised gains and losses for the period	-	255 2	**255 2**
Dividend paid and committed	-	(290 6)	**(290 6)**
At 31 March 2008	**860 0**	**597 5**	**1,457 5**

The profit and loss reserve includes £62 5 million (2007 £15 9 million) stated net of deferred taxation of £24 3 million (2007 £6 8 million) in respect of pension scheme liabilities

Company

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2007	860 0	620 1	**1,480.1**
Profit on ordinary activities after taxation	-	298 7	**298 7**
Actuarial loss recognised in the pension scheme	-	(81 9)	**(81.9)**
Movement on current tax relating to the actuarial loss in the pension scheme	-	5 4	**5 4**
Movement on deferred tax relating to the actuarial loss in the pension scheme	-	19 2	**19 2**
Impact of change in tax rate on deferred tax	-	0 8	**0 8**
Dividend paid and committed	-	(290 6)	**(290 6)**
At 31 March 2008	**860 0**	**571 7**	**1,431 7**

Notes to the financial statements continued

24 Contingencies
At 31 March 2008 £142 5 million (2007 £130 3 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 £6 5 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 2008 amounted to £4,825 6 million (2007 £4,327 5 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 2008

There are no other material contingent liabilities at 31 March 2008 for which provision has not been made in these financial statements

25 Events after balance sheet date
The final dividend for 2007/8 of £100 0 million was approved by the board on 21 May 2008

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

Anglian Water Group 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

Independent auditors' report

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 for the year ended 31 March 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses 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 Business review that is cross referred from the Business review section of the Directors' report

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' report, the Business review, the Board of directors 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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

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

Independent auditors' report continued

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Birmingham
29 May 2008

Regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 81 to 107 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 111

Statement of directors' responsibilities for regulatory information

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 and
- 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
The companys 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 90)

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 84 and 86 A current cost profit and loss account and current cost balance sheet for the appointed business are shown on pages 94 and 95 Other current cost disclosures appear on pages 96 to 106 Additional information required by the licence is shown on pages 88 to 93

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

	2008			2007[1]		
	Appointed £m	Non-appointed £m	Total £m	Appointed £m	Non-appointed £m	Total £m
Turnover	**956 9**	**14.1**	**971 0**	909 4	9 6	919 0
Operating costs	**(328 5)**	**(7 0)**	**(335 5)**	(324 0)	(5 8)	(329 8)
Historical cost depreciation[1]	**(217 0)**	-	**(217 0)**	(189 5)	-	(189 5)
Operating income	**2 5**	-	**2 5**	5 1	-	5 1
Operating profit	**413 9**	**7 1**	**421 0**	401 0	3 8	404 8
Net interest payable	**(102 1)**	-	**(102 1)**	(58 3)	(0 1)	(58 4)
Profit on ordinary activities before taxation	**311 8**	**7 1**	**318 9**	342 7	3 7	346 4
Taxation						
- current tax	**(55 0)**	**(2.0)**	**(57.0)**	(29 6)	(1 1)	(30 7)
- deferred tax	**36 8**	-	**36.8**	12 9	-	12 9
Profit on ordinary activities after taxation	**293 6**	**5 1**	**298 7**	326 0	2 6	328 6
Dividends	**(285 5)**	**(5 1)**	**(290 6)**	(440 5)	(2 6)	(443 1)
Retained profit/(loss) for the year	**8 1**	-	**8 1**	(114 5)	-	(114 5)

[1] The historical cost depreciation has been analysed out separately in order to comply with the presentational requirements of Regulatory Accounting Guidelines 3 06

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

for the year ended 31 March

	2008 £m	2007 £m
Profit on ordinary activities after taxation	**293 6**	326 0
Actuarial (losses)/gains recognised in the pension scheme	**(81 9)**	14 8
Movement on current tax relating to the actuarial loss/(gain) in the pension scheme	**5 4**	-
Movement on deferred tax relating to the actuarial loss/(gain) in the pension scheme	**19 2**	(5 1)
Impact of change in tax rate on deferred tax	**0 8**	-
Total recognised gains and losses for the year	**237 1**	335 7

Regulatory historical cost balance sheet
at 31 March

	2008			2007[1]		
	Appointed £m	**Non-appointed £m**	**Total £m**	Appointed £m	Non-appointed £m	Total £m
Fixed assets						
Tangible assets	**4,328 5**	**0 9**	**4,329.4**	4,153 1	-	4 153 1
Investments	**1,609 1**	-	**1,609 1**	1,609 2	-	1,609 2
Total fixed assets	**5,937 6**	**0 9**	**5,938 5**	5,762 3	-	5,762 3
Current assets						
Stocks	**16 6**	-	**16.6**	11 7	-	11 7
Debtors	**568 5**	-	**568.5**	406 5	-	406 5
Cash at bank and in hand	**65 5**	**2 0**	**67 5**	66 3	1 1	67 4
Investments and short-term deposits	**263 2**	-	**263 2**	282 9	-	282 9
Infrastructure renewals prepayment	**58 9**	-	**58.9**	54 1	-	54 1
Total current assets	**972 7**	**2 0**	**974.7**	821 5	1 1	822 6
Creditors amounts falling due within one year						
Short-term borrowings	**(291 1)**	-	**(291.1)**	(78 6)	-	(78 6)
Other creditors	**(327 5)**	**(0 9)**	**(328.4)**	(359 8)	-	(359 8)
Corporation tax payable	**(61 7)**	**(2 0)**	**(63 7)**	(36 7)	(1 1)	(37 8)
Total creditors	**(680 3)**	**(2 9)**	**(683 2)**	(475 1)	(1 1)	(476 2)
Net current assets	**292 4**	**(0 9)**	**291 5**	346 4	-	346 4
Total assets less current liabilities	**6,230 0**	-	**6,230 0**	6,108 7	-	6,108 7
Creditors amounts falling due after more than one year						
Loans and other borrowings	**(4,525 4)**	-	**(4,525 4)**	(4,371 5)	-	(4,371 5)
Total creditors	**(4,525 4)**	-	**(4,525 4)**	(4,371 5)	-	(4,371 5)
Provisions for liabilities and charges						
Deferred tax provision	**(57 9)**	-	**(57 9)**	(97 2)	-	(97 2)
Other provisions	**(19 5)**	-	**(19 5)**	(22 4)	-	(22 4)
Deferred income – grants and contributions[1]	**(133 0)**	-	**(133 0)**	(121 6)	-	(121 6)
Defined benefit pension scheme liabilities	**(62 5)**	-	**(62 5)**	(31 7)	-	(31 7)
Defined benefit pension scheme assets	-	-	-	15 8	-	15 8
	(272 9)	-	**(272 9)**	(257 1)	-	(257 1)
Net assets employed	**1,431 7**	-	**1,431 7**	1,480 1	-	1,480 1
Capital and reserves						
Called up share capital	**860 0**	-	**860 0**	860 0	-	860 0
Profit and loss account	**571 7**	-	**571 7**	620 1	-	620 1
Capital & reserves	**1,431 7**	-	**1,431 7**	1,480 1	-	1,480 1

[1] Deferred grants and contributions have been reclassified in the comparatives from creditors amounts falling due within one year (£9 3 million) and after more than one year (£112 3 million) to provisions for liabilities and charges in order to comply with the presentational requirements of Regulatory Accounting Guidelines 3 06

Historical cost reconciliation between statutory and regulatory accounts

at 31 March

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

	2008 £m Statutory	2008 £m Regulatory	Explanation
Profit and loss account			
Operating profit	**421 0**	**421 0**	No difference at operating profit level, however, turnover per the statutory accounts is £1 8m lower than the regulatory accounts with the corresponding difference being in operating expenditure This is as a result of reversing the FRS 5 'Reporting the Substance of Transactions adjustments for the financial year, as instructed by Ofwat The prior year figures have not been restated
Profit after taxation	**298 7**	**298 7**	No difference
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	**4,388.3**	**4,329.4**	The difference of £58 9m 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 Guidance 3 06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes
Current assets			
Investments and short-term deposits	-	**263 2**	Deposits with a maturity of greater than one day but less than 3 months of £263 2m is shown as cash at bank and in hand within the statutory accounts but is shown as investments in the regulatory accounts
Cash at bank and in hand	**330 7**	**67 5**	
Deferred income – grant and contributions			
Short-term and long-term other creditors	**133 0**	-	Deferred grants and contributions within the statutory accounts are analysed between creditors amounts falling due within one year (£9 2m) and amounts falling due after more than one year (£123 8m) This is in contrast to the regulatory accounts which shows total deferred grants and contributions of £133 0m within provisions for liabilities and charges
Provisions for liabilities and charges	-	**133 0**	

Additional information required by the licence

1 Accounting policies

The accounting policies are set out in the statutory financial statements, except that, as noted on page 83, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory accounts

Cumulative infrastructure renewals expenditure (IRE), net of infrastructure renewals charge, 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

Turnover has been stated gross of any FRS 5 'Reporting the substance of transactions' adjustments as required by RD 05/08 This represents a departure from the accounting policy adopted in the company's statutory financial statements and FRS 5 The prior year comparatives have not been restated

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 is set by the Anglian Water Group remuneration committee who also review the recommendations for his direct reports These assessments are carried out with the benefit of external benchmark comparators Certain directors bonuses paid by the company 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 AWS performance targets For the year ended 31 March 2008 the results for the year (financial and non-financial) resulted in the following performance assessment against the overall company targets

	2008 actual %	**2008 target %**	2007 actual %	2007 target %
Financial performance	**42 6**	**60.0**	42 0	45 0
Capital delivery index	**15 0**	**15 0**	20 0	20 0
Overall performance assessment (OPA)	**15 0**	**15 0**	16 0	20 0
Customer service index (CSI)	**10 0**	**10.0**	15 0	15 0
	82 6	**100.0**	93 0	100 0

Capital delivery, OPA and Customer Service Index targets were exceeded Against the targets set the company partly met its financial performance objectives The component of the bonus relating to personal performance reflects on individuals' achievement of personal targets set for the year

Bonuses paid to directors are as follows

	2008 £ 000	2007 £ 000
J Cox[1,2]	**123 9**	-
P Simpson	**100 4**	122 5
D Hipple	**-**	75 6
J Spencer	**53 8**	63 8
C Newsome	**56 4**	69 7

[1] The bonus arrangements for Mr Cox in 2006/7 were linked entirely to the standards of performance of Anglian Water Group Limited

[2] An element of Mr Cox's bonus in 2007/8 was directly linked to the standards of performance of Anglian Water Services Limited, and against this he achieved 82 6 per cent, which is shown here

For 2008/9 a similar arrangement exists and will include all Executive Directors

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

	%
Financial performance	55
Capital delivery index	15
Overall performance assessment (OPA)	20
Customer service index (CSI)	10
	100

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

The overall company's performance is measured by the four metrics set out above 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

The directors have at least 55 per cent of their personal bonus linked to the overall company targets (shown in the table above) Each metric is given the weighting shown above and the final bonus is calculated according to how these have been met during the year, as determined by the Remuneration Committee

Additional information required by the licence continued

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, domestic emergency and personal accident insurance cover, 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, volume of water supplied to customers, or in proportion to direct costs

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) Borrowings

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 2008

Sums borrowed by the appointee from Anglian Water Services Financing Plc, its financing subsidiary at 31 March 2008, were

Type of loan	Principal amount (£m)	Repayment date	Interest rate %
Fixed rate	250 0	2022	5 837
Fixed rate	246 0	2030	6 293
Fixed rate	100 0	2014	12 375
Fixed rate	200 0	2023	6 875
Fixed rate	200 0	2029	6 625
Fixed rate (v)	275 0	2012/2037	7 882
Fixed rate	71 0	2008	7 010
Fixed rate	16 3	2009	7 130
Fixed rate	138 6	2011	7 230
Fixed rate	5 3	2009	6 570
Fixed rate	229 3	2009	5 375
Fixed rate	453 2	2013	4 625
Fixed rate	65 9	2018/2037	2 925
Fixed rate (v)	250 0	2015	5 250
Index linked (ii)	238 9	2032	3 070
Index linked (ii)	71 7	2032	3 070
Index linked (ii)	89 6	2024	3 666
Index linked (ii)	175 4	2008	5 500
Index linked (ii)	188 0	2020	4 125
Index linked (ii)	445 2	2035	2 400
Index linked (ii)	53 6	2046	1 700
Index linked (ii)	53 4	2046	1 700
Index linked (ii)	43 0	2056	1 7146
Index linked (ii)	53 7	2056	1 6777
Index linked (ii)	64 4	2049	1 7903
Index linked (ii)	104 7	2057	1 3784
Index linked (ii)	52 4	2056	1 3825
Index linked (ii)	75 7	2062	1 4490
Index linked (ii)	50 5	2055	1 5200
Floating rate (v)	150 0	2017/2040	5 500
Floating rate	110 0	2043	LIBOR plus 0 85
Floating rate	50 0	2007	LIBOR plus 0 25
Floating rate	100 0	2057	LIBOR plus 0 34
Mark to market adjustment (i)	0 1	2009	-
Index linked swaps (iii), (iv)	33 7	2030	-
Index linked swaps (iii) (iv)	29 0	2034	-
Index linked swaps (iii), (iv)	39 1	2013	-
Index linked swaps (iii), (iv)	(4 4)	2008	-
Index linked swaps (iii), (iv)	(6 6)	2008	-
Index linked swaps (iii) (iv)	5 8	2057	-
Index linked swaps (iii), (iv)	0 7	2059	-
Index linked swaps (iii) (iv)	0 1	2043	-
	4,768 3		

LIBOR is the London Inter Bank Offer Rate

Additional information required by the licence continued

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 £285 5 million is payable for the year (2007 £440 5 million) Of this dividend, £193 6 million (2007 £192 6 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 90) In the prior year £0 5 million which was committed to be paid at the year end was 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 following the change in ultimate ownership 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 in order to maintain 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 2008 amounted to £4,825 6 million (2007 £4,327 5 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 2008 (2007 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 3
Human resources charges	AWG Central Services Limited	Actual costs	0 4
Corporate responsibility and communications	AWG Central Services Limited	Actual costs	0 2
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	-	Space apportionment	0 2
Directors costs	AWG Central Services Limited	-	Time apportionment	0 8
Internal audit services	AWG Central Services Limited	-	Negotiated	0 7
Insurance administration	AWG Central Services Limited	-	Negotiated	0 4
Taxation services	AWG Central Services Limited	-	Negotiated	0 2
External audit services	AWG Central Services Limited	-	Pass through	0 2
Sharesave costs	AWG Central Services Limited	-	Pass through	0 8
Other pass through costs	AWG Central Services Limited	-	Pass through	0 1
Developer services and network contracts	Morrison Utility Services Limited[1]	515 0	Competitive tendering	15 9
Rental of office accommodation	AWG Property	27 1	Other market testing	0 1
10 year office lease	Ambury Developments	1 7	Other market testing	2 2
Rental of accommodation	Ambury Developments	1 7	Other market testing	0 2
Tax[2]	AWG Group Limited	-	Surrender of group tax losses	29 6
Rental of office accommodation	AWG Group Limited	-	Other market testing	0 2
Co-investment payments	AWG Group Limited	-	Pass through	0 5
				52 1*

* This total includes amounts of £13 3 million that were capitalised by the appointed business

[1] Morrison Utility Services Limited will cease to be an associated company from May 2008

[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 (2007 £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		2008 Appointed £m	2007 Appointed £m
2	**Turnover**	**956 9**	909 4
4	Current cost operating costs	**(643 8)**	(603 3)
3	Operating income	**0 9**	1 7
		314.0	307 8
3 9	Working capital adjustment	**2.1**	6 9
	Current cost operating profit	**316.1**	314 7
	Net interest payable	**(102 1)**	(58 3)
9	Financing adjustment	**8 9**	(6 9)
	Current cost profit before taxation	**222 9**	249 5
	Current tax	**(55 0)**	(29 6)
	Deferred tax	**36 8**	12 9
	Current cost profit attributable to shareholder	**204.7**	232 8
	Dividends	**(285 5)**	(440 5)
8	**Current cost loss for the year**	**(80 8)**	(207 7)

The notes on pages 97 to 106 form part of these current cost financial statements

Current cost balance sheet for the appointed business

at 31 March

Notes		2008 £m	2007 restated[1] £m
	Fixed assets		
5	Tangible assets	**22,987 5**	22,062 0
	Third party contributions since 31 March 1990	**(790 0)**	(739 1)
		22,197 5	21,322 9
6	Working capital[1]	**1 8**	(55 6)
	Cash at bank and in hand	**65 5**	66 3
	Investments and short-term deposits	**263 2**	282 9
	Infrastructure renewals prepayment	**58 9**	54 1
	Net operating assets	**22,586 9**	21,670 6
	Non-operating assets and liabilities		
7	Short-term borrowings	**(291 1)**	(78 6)
	Non-trade debtors[1]	**343 8**	201 1
	Non-trade creditors due within one year[1]	**(87 9)**	(87 1)
	Investments	**1,609.1**	1,609 2
	Corporation tax payable	**(61.7)**	(36 7)
	Total non-operating assets	**1,512.2**	1 607 9
	Creditors amounts falling due after more than one year		
7	Loans and other borrowings	**(4,525.4)**	(4,371 5)
	Provisions for liabilities and charges		
	Deferred tax	**(57 9)**	(97 2)
	Defined benefit pension scheme liabilities	**(62 5)**	(31 7)
	Defined benefit pension scheme assets	**-**	15 8
	Other provisions	**(19.5)**	(22 4)
		(139 9)	(135 5)
	Net assets	**19,433 8**	18 771 5
	Capital and reserves		
	Called up share capital	**860 0**	860 0
8	Profit and loss account	**(252 0)**	(114 7)
9	Current cost reserve at 31 March	**18,825 8**	18,026 2
	Total capital and reserves	**19,433 8**	18,771 5

[1] The prior year comparatives have been restated refer to note 6 for further details

The notes on pages 97 to 106 form part of these current cost financial statements

The financial statements were approved by the board of directors on 20 June 2008 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		2008 Appointed £m	2008 Non-appointed £m	2008 Total £m	2007 Appointed £m	2007 Non-appointed £m	2007 Total £m
10(a)	**Net cash inflow from operating activities**	**588 6**	**7 1**	**595 7**	554 7	3 8	558 5
	Returns on investment and servicing of finance						
	Interest received	**214 0**	**-**	**214.0**	218 0	-	218 0
	Interest paid	**(220 9)**	**-**	**(220.9)**	(217 5)	(0 1)	(217 6)
	Interest element of finance lease rental payments	**(4 9)**	**-**	**(4.9)**	(5 9)	-	(5 9)
	Net cash outflow from returns on investments and servicing of finance	**(11.8)**	**-**	**(11 8)**	(5 4)	(0 1)	(5 5)
	Taxation						
	Corporation tax received/(paid)	**4 9**	**(1.1)**	**3.8**	(9 1)	(1 0)	(10 1)
	Payments to other Anglian Water Group Limited group undertakings	**(29 6)**	**-**	**(29.6)**	(24 3)	-	(24 3)
		(24 7)	**(1 1)**	**(25.8)**	(33 4)	(1 0)	(34 4)
	Capital expenditure and financial investment						
	Gross cost of purchase of tangible fixed assets	**(370 7)**	**-**	**(370.7)**	(345 7)	-	(345 7)
	Receipts of grants and contributions	**33 5**	**-**	**33.5**	33 0	-	33 0
	Infrastructure renewals expenditure	**(76 8)**	**-**	**(76.8)**	(70 3)	-	(70 3)
	Disposal of fixed assets	**2 5**	**-**	**2.5**	5 6	-	5 6
	Net cash outflow from investing activities	**(411 5)**	**-**	**(411.5)**	(377 4)	-	(377 4)
	Equity dividends paid	**(286 0)**	**(5 1)**	**(291.1)**	(440 0)	(2 6)	(442 6)
	Management of liquid resources						
	Net cash outflow from management of liquid resources	**(126 4)**	**-**	**(126.4)**	(19 7)	-	(19 7)
	Net cash (outflow)/inflow before financing	**(271 8)**	**0 9**	**(270.9)**	(321 2)	0 1	(321 1)
	Financing						
	Increase in loans	**300 9**	**-**	**300.9**	550 0	-	550 0
	Repayment of amounts borrowed	**(2 7)**	**-**	**(2.7)**	(177 9)	-	(177 9)
	Capital element in finance lease rentals	**(27 2)**	**-**	**(27 2)**	(23 9)	-	(23 9)
	Net cash inflow from financing	**271 0**	**-**	**271 0**	348 2	-	348 2
	(Decrease)/increase in cash	**(0 8)**	**0 9**	**0.1**	27 0	0 1	27 1

The notes on page 106 form part of this cash flow statement

Notes to the current cost financial statements

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

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

(b) Turnover

Turnover has been stated gross of any FRS 5 'Reporting the substance of transactions' adjustments as required by RD 05/08 This represents a departure from the accounting policy adopted in the company's statutory financial statements and FRS 5 The prior year comparatives have not been restated

(c) 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

Notes to the current cost financial statements continued

1 Accounting policies continued
(c) Tangible fixed assets *continued*

(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

(d) 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

(e) 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

(f) 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

	2008			2007		
	Water service £m	**Sewerage service £m**	**Appointed total £m**	Water service £m	Sewerage service £m	Appointed total £m
Measured	**220 1**	**305 8**	**525 9**	209 0	287 4	496 4
Unmeasured	**135 6**	**215 6**	**351 2**	128 9	206 8	335 7
Trade effluent	**-**	**6 5**	**6 5**	-	7 5	7 5
Large user and special agreement	**29 1**	**24 3**	**53 4**	26 6	23 2	49 8
Non-potable large user and special agreement	**8 6**	**-**	**8 6**	7 9	-	7 9
Rechargeable works	**0 5**	**0 1**	**0 6**	0 4	0 3	0 7
Bulk supplies/inter-company payments	**6 8**	**2 0**	**8 8**	8 4	1 6	10 0
Third party services (including non-potable water)	**15 9**	**2 1**	**18 0**	16 7	1 9	18 6
Other sources	**1 4**	**0 5**	**1 9**	0 8	0 6	1 4
Total turnover	**402 1**	**554 8**	**956 9**	382 0	527 4	909 4

3 Operating income and working capital adjustment for the appointed business

	2008			2007		
	Water service £m	**Sewerage service £m**	**Appointed total £m**	Water service £m	Sewerage service £m	Appointed total £m
Current cost profit on disposal of fixed assets	**0 4**	**0 5**	**0 9**	0 9	0 8	1 7
Working capital adjustment	**1 0**	**1 1**	**2 1**	3 5	3 4	6 9

Notes to the current cost financial statements continued

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

	2008 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 treatment and disposal subtotal £m	Sewerage service subtotal £m
Direct costs								
Employment costs	7 0	7 7	14 7	10 6	19 6	8 5	28 1	38 7
Power	12 5	8 8	21 3	4 6	18 6	0 9	19 5	24 1
Hired and contracted services	2 8	6 3	9 1	4 0	6 8	12 9	19.7	23 7
Materials and consumables	3 5	0 4	3 9	1 4	5 7	7 3	13 0	14 4
Services charges	9 2	-	9 2	1 1	5 6	-	5 6	6 7
Bulk supply imports	1 2	-	1 2	-	-	-	-	-
Other direct costs	0 1	0 3	0 4	0 1	0.3	-	0 3	0 4
Total direct costs	36 3	23.5	59 8	21 8	56 6	29 6	86 2	108 0
General and support expenditure	7 8	8 2	16 0	6 1	14 3	10 0	24 3	30 4
Total functional expenditure	44 1	31.7	75 8	27 9	70 9	39 6	110 5	138 4
Business activities								
Customer services			11 8					15 9
Scientific services			4 8					3 5
Other business activities			1 8					2 9
Total business activities			18 4					22 3
Rates			25 5					18 0
Doubtful debts			10 1					13 9
Total less third-party services			129 8					192 6
Third-party services			5 5					0 6
Total operating costs			135 3					193 2
Capital costs.								
Infrastructure renewals charge	0.5	38 4	38 9	33.1	-	-	-	33.1
Depreciation[1] (allocated)	52.1	21 9	74 0	29 1	120 5	13 2	133 7	162.8
Amortisation of deferred grants			(6.1)					(4 3)
Business activities depreciation[1] (non-allocated)			4 9					7 4
Capital maintenance excluding third-party services			111 7					199 0
Third-party services – capital maintenance			3 6					1 0
Total capital maintenance			115 3					200 0
Total operating costs[2]			250 6					393 2
Current cost accounting (modern equivalent asset values)								
Service activities	1,366 5	5,526 3	6,892 8	14,172 8	1,816 7	105 2	1,921 9	16,094 7
Business activities			(19 1)					(28 6)
Service totals			6,873 7					16,066 1
Service assets for third parties			(60 8)					(10 1)
Total			6,812 9					16,056 0

[1] On a current cost basis

[2] Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £8 7 million This is split £5 2 million water distribution and £3 5 million sewerage

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 treatment and disposal 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

Notes to the current cost financial statements continued

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 2007	1,892 2	12 6	5,700 3	254 4	7,859 5
RPI adjustment	71 9	0 4	216 6	9 7	298 6
Disposals	(1 4)	-	-	(0 3)	(1 7)
Additions	90 7	0 3	45 7	12 8	149 5
At 31 March 2008	**2,053.4**	**13 3**	**5,962 6**	**276 6**	**8,305.9**
Depreciation					
At 1 April 2007	1,056 1	3 2	-	222 8	1,282 1
RPI adjustment	40 2	0 1	-	8 4	48 7
Disposals	-	-	-	(0 3)	(0 3)
Charge for the year	73 5	0 2	-	8 9	82 6
At 31 March 2008	**1,169.8**	**3 5**	**-**	**239.8**	**1,413 1**
Net book amount at 31 March 2008	**883.6**	**9 8**	**5,962 6**	**36 8**	**6,892 8**
Net book amount at 1 April 2007	836 1	9 4	5,700 3	31 6	6,577 4
(b) Fixed assets by type – sewerage service					
Gross replacement cost					
At 1 April 2007	5,267 7	15 3	12,995 1	342 3	18 620 4
RPI adjustment	200 2	0 6	493 8	13 0	707 6
Disposals	(1 0)	-	-	(0 4)	(1 4)
Additions	132 5	0 4	40 8	19 3	193 0
At 31 March 2008	**5,599 4**	**16.3**	**13,529 7**	**374 2**	**19,519 6**
Depreciation					
At 1 April 2007	2,823 9	3 6	-	308 3	3 135 8
RPI adjustment	107 3	0 1	-	11 7	119 1
Disposals	(0 8)	-	-	(0 4)	(1 2)
Charge for the year	160 4	0 2	-	10 6	171 2
At 31 March 2008	**3,090 8**	**3 9**	**-**	**330 2**	**3,424 9**
Net book amount at 31 March 2008	**2,508 6**	**12 4**	**13,529 7**	**44 0**	**16,094 7**
Net book amount at 1 April 2007	2,443 8	11 7	12,995 1	34 0	15,484 6
(c) Fixed assets by type – total					
Gross replacement cost					
At 1 April 2007	7,159 9	27 9	18,695 4	596 7	26,479 9
RPI adjustment	272 1	1 0	710 4	22 7	1,006 2
Disposals	(2 4)	-	-	(0 7)	(3 1)
Additions	223 2	0 7	86 5	32 1	342 5
At 31 March 2008	**7,652 8**	**29 6**	**19,492 3**	**650 8**	**27,825 5**
Depreciation					
At 1 April 2007	3,880 0	6 8	-	531 1	4,417 9
RPI adjustment	147 5	0 2	-	20 1	167 8
Disposals	(0 8)	-	-	(0 7)	(1 5)
Charge for the year	233 9	0 4	-	19 5	253 8
At 31 March 2008	**4,260 6**	**7 4**	**-**	**570.0**	**4,838 0**
Net book amount at 31 March 2008	**3,392 2**	**22 2**	**19,492 3**	**80 8**	**22,987 5**
Net book amount at 1 April 2007	3,279 9	21 1	18,695 4	65 6	22,062 0

(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 2008 per regulatory financial statements	27,825 5
Adjustment to opening balance at 31 March	(20,713 3)
Infrastructure renewals expenditure capitalised in the year	76 8
At 31 March 2008 per statutory financial statements	**7,189 0**
Grants and contributions	
At 31 March 2008 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(214 6)
At 31 March 2008 per statutory financial statements	**(214 6)**
Depreciation	
At 31 March 2008 per regulatory financial statements	(4,838 0)
Adjustment to opening balance at 31 March	2,323 9
Depreciation charge for infrastructure renewals expenditure	(72 0)
At 31 March 2008 per statutory financial statements	**(2,586 1)**
Net book value	
At 31 March 2008 per regulatory financial statements	22,987 4
Adjustment to opening balance at 31 March	(18,603 9)
Infrastructure renewals expenditure capitalised in the year	76 8
Depreciation charge for infrastructure renewals expenditure	(72 0)
At 31 March 2008 per statutory financial statements	**4,388 3**
Infrastructure renewals prepayment	
At 31 March 2008 per regulatory financial statements	58 9
Less infrastructure renewals prepayment	(58 9)
At 31 March 2008 per statutory financial statements	**-**

Notes to the current cost financial statements continued

6 Working capital

	2008 £m	2007 restated[1] £m
Stocks	**16 6**	11 7
Trade debtors – measured household	**39 0**	39 8
Trade debtors – unmeasured household	**36 2**	33 1
Trade debtors – measured non-household	**26 6**	25 2
Trade debtors – unmeasured non-household	**5 0**	5 3
Other trade debtors	**5.4**	3 7
Measured income accrual	**98.6**	83 6
Prepayments and other debtors	**14.0**	14 4
Trade creditors	**(68.0)**	(77 8)
Deferred income – customer advance receipts	**(107.3)**	(114 2)
Short-term capital creditors	**(47.6)**	(59 9)
Accruals and other creditors	**(16 7)**	(20 5)
Total working capital	**1 8**	(55 6)

[1] The prior year comparatives have been restated to comply with the June Return presentational requirements for table 26 Working capital The total working capital in the prior year before restatement was £(132 2) million Of this amount £3 1 million has been reclassified from working capital into non-trade debtors and £(86 2) million to non-trade creditors due within one year on the face of the current cost balance sheet with £(6 5) million being reclassified from non-trade creditors due within one year to working capital

7 Net debt analysis

Interest rate risk profile at 31 March 2008

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m
Loans and other borrowings				
Less than one year	**(291 1)**	**(14 4)**	**(200 0)**	**(76 7)**
Between one and two years	**(250.5)**	**-**	**-**	**(250 5)**
Between two and five years	**(146 7)**	**-**	**-**	**(146 7)**
Between five and twenty years	**(1,794 6)**	**(926 6)**	**(195 0)**	**(673.0)**
In more than twenty years	**(2,333 6)**	**(1,556 5)**	**(60 0)**	**(717.1)**
Total borrowings	**(4,816 5)**	**(2,497.5)**	**(455 0)**	**(1,864 0)**
Cash	**65 5**			
Short-term deposits	**263 2**			
Net debt	**(4,487 8)**			

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)			

8 Current cost profit and loss account

	2008 £m	2007 £m
At beginning of the year	**(114 7)**	85 3
Loss for the year	**(80 8)**	(207 7)
	(195 5)	(122 4)
Indexation adjustment[1]	**-**	(2 0)
Actuarial (losses)/gains recognised in the pension scheme	**(81 9)**	14 8
Movement on current tax relating to the actuarial loss/(gain) in the pension scheme	**5 4**	-
Movement on deferred tax relating to the actuarial loss/(gain) in the pension scheme	**19 2**	(5 1)
Impact of change in tax rate	**0 8**	-
At end of year	**(252 0)**	(114 7)

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

Notes to the current cost financial statements continued

9 Movement on current cost reserve

	2008 £m	2007 £m
At beginning of the year	**18,026 2**	17,049 8
RPI adjustments		
- Fixed assets	**838 4**	1,009 3
- Working capital	**(2.1)**	(6 9)
- Financing	**(8.9)**	6 9
- Grants and third-party contributions	**(27 8)**	(32 9)
At end of year	**18,825 8**	18 026 2

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

	2008 £m	2007 £m
Current cost operating profit	**316 1**	314 7
Working capital adjustment	**(2 1)**	(6 9)
Movement in working capital	**(29 0)**	(26 0)
Current cost depreciation	**243 3**	226 9
Current cost profit on sale of fixed assets	**(0 9)**	(1 7)
Infrastructure renewals charge	**72 0**	52 5
Movement in provisions	**(10 8)**	(4 8)
Net cash flow from operating activities	**588.6**	554 7

10 (b) Analysis of net debt

	1 April 2007 £m	Cash flows £m	Non-cash movements £m	31 March 2008 £m
Cash	66 3	(0 8)	-	**65 5**
Deposits and investments	282 9	(19 7)	-	**263 2**
Finance leases due within one year	(27 2)	27 2	(3 0)	**(3 0)**
Finance leases due after one year	(65 3)	-	3 0	**(62 3)**
Other debt due within one year	(51 4)	2 7	(239 4)	**(288 1)**
Other debt due after one year	(4,306 2)	(300 9)	144 0	**(4,463 1)**
	(4,100 9)	(291 5)	(95 4)	**(4,487.8)**

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

Supplementary regulatory information

1 Regulatory capital value (RCV)

	2008 £m
Opening RCV for the year	**4,976 2**
Capital expenditure (excluding IRE)	**372 0**
Infrastructure renewals expenditure (IRE)	**58 7**
Grant and contributions	**(17 4)**
Depreciation	**(212.1)**
Infrastructure renewals charge	**(51.1)**
Outperformance of regulatory assumptions (5 years in arrears)	**(32 6)**
Closing RCV	**5,093 7**
Average RCV	**4,952 0**

RCV figures are extracted from those published by Ofwat on 26 April 2007 in their RD09/07 letter at 2006/07 prices These have been indexed upwards to 2007/08 prices using an RPI factor of 212 1 / 204 4 (RPI at 31 March 2008 / RPI at 31 March 2007) to give the current year figures in the table excluding average RCV The average RCV is derived by indexing the average RCV published in RD09/07 by the RPI factor of 208 6 / 200 3 (average RPI for the year ended 31 March 2008 / average RPI for the year ended 31 March 2007) The indices that have been used to inflate the RCVs to 2007/08 prices have been extracted from those published by Ofwat on 21 April 2008 as per RD07/08

Independent auditors' report

To the Water Services Regulation Authority and Directors of Anglian Water Services Limited

We have audited the Regulatory Accounts of Anglian Water Services Limited ("the Company") on pages 84 to 106 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, the regulatory historical cost balance sheet and the historical cost reconciliation between statutory and regulatory accounts, and

- 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 to the current cost financial statements 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 82

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 94 to 106 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 notes on regulatory accounts, supplementary 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 84 to 86 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 103

Independent auditors' report continued

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2008 fairly present in accordance with Condition F of the Instrument ot 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 97 and 98, the state of the Company's affairs at 31 March 2008 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 84 to 86 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 94 to 106 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

20 June 2008

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

Glossary of regulatory terms

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

Glossary of regulatory terms continued

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 (i e 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

Want to know more about Anglian Water?
Visit www.anglianwater.co.uk

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Design and production by Flag Communication

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